

MONTROSE AREA SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS  
AND  
SINGLE AUDIT REPORT

JUNE 30, 2017

AND

REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS

AND

SUPPLEMENTARY INFORMATION

## TABLE OF CONTENTS

<u>EXHIBIT</u>	<u>PAGE</u>	
	1-3	REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
	4-10	MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
	11	STATEMENT OF NET POSITION
	12	RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES
	13	STATEMENT OF NET ACTIVITIES
	14	BALANCE SHEET – GOVERNMENTAL FUNDS
	15	RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
	16	STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS
	17	STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET (NON-GAAP BASIS) AND ACTUAL-GENERAL FUND
	18	STATEMENT OF NET POSITION – PROPRIETARY FUNDS
	19	STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION- PROPRIETARY FUNDS
	20	STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
	21	STATEMENT OF NET POSITION – FIDUCIARY FUNDS
	22	STATEMENT OF CHANGES IN NET POSITION – FIDUCIARY FUNDS
	23-43	NOTES TO FINANCIAL STATEMENTS

### REQUIRED SUPPLEMENTARY INFORMATION – OTHER FINANCIAL STATEMENTS

44	SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET POSITION LIABILITY
45	SCHEDULE OF DISTRICT CONTRIBUTIONS TO THE PENSION PLAN

### SUPPLEMENTARY INFORMATION – OTHER FINANCIAL STATEMENTS

A	46	STATEMENTS OF REVENUE, EXPENDITURES AND FUND BALANCE – GENERAL FUND
SCHEDULE		
1	47	REVENUE FROM LOCAL SOURCES
2	47	REVENUE FROM STATE SOURCES
3	48	REVENUE FROM FEDERAL SOURCES
4	48	INSTRUCTION – REGULAR PROGRAMS
5	48	INSTRUCTION – SPECIAL PROGRAMS
6	48	INSTRUCTION – VOCATIONAL EDUCATION PROGRAMS
7	49	OTHER INSTRUCTIONAL PROGRAMS E/S
8	49	SUPPORT SERVICES – PUPIL PERSONNEL
9	49-50	SUPPORT SERVICES – INSTRUCTIONAL SERVICES
10	50	SUPPORT SERVICES – ADMINISTRATION
11	50	SUPPORT SERVICES – PUPIL HEALTH
12	51	SUPPORT SERVICES – BUSINESS
13	51	SUPPORT SERVICES – OPERATION & MAINTENANCE OF PLANT SERVICES
14	51	SUPPORT SERVICES – STUDENT TRANSPORTATION SERVICES
15	52	SUPPORT SERVICES – CENTRAL
16	52	SUPPORT SERVICES - OTHER
17	52	OPERATION OF NONINSTRUCTIONAL SERVICES – STUDENT ACTIVITIES
18	53	OPERATION OF NONINSTRUCTIONAL SERVICES – COMMUNITY SERVICES
19	53	FACILITIES ACQUISITION, CONSTRUCTION & IMPROVEMENT SERVICES
20	53	DEBT SERVICE
21	53	FUND TRANSFERS
	54-64	2017 SINGLE AUDIT REPORT

**MURPHY, DOUGHERTY & COMPANY**  
**Certified Public Accountants**

**1310 CHURCH STREET**  
**SUITE 3000**  
**MOSCOW, PA 18444**

**J. PAUL MURPHY, CPA**  
**MICHAEL DOUGHERTY, CPA**  
**PAUL T. MURPHY, CPA**

**(570) 848-2866 Tel**  
**(570) 848-2833 Fax**

**INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS**  
**AND**  
**SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The Board of School Directors  
Montrose Area School District  
Montrose, Pennsylvania

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Montrose Area School District, Montrose, Pennsylvania as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

**Auditor's Responsibility**

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

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

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



(MONTROSE AREA SCHOOL DISTRICT)  
(INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS-  
CONTINUED)

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Montrose Area School District, Montrose, Pennsylvania, as of June 30, 2017, 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 on pages 4 through 10, the schedule of the District's proportionate share of the net pension liability and the schedule of District's contributions to the pension plan on pages 44 to 45, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Montrose Area School District's basic financial statements. The supplementary information on pages 46 through 53 as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the financial statements.



(MONTROSE AREA SCHOOL DISTRICT)  
(INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS-  
CONTINUED)

The supplementary information on pages 46 through 53 as listed in the table of contents and the schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information on pages 46 through 53 as listed in the table of contents and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by Governmental Auditing Standards**

In accordance with "Government Auditing Standards", we have also issued our report dated October 27, 2017 on our consideration of Montrose Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" in considering the Montrose Area School District's internal control over financial reporting and compliance.

October 27, 2017  
Moscow, Pennsylvania



MONTROSE AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED)

The discussion and analysis of Montrose Area School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2017 are as follows:

- In total, net position decreased \$7,880,969, which represents a 28.3 percent decrease from 2016.
- General revenues accounted for \$20,686,814 in revenue or 76 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions accounted for \$6,638,086 or 24 percent of total revenues of \$27,324,900.
- Total assets and deferred outflows of resources of governmental activities increased by \$4,194,239 as current assets decreased \$916,563, net capital assets increased by \$1,998,777, and deferred outflows of resources increased \$3,112,025.
- The School District had \$35,205,869 in expenses; only \$6,638,086 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes and state revenues) of \$20,686,814 were adequate to provide for these programs.

USING THIS GENERAL ACCEPTED ACCOUNTING PRINCIPALS REPORT (GAAP)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Montrose Area School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of Montrose Area School District, the General Fund is by far the most significant fund.

MONTROSE AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED-CONTINUED)

REPORTING THE SCHOOL DISTRICT AS A WHOLE  
STATEMENT OF NET POSITION AND THE STATEMENT OF ACTIVITIES

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2017?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net position and changes in net position. This change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the School District's property tax base, facility condition, required educational programs and other factors.

In the Statement of Net Position and the Statement of Activities, the School District reports governmental activities. Governmental activities are the activities where most of the School District's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The School District operates the food service fund as a business type activity.

REPORTING THE SCHOOL DISTRICT'S MOST SIGNIFICANT FUNDS  
FUND FINANCIAL STATEMENTS

The analysis of the School District's major funds begins on page 14. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and Capital Projects Fund.

GOVERNMENTAL FUNDS

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



MONTROSE AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED-CONTINUED)

THE SCHOOL DISTRICT AS A WHOLE

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2017 compared to 2016:

TABLE 1  
NET POSITION

	<u>2017</u>	<u>2016</u>
<u>ASSETS AND DEFERRED</u>		
<u>OUTFLOWS OF RESOURCES</u>		
Current and Other Assets	\$ 5,985,101	\$ 6,918,126
Capital Assets	12,027,039	10,032,441
Deferred Outflows of Resources	<u>6,913,066</u>	<u>3,732,956</u>
TOTAL ASSETS AND DEFERRED		
OUTFLOWS OF RESOURCES	<u>24,925,206</u>	<u>20,683,523</u>
<u>LIABILITIES</u>		
Current Liabilities	1,347,673	1,277,418
Other Liabilities	<u>58,783,817</u>	<u>46,790,354</u>
TOTAL LIABILITIES	<u>60,131,490</u>	<u>48,067,772</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	<u>557,601</u>	<u>498,667</u>
<u>NET POSITION</u>		
Invested in Capital Assets, Net of Debt	7,317,360	4,846,624
Restricted	1,561,398	4,219,045
Unrestricted deficit	<u>(44,642,643)</u>	<u>(36,948,585)</u>
<u>TOTAL NET POSITION</u>	<u>\$(35,763,885)</u>	<u>\$(27,882,916)</u>

Total assets and deferred outflows of resources increased by \$4,241,683 as cash and cash equivalents decreased by \$1,066,589, receivables, prepaid expenses and inventories increased by \$133,564, capital assets increased by \$1,994,598, and deferred outflows of resources increased \$3,180,110. Unrestricted net position, the part of net position that can be used to finance day-to-day activities without constraints established by grants or legal requirements, of the School District decreased by \$7,694,058. This decrease was mainly attributable to Government Accounting Standards Board Statements No. 68 and No. 71 which required the District to recognize their portion of the PSERS pension liability.

Table 2 shows the changes in net position for fiscal year 2017 and 2016.

MONTROSE AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED-CONTINUED)

TABLE 2  
CHANGES IN NET POSITION

	<u>2017</u>	<u>%</u>	<u>2016</u>	<u>%</u>
<u>REVENUES</u>				
<u>Program Revenues:</u>				
Charges for Services	\$ 245,307	0.9%	\$ 252,409	1.0%
Operating Grants & Contributions	6,392,779	23.4%	6,160,320	24.5%
Capital Grants & Contributions	-0-	0.0%	-0-	0.0%
<u>General Revenues:</u>				
Property taxes	10,361,865	37.9%	9,922,021	39.5%
Grants and Entitlements	8,622,448	31.6%	8,533,634	34.0%
Other	<u>1,702,501</u>	<u>6.2%</u>	<u>230,875</u>	<u>1.0%</u>
TOTAL REVENUES	<u>27,324,900</u>	<u>100%</u>	<u>25,099,259</u>	<u>100%</u>
<u>PROGRAM EXPENSES</u>				
INSTRUCTION	22,804,965	64.8%	16,159,693	60.3%
<u>SUPPORT SERVICES:</u>				
Pupils and Instructional Staff	1,856,904	5.3%	1,796,521	6.7%
Board of Education, Administration, Fiscal and Business	3,515,415	10.0%	2,083,756	7.8%
Operation & Maintenance of Plant	2,102,907	6.0%	1,943,989	7.3%
Pupil Transportation	1,872,919	5.3%	2,037,779	7.6%
Other Support Services	1,604,910	4.5%	1,407,890	5.3%
Operation of Non-Instructional Services	1,314,639	3.7%	1,240,173	4.6%
Operating transfers	-0-	0.0%	-0-	0.0%
Interest and Fiscal Charges	<u>133,210</u>	<u>0.4%</u>	<u>107,044</u>	<u>0.4%</u>
TOTAL EXPENSES	<u>35,205,869</u>	<u>100%</u>	<u>26,776,845</u>	<u>100%</u>
INCREASE (DECREASE) IN NET POSITION	<u>\$(7,880,969)</u>		<u>\$(1,677,586)</u>	

GOVERNMENTAL ACTIVITIES

Property taxes made up 37.9 and 39.5 percent of revenues for governmental activities for the Montrose Area School District for fiscal year 2017 and 2016, respectively.

Instruction comprises 64.8 and 60.3 percent of District expenses. Support services expenses make up 31.1 and 34.7 percent of the expenses for the years 2017 and 2016, respectively.

MONTROSE AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED-CONTINUED)

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

TABLE 3

	<u>TOTAL COST</u> <u>OF SERVICES</u> <u>2017</u>	<u>NET COST</u> <u>OF SERVICES</u> <u>2017</u>	<u>TOTAL COST</u> <u>OF SERVICES</u> <u>2016</u>	<u>NET COST</u> <u>OF SERVICES</u> <u>2016</u>
Instruction	\$22,804,965	\$19,064,093	\$16,159,693	\$12,687,209
<u>Support Services:</u>				
Pupil and Instructional Staff	1,856,904	1,518,335	1,796,521	1,465,505
Board of Education, Administration				
Fiscal and Business	3,515,415	3,328,264	2,083,756	1,917,425
Operation & Maintenance of Plant	2,102,907	1,994,989	1,943,989	1,847,500
Pupil Transportation	1,872,919	445,323	2,037,779	512,465
Other Support Services	1,604,910	1,533,285	1,407,890	1,342,700
Operation of Non-Instructional				
Services	1,314,639	550,284	1,240,173	494,758
Operating transfers	-0-	-0-	-0-	-0-
Interest and Fiscal Charges	<u>133,210</u>	<u>133,210</u>	<u>107,044</u>	<u>96,554</u>
TOTAL EXPENSES	<u>\$35,205,869</u>	<u>\$28,567,783</u>	<u>\$26,776,845</u>	<u>\$20,364,116</u>

Instruction expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.

Pupils and instructional staff include the activities involved with assisting staff with the content and process of teaching to pupils.

Board of education, administration, fiscal and business includes expenses associated with administrative and financial supervision of the District.

Operation and maintenance of plant activities involve keeping the school grounds, buildings, and equipment in an effective working condition.

Pupil transportation includes activities involved with the conveyance of students to and from school, as well as to and from school activities, as provided by state law.

Operation of non-instructional services includes the preparation, delivery, and servicing of lunches, snacks and other incidental meals to students and school staff in connection with school activities, and extracurricular activities which includes expenses related to student activities provided by the School District which are designed to provide opportunities for pupils to participate in school events, public events, or a combination of these for the purpose of motivation, enjoyment and skill improvement.

Interest and fiscal charges involves the transactions associated with the payment of interest and other related charges to debt of the School District.



MONTROSE AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED-CONTINUED)

The dependence upon tax revenue is apparent. Approximately 38 percent of the costs of the District is supported by tax revenue.

THE SCHOOL DISTRICT'S FUNDS

Information about the School District's major funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenue of \$26,977,573 and expenditures of \$28,030,342. The net change in fund balance decreased by \$1,052,769 with the General Fund having an increase of \$1,604,878 and the Capital Projects Fund having a decrease of \$2,657,647.

The District had budgeted a decrease of \$239,682 (of which \$150,000 was a budgetary reserve).

GENERAL FUND BUDGETING HIGHLIGHTS

The School District budget is prepared according to Pennsylvania law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

The School District adopted the budget for the fiscal year June 30, 2017 at its June 2016 meeting and made several budget transfers during fiscal 2016-17. The School District's budgetary process flows through the business office after appraisals have been made by authorized supervisory officials. This system is designed to tightly control the budget at the Business Manager level.

During the fiscal year the District had budgeted to receive \$25,544,303 in revenue but actually received \$26,850,465 or an increase in revenue of \$1,306,162.

The following table will illustrate the major differences between the revenues received and the revenues budgets:

	<u>Over Budget</u>		<u>Under Budget</u>
Rentals and gas lease	\$ 658,550	Transportation	\$ 95,881
Current real estate taxes	50,885	Social security revenue	62,780
Refund of prior year expenses	846,102	Retirement revenue	74,788

On the expenditure side the District was under budget by \$538,398. Overall the District had an increase in fund balance of \$1,604,878.

The School District had anticipated having a decrease of \$239,682 to decrease its fund balance, but the actual was an increase of \$1,604,878. The fund balance at June 30, 2017 was \$3,273,650 and carried over to the June 30, 2018 budget.

CAPITAL ASSETS

At the end of the fiscal year 2017, the School District had \$12,027,039 invested in land, buildings, furniture, equipment and vehicles.

MONTROSE AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED-CONTINUED)

Table 4 shows fiscal 2017 balance compared to 2016.

TABLE 4  
CAPITAL ASSETS (NET OF DEPRECIATION) AT JUNE 30

	<u>2016</u>	<u>2015</u>
Land	\$ 1,167,737	\$ 1,167,737
Buildings and Improvements	9,995,369	8,035,056
Furniture, Equipment and Vehicles	<u>863,933</u>	<u>829,648</u>
TOTAL	<u>\$12,027,039</u>	<u>\$10,032,441</u>

Depreciation amounted to \$805,776 and \$712,734 and net capital assets increased by \$1,994,598 in 2017 and increased \$313,394 in 2016 with the majority being purchased from the capital funds in both fiscal 2017 and 2016.

DEBT ADMINISTRATION

At June 30, 2017 the District had \$4,700,000 of total debt. During the fiscal year 2017 the District paid \$475,000 of principal for this debt.

CURRENT FINANCIAL ISSUES AND CONCERNS

The Montrose Area School District is financially stable. The District does not have a large industrial base and property taxes are generated by residential properties.

Finances of the District depend primarily upon state revenues and local property taxes. Should the Commonwealth of Pennsylvania not increase the subsidy payments sufficiently, then local property taxes would need to be raised to meet any budget shortfall.

In conclusion, the Montrose Area School District has committed itself to financial excellence for many years. In addition, the School District system of financial planning, budgeting and internal controls are well regarded. The School District plans to continue its sound fiscal management to meet the challenges of the future.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, inventory and regulatory agencies and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Ms. Michelle Lusk, Business Manager of the Montrose Area School District, Montrose, Pennsylvania.

MONTROSE AREA SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2017

	GOVERNMENTAL	BUSINESS- TYPE	
<u>ASSETS</u>	<u>ACTIVITIES</u>	<u>ACTIVITIES</u>	<u>TOTAL</u>
Cash and cash equivalents	\$ 3,930,816	\$ 17,606	\$ 3,948,422
Investments	0	0	0
Taxes receivable, net	560,609	0	560,609
Interfund receivables	79,582	47,534	127,116
Intergovernmental receivables	1,149,043	28,293	1,177,336
Inventories	80,764	4,595	85,359
Other receivables, net	86,259	0	86,259
Prepaid expenses	0	0	0
Total Current Assets	<u>5,887,073</u>	<u>98,028</u>	<u>5,985,101</u>
<u>NON-CURRENT ASSETS</u>			
Land	1,167,737	0	1,167,737
Building and building improvements	21,570,901	0	21,570,901
Fixtures and equipment	4,618,400	536,338	5,154,738
Construction in progress	0	0	0
Accumulated depreciation	(15,375,968)	(490,369)	(15,866,337)
Total Non-Current Assets	<u>11,981,070</u>	<u>45,969</u>	<u>12,027,039</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred amounts related to pensions	6,775,128	137,938	6,913,066
Total Deferred Outflows of Resources	<u>6,775,128</u>	<u>137,938</u>	<u>6,913,066</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u><b>24,643,271</b></u>	<u><b>281,935</b></u>	<u><b>24,925,206</b></u>
<u>LIABILITIES</u>			
<u>CURRENT LIABILITIES</u>			
Interfund payables	47,534	75,081	122,615
Accounts payable	230,607	0	230,607
Accrued salaries & benefits	347,409	0	347,409
Accrued retirement incentive	71,812	0	71,812
Accrued interest	53,084	0	53,084
Payroll deductions & withholdings	0	0	0
Revenues received in advance	29,509	12,637	42,146
Other current liabilities	0	0	0
Current portion of long-term obligations	480,000	0	480,000
Total Current Liabilities	<u>1,259,955</u>	<u>87,718</u>	<u>1,347,673</u>
<u>NON-CURRENT LIABILITIES</u>			
Bonds payable	4,220,000	0	4,220,000
Accrued retirement incentive	4,068	0	4,068
Other postemployment benefits	9,588,121	0	9,588,121
Net pension liability	42,180,819	834,181	43,015,000
Long-term portion of compensated absences	1,956,628	0	1,956,628
Total Non-Current Liabilities	<u>57,949,636</u>	<u>834,181</u>	<u>58,783,817</u>
<b>TOTAL LIABILITIES</b>	<u><b>59,209,591</b></u>	<u><b>921,899</b></u>	<u><b>60,131,490</b></u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Unamortized premium on issuance of bonds	9,679	0	9,679
Deferred amounts related to pensions	536,989	10,933	547,922
Total Deferred Inflows of Resources	<u>546,668</u>	<u>10,933</u>	<u>557,601</u>
<u>NET POSITION</u>			
Invested in capital assets, net of related debt	7,271,391	45,969	7,317,360
Restricted for: Capital Projects	1,561,398	0	1,561,398
Debt Service	0	0	0
Unrestricted	(43,945,777)	(696,866)	(44,642,643)
<b>TOTAL NET POSITION</b>	<u><b>\$(35,112,988)</b></u>	<u><b>\$ (650,897)</b></u>	<u><b>\$(35,763,885)</b></u>

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



MONTROSE AREA SCHOOL DISTRICT  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2017

Total Governmental Fund Balance \$ 4,835,048

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 in the funds. These assets consist of:

Land	1,167,737
Buildings and building improvements	21,570,901
Furniture and equipment	4,618,400
Accumulated depreciation	(15,375,968)
Total Capital Assets	<u>11,981,070</u>

Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

396,966

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

Deferred outflows of resources related to pensions	6,775,128
Deferred inflows of resources related to pensions	(536,989)
Total Deferred Outflows and Inflows of Resources	<u>6,238,139</u>

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

Bonds payable	(4,700,000)
Bond premium, net of amortization	(9,679)
Accrued interest	(53,084)
Accrued retirement incentive	(75,880)
Other postemployment benefits	(9,588,121)
Net pension liability	(42,180,819)
Compensated absences	(1,956,628)
Total Liabilities	<u>(58,564,211)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (35,112,988)

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

MONTROSE AREA SCHOOL DISTRICT  
STATEMENT OF NET ACTIVITIES  
FOR THE YEAR ENDING JUNE 30, 2017

			PROGRAM REVENUES		NET (EXPENSE) REVENUE AND		
	EXPENSES	CHARGES FOR	OPERATING GRANTS	CAPITAL	CHANGES IN NET POSITION	BUSINESS-TYPE	TOTAL
		SERVICES	AND CONTRIBUTIONS	GRANTS & CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	ACTIVITIES	
<u>GOVERNMENTAL ACTIVITIES</u>							
INSTRUCTION:							
Regular	\$ 18,665,247	\$ -	\$ 2,128,742	\$ -	\$ (16,536,505)	\$ -	\$ (16,536,505)
Special	3,384,137		1,580,034		(1,804,103)		(1,804,103)
Vocational	613,677		13,789		(599,888)		(599,888)
Other Instructional Programs	141,904		18,307		(123,597)		(123,597)
Adult/Continuing	0		0		0		0
TOTAL INSTRUCTIONAL SERVICES	22,804,965	0	3,740,872	0	(19,064,093)	0	(19,064,093)
<u>SUPPORT SERVICES</u>							
Pupil Personnel	820,717		153,177		(667,540)		(667,540)
Instructional Staff	581,712		114,646		(467,066)		(467,066)
Administration	3,081,982		150,557		(2,931,425)		(2,931,425)
Pupil Health	454,475		70,746		(383,729)		(383,729)
Business	433,433		36,594		(396,839)		(396,839)
Operation and Maintenance of Plant Services	2,102,907		107,918		(1,994,989)		(1,994,989)
Student Transportation Services	1,872,919		1,427,596		(445,323)		(445,323)
Central	1,568,464		71,625		(1,496,839)		(1,496,839)
Other Support Services	36,446		0		(36,446)		(36,446)
TOTAL SUPPORT SERVICES	10,953,055	0	2,132,859	0	(8,820,196)	0	(8,820,196)
<u>NON-INSTRUCTIONAL SERVICES</u>							
Student Activities	542,580	9,690	40,846		(492,044)		(492,044)
Community Services	1,430	0	0		(1,430)		(1,430)
TOTAL NON-INSTRUCTIONAL SERVICES	544,010	9,690	40,846	0	(493,474)	0	(493,474)
Interest on Long-Term Debt	133,210	0	0	0	(133,210)		(133,210)
TOTAL GOVERNMENT ACTIVITIES	34,435,240	9,690	5,914,577	0	(28,510,973)	0	(28,510,973)
Business-Type Activities							
Food Service	769,909	235,617	478,202	0		(56,090)	(56,090)
Internal Service	720	0	0	0		(720)	(720)
TOTAL PRIMARY GOVERNMENT	\$ 35,205,869	\$ 245,307	\$ 6,392,779	\$ -	\$ (28,510,973)	\$ (56,810)	\$ (28,567,783)
<u>GENERAL REVENUES:</u>							
Property taxes, levied for general purposes					10,361,865	0	10,361,865
Public utility realty, per capita and occupational taxes levied for general purposes					116,591	0	116,591
Grants, subsidies and contributions not restricted					8,622,448	0	8,622,448
Investment earnings					75,136	230	75,366
Miscellaneous income					1,510,544	0	1,510,544
TOTAL GENERAL REVENUES					20,686,584	230	20,686,814
Change in Net Position					(7,824,389)	(56,580)	(7,880,969)
NET POSITION - BEGINNING OF YEAR					(27,288,599)	(594,317)	(27,882,916)
NET POSITION - END OF YEAR					\$ (35,112,988)	\$ (650,897)	\$ (35,763,885)

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

MONTROSE AREA SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2017

	<u>GENERAL</u>	<u>CAPITAL PROJECTS</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$2,369,418	\$1,561,398	\$ -	\$ 3,930,816
Investments	0	0	0	0
Taxes receivable, net	560,609	0	0	560,609
Interfund receivables	79,582	0	0	79,582
Intergovernmental receivables	1,149,043	0	0	1,149,043
Inventories	80,764	0	0	80,764
Other receivables, net	86,259	0	0	86,259
Prepaid expenses	0	0	0	0
<b>TOTAL ASSETS</b>	<u>\$4,325,675</u>	<u>\$1,561,398</u>	<u>\$ -</u>	<u>\$ 5,887,073</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>				
<u>LIABILITIES</u>				
Interfund payables	47,534	0	0	47,534
Accounts payable	230,607	0	0	230,607
Accrued salaries & benefits	347,409	0	0	347,409
Accrued interest	0	0	0	0
Payroll deductions & withholding	0	0	0	0
Revenue received in advance	29,509	0	0	29,509
Other current liabilities	0	0	0	0
<b>TOTAL LIABILITIES</b>	<u>655,059</u>	<u>0</u>	<u>0</u>	<u>655,059</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Unavailable revenue - property taxes	396,966	0	0	396,966
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>396,966</u>	<u>0</u>	<u>0</u>	<u>396,966</u>
<u>FUND BALANCES</u>				
Nonspendable:				
Inventories	80,764	0	0	80,764
Restricted for:				
Capital outlays	0	1,561,398	0	1,561,398
Debt service	0	0	0	0
Committed for:				
Future pension costs	571,827	0	0	571,827
Curriculum	1,531,981	0	0	1,531,981
Unassigned:				
Unassigned	1,089,078	0	0	1,089,078
<b>TOTAL FUND BALANCES</b>	<u>3,273,650</u>	<u>1,561,398</u>	<u>0</u>	<u>4,835,048</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, &amp; FUND BALANCES</b>	<u>\$4,325,675</u>	<u>\$1,561,398</u>	<u>\$ -</u>	<u>\$ 5,887,073</u>

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



MONTROSE AREA SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
JUNE 30, 2017

Net change in Fund Balances – Total Government Funds \$ (1,052,769)

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

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	2,791,183
Depreciation expense	(792,406)
Excess of capital outlay over depreciation expense	1,998,777

Issuance of long-term debt is reported as revenue as it provides current financial resources to governmental funds, while repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position. In the current year, these amounts consist of:

Bond principal payments	475,000
Bond premium amortization	1,138
	476,138

Some revenues that will not be collected for several months after the District's fiscal year ends are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues increased by this amount this year:

Property taxes	46,910
----------------	--------

Governmental funds report district pension contributions as expenditures. However in the Statement of Net Activities, the cost of pension related benefits earned net of employee contributions is reported as pension expense:

District pension contributions	3,230,376
Cost of pension benefits earned, net of employee contributions	(5,227,674)
	(1,997,298)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Net (increase)/decrease in accrued interest	1,425
Net (increase)/decrease in accrued retirement incentive	85,407
Net (increase)/decrease in other postemployment benefits	(7,249,812)
Net (increase)/decrease in compensated absences	(133,167)
	(7,296,147)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ (7,824,389)
---	----------------

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

MONTROSE AREA SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDING JUNE 30, 2017

	<u>GENERAL</u>	<u>CAPITAL PROJECTS</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>REVENUES</u>				
Local sources	\$12,576,673	\$ 127,108	\$ -	\$12,703,781
State sources	13,689,791	0	0	13,689,791
Federal sources	584,001	0	0	584,001
<b>TOTAL REVENUES</b>	<b>26,850,465</b>	<b>127,108</b>	<b>0</b>	<b>26,977,573</b>
<u>EXPENDITURES</u>				
<u>Instructional Services</u>				
Regular	11,475,991	0	0	11,475,991
Special	3,002,418	0	0	3,002,418
Vocational	586,131	0	0	586,131
Other instructional programs	122,431	0	0	122,431
Adult/Continuing	0	0	0	0
<b>TOTAL INSTRUCTIONAL SERVICES</b>	<b>15,186,971</b>	<b>0</b>	<b>0</b>	<b>15,186,971</b>
<u>Support Services</u>				
Pupil personnel	718,041	0	0	718,041
Instructional staff	520,709	0	0	520,709
Administration	1,445,703	0	0	1,445,703
Pupil health	399,906	0	0	399,906
Business	386,330	0	0	386,330
Operation and maintenance of plant services	1,867,310	15,370	0	1,882,680
Student transportation services	1,958,118	0	0	1,958,118
Central	1,558,866	8,734	0	1,567,600
Other support services	36,446	0	0	36,446
<b>TOTAL SUPPORT SERVICES</b>	<b>8,891,429</b>	<b>24,104</b>	<b>0</b>	<b>8,915,533</b>
Operation of Non-Instructional Services	512,956	0	0	512,956
Capital outlay	43,458	2,760,651	0	2,804,109
<u>Debt Service</u>				
Interest, Refunds and Costs	135,773	0	0	135,773
Principal	475,000	0	0	475,000
<b>TOTAL EXPENDITURES</b>	<b>25,245,587</b>	<b>2,784,755</b>	<b>0</b>	<b>28,030,342</b>
<b>(EXCESS) DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	<b>1,604,878</b>	<b>(2,657,647)</b>	<b>0</b>	<b>(1,052,769)</b>
<u>OTHER FINANCING SOURCES (USES)</u>				
Bond issue proceeds	0	0	0	0
Sale of fixed assets	0	0	0	0
Operating transfers in	0	0	0	0
Operating transfers out	0	0	0	0
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>1,604,878</b>	<b>(2,657,647)</b>	<b>0</b>	<b>(1,052,769)</b>
Fund Balances-Beginning	1,668,772	4,219,045	0	5,887,817
<b>FUND BALANCES-ENDING</b>	<b>\$ 3,273,650</b>	<b>\$1,561,398</b>	<b>\$ -</b>	<b>\$ 4,835,048</b>

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

MONTROSE AREA SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET(NON-GAAP BASIS) AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDING JUNE 30, 2017

	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
<u>REVENUES</u>				
Local sources	\$11,056,708	\$11,056,708	\$12,576,673	\$ 1,519,965
State sources	13,959,307	13,959,307	13,689,791	(269,516)
Federal sources	528,288	528,288	584,001	55,713
Total Revenues	<u>25,544,303</u>	<u>25,544,303</u>	<u>26,850,465</u>	<u>1,306,162</u>
<u>EXPENDITURES</u>				
<u>Instructional Services:</u>				
Regular	12,015,852	11,968,572	11,475,991	492,581
Special	2,998,831	3,042,532	3,002,418	40,114
Vocational	608,542	608,541	586,131	22,410
Other instructional programs	84,595	80,595	122,431	(41,836)
Adult/Continuing	0	0	0	0
Total Instructional Services	<u>15,707,820</u>	<u>15,700,240</u>	<u>15,186,971</u>	<u>513,269</u>
<u>Support Services</u>				
Pupil personnel	726,899	706,776	718,041	(11,265)
Instructional staff	459,319	461,900	520,709	(58,809)
Administration	1,408,891	1,420,622	1,445,703	(25,081)
Pupil health	412,453	412,573	399,906	12,667
Business	363,300	360,796	386,330	(25,534)
Operation & maintenance of plant services	1,907,052	1,907,052	1,867,310	39,742
Student transportation services	1,835,713	1,835,713	1,958,118	(122,405)
Central	1,524,332	1,540,106	1,558,866	(18,760)
Other support services	33,046	33,046	36,446	(3,400)
Total Support Services	<u>8,671,005</u>	<u>8,678,584</u>	<u>8,891,429</u>	<u>(212,845)</u>
Operation of Non- Instructional Services	514,122	514,122	512,956	1,166
Capital outlay	65,000	65,000	43,458	21,542
Debt Service: Interest & refunds	107,593	107,593	135,773	(28,180)
Principal	475,000	475,000	475,000	0
TOTAL EXPENDITURES	<u>25,540,540</u>	<u>25,540,539</u>	<u>25,245,587</u>	<u>294,952</u>
(EXCESS) DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>3,763</u>	<u>3,764</u>	<u>1,604,878</u>	<u>1,601,114</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Sale of fixed assets	0	0	0	0
Operating transfers in	0	0	0	0
Operating transfers out	(93,445)	(93,446)	0	93,446
Budgetary reserve	(150,000)	(150,000)	0	150,000
Total Other Financing Sources(Uses)	<u>(243,445)</u>	<u>(243,446)</u>	<u>0</u>	<u>243,446</u>
Net Change in Fund Balances	(239,682)	(239,682)	1,604,878	1,844,560
Fund Balances-Beginning	1,226,424	1,226,424	1,668,772	442,348
Inventory Reserve Adjustment	0	0	0	0
FUND BALANCES-ENDING	<u>\$ 986,742</u>	<u>\$ 986,742</u>	<u>\$ 3,273,650</u>	<u>\$ 2,286,908</u>

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

MONTROSE AREA SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2017

	<u>FOOD SERVICE</u>	<u>OTHER PROPRIETARY FUNDS</u>	<u>TOTAL PROPRIETARY FUNDS</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 17,605	\$ 1	\$ 17,606
Investments	0	0	0
Taxes receivable, net	0	0	0
Interfund receivables	47,534	0	47,534
Intergovernmental receivables	28,293	0	28,293
Inventories	4,595	0	4,595
Prepaid expenses	0	0	0
Total Current Assets	<u>98,027</u>	<u>1</u>	<u>98,028</u>
<u>NON-CURRENT ASSETS</u>			
Fixtures and equipment	536,338	0	536,338
Accumulated depreciation	(490,369)	0	(490,369)
Total Non-Current Assets	<u>45,969</u>	<u>0</u>	<u>45,969</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred amounts related to pensions	137,938	0	137,938
Total Deferred Outflows of Resources	<u>137,938</u>	<u>0</u>	<u>137,938</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 281,934</u>	<u>\$ 1</u>	<u>\$ 281,935</u>
<u>LIABILITIES</u>			
<u>CURRENT LIABILITIES</u>			
Interfund payables	75,081	0	75,081
Accounts payable	0	0	0
Accrued salaries & benefits	0	0	0
Revenue received in advance	12,637	0	12,637
Other current liabilities	0	0	0
Total Current Liabilities	<u>87,718</u>	<u>0</u>	<u>87,718</u>
<u>NON-CURRENT LIABILITIES</u>			
Net Pension Liability	834,181	0	834,181
Total Non-Current Liabilities	<u>834,181</u>	<u>0</u>	<u>834,181</u>
<b>TOTAL LIABILITIES</b>	<u>921,899</u>	<u>0</u>	<u>921,899</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred amounts related to pensions	10,933	0	10,933
Total Deferred Inflows of Resources	<u>10,933</u>	<u>0</u>	<u>10,933</u>
<u>NET POSITION</u>			
Invested in capital assets, net of related debt	45,969	0	45,969
Unrestricted	(696,867)	1	(696,866)
<b>TOTAL NET POSITION</b>	<u>\$ (650,898)</u>	<u>\$ 1</u>	<u>\$ (650,897)</u>

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

MONTROSE AREA SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
NET POSITION-PROPRIETARY FUNDS  
FOR THE YEAR ENDING JUNE 30, 2017

	<u>FOOD SERVICE</u>	<u>OTHER PROPRIETARY FUNDS</u>	<u>TOTAL PROPRIETARY FUNDS</u>
<u>OPERATING REVENUE</u>			
Food service revenue	\$ 235,617	\$ -	\$ 235,617
<u>OPERATING EXPENSES</u>			
Salaries	225,236	0	225,236
Employee benefits	194,744	720	195,464
Purchased professional & technical services	200	0	200
Purchased property services	14,567	0	14,567
Other purchased services	2,570	0	2,570
Supplies	315,369	0	315,369
Other objects	3,853	0	3,853
Depreciation	13,370	0	13,370
Total Operating Expenses	<u>769,909</u>	<u>720</u>	<u>770,629</u>
Operating Income (Loss)	<u>(534,292)</u>	<u>(720)</u>	<u>(535,012)</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>			
Earnings on investments	225	5	230
State sources	70,769	0	70,769
Federal sources	407,433	0	407,433
Total Non-Operating Revenues (Expenses)	<u>478,427</u>	<u>5</u>	<u>478,432</u>
Change in Net Position	(55,865)	(715)	(56,580)
NET POSITION, BEG. OF YEAR	<u>(595,033)</u>	<u>716</u>	<u>(594,317)</u>
NET POSITION, END OF YEAR	<u>\$ (650,898)</u>	<u>\$ 1</u>	<u>\$ (650,897)</u>

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



MONTROSE AREA SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDING JUNE 30, 2017

	<u>FOOD SERVICE</u>	<u>OTHER PROPRIETARY FUNDS</u>	<u>TOTAL PROPRIETARY FUNDS</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Cash received from customers	\$ 235,617	\$ -	\$ 235,617
Cash payments to suppliers for goods & services	(439,424)	(720)	(440,144)
Cash payments to employees for services	(191,584)	0	(191,584)
Cash payments for other operating expenses	(3,853)	0	(3,853)
Net Cash Provided by (used for) Operating Activities	(399,244)	(720)	(399,964)
<u>CASH FLOWS FROM NON-CAPITAL FINANCING SOURCES</u>			
Local sources	0	0	0
State sources	70,114	0	70,114
Federal sources	346,049	0	346,049
Net Cash Provided by (used for) Non-capital Financing Activities	416,163	0	416,163
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>			
Fixed asset purchases	(9,191)	0	(9,191)
Net Cash Provided by (used for) Capital and Related Financing Activities	(9,191)	0	(9,191)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Earnings on investments	225	5	230
Net Cash Provided by (used for) Investing Activities	225	5	230
Net Increase (Decrease) in Cash & Cash Equivalents	7,953	(715)	7,238
CASH & CASH EQUIVALENTS, BEG. OF YEAR	9,652	716	10,368
CASH & CASH EQUIVALENTS, END OF YEAR	\$ 17,605	\$ 1	\$ 17,606
<u>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:</u>			
Operating Loss	(534,292)	(720)	(535,012)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:			
Depreciation	13,370	0	13,370
USDA donated commodities	53,079	0	53,079
(Increase) decrease in accounts receivable	0	0	0
(Increase) decrease in inventories	(992)	0	(992)
(Increase) decrease in interfund receivable	33,652	0	33,652
(Increase) decrease in deferred outflows	(68,085)	0	(68,085)
Increase (decrease) in interfund payable	(5,572)	0	(5,572)
Increase (decrease) in other current liabilities	0	0	0
Increase (decrease) in revenue received in advance	847	0	847
Increase (decrease) in net pension liability	106,945	0	106,945
Increase (decrease) in deferred inflows	1,804	0	1,804
TOTAL ADJUSTMENTS	135,048	0	135,048
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ (399,244)	\$ (720)	\$ (399,964)

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

MONTROSE AREA SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2017

PRIVATE PURPOSE  
TRUST

	<u>SCHOLARSHIP</u>	<u>AGENCY</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 6,500	\$ 1,511,906
Investments	2,250	0
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 8,750</u>	<u>\$ 1,511,906</u>
<u>LIABILITIES</u>		
Interfund payable	0	4,501
Payroll deductions and withholdings	0	1,409,419
Due to Students	0	97,986
	<hr/>	<hr/>
TOTAL LIABILITIES	<u>0</u>	<u>\$ 1,511,906</u>
<u>NET POSITION</u>		
Restricted for scholarship	<u>\$ 8,750</u>	

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

MONTROSE AREA SCHOOL DISTRICT  
STATEMENT OF CHANGES IN NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDING JUNE 30, 2017

	<u>PRIVATE PURPOSE</u> <u>TRUST</u>
	<u>SCHOLARSHIP</u>
<u>ADDITIONS</u>	
Gifts and contributions	\$ 1,000
Interest income	84
	<u>1,084</u>
<u>DEDUCTIONS</u>	
Scholarships and awards	<u>1,084</u>
	<u>1,084</u>
CHANGE IN NET POSITION	0
NET POSITION - BEGINNING OF YEAR	<u>8,750</u>
NET POSITION - END OF YEAR	<u><u>\$ 8,750</u></u>

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

MONTROSE AREA SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Montrose Area School District (the District) located in Montrose, Pennsylvania, provides a full range of educational services appropriate to grade levels kindergarten through 12 to students living in Susquehanna County. These include regular, advanced academic, and vocational education programs, and special education programs for gifted and handicapped children. The District has a nine-member elected school board and an appointed Superintendent and Business Manager who oversee the daily operations of the District. The District is comprised of two elementary schools and one high school.

The accounting policies of Montrose Area School District conform with generally accepted accounting principles as applicable to governmental units. The District implemented new reporting model standards beginning July 1, 2002. Comparability with reports of all prior years will be affected. The following is a summary of the District's significant accounting policies:

A. REPORTING ENTITY

Consistent with guidance contained in Statement No. 39 of the Governmental Accounting Standards Board (GASB), Determining Whether Organizations are Component Units-an amendment of GASB Statement No. 14, The Financial Reporting Entity, the criteria used by the District to evaluate the possible inclusion of related entities (Authorities, Boards, Councils, etc.) within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given case, the District reviews the applicability of the following criteria:

The District is financially accountable for:

- \* Organizations that make up the District's legal entity.
- \* Legally separate organizations if District officials appoint a majority of the organization's governing body and the District is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the District as defined below.

Impose Its Will – If the District can significantly influence the programs, projects or activities of, or the level of services performed or provided by the organization.

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

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

As defined, there are no other related organizations which should be included in the financial statements. The reporting entity will consist solely of the accounts and funds of the District.

**B. BASIS OF PRESENTATION, FUND ACCOUNTING**

The accounts of the District are organized on the basis of funds, each of which constitutes a separate accounting entity. The operations of each fund are accounted for within a separate set of self-balancing accounts that comprise its assets, liabilities, deferred inflows/outflows of resources, fund balances/net position, revenues and expenditures. Resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent. The District uses the following fund types:

**GOVERNMENTAL FUND TYPES**

Governmental Funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities are accounted for through governmental funds. The following are the District's governmental fund types:

**GENERAL FUND**

The General Fund accounts for the general operations of the District and all financial transactions not properly accounted for in another fund.

**DEBT SERVICE FUND**

The Debt Service Fund accounts for the accumulation of resources, sources for and the payment of, general long-term debt principal and interest.

**CAPITAL PROJECTS FUND**

The Capital Projects Fund accounts for the revenue and expenditures of major construction projects of the District and the Capital Reserve Fund. The Capital Reserve Fund was set up under the authorization of Sections 1431-1436 of the PA School Code and accounts for monies that can be used for capital improvements and deferred maintenance thereof, including replacement and purchase of equipment and furniture.

**PROPRIETARY FUND TYPES**

Proprietary Fund Types account for operations that are financed and operated in a manner similar to private business enterprises.

**FOOD SERVICE FUND**

The Food Service Fund accounts for all financial resources associated with the operations of the cafeterias.

**INTERNAL SERVICE FUND**

The unbudgeted Internal Service Fund is set up to account for the transactions of unemployment compensation.



FIDUCIARY FUND TYPES (TRUST AND AGENCY FUNDS)

Fiduciary Fund Types account for assets held by a governmental unit in a trustee capacity or as an agent for other funds.

AGENCY FUND

Agency funds are used to account for assets held by the District as an agent. Agency funds are custodial in nature and do not involve measurement or results of operations. The following are in the District's agency fund:

- The Student Activity Fund accounts for programs operated and sponsored by various clubs and organizations.
- The Payroll Fund accounts for salaries and wages earned by School District employees. It handles the disbursing of such amounts to the employees and to other agencies on their behalf, (taxes, retirement contributions, etc.)

TRUST FUND

Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The following is included in the District's trust fund:

- The Private Purpose Trust accounts for scholarship funds for students.

C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the District as a whole excluding fiduciary activities such as the trust and agency fund. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and District general revenues, from business-type activities, generally financed in whole or in part with fees charged for services.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees and other charges to users of the District's services; (2) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

(NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED)

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The financial statements of the District are prepared in accordance with accounting principles generally accepted in the United States of America. The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The government-wide, proprietary fund and component unit financial statements apply Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Proprietary and fiduciary fund financial statements also report using the same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues, net of any uncollectible amounts, are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met. Net position (total assets less total liabilities) is used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased net position. Depreciation is charged as expense against current operations and accumulated depreciation is reported on the statement of net position.

The governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible with the current period or soon enough thereafter to pay current liabilities. The District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Property taxes levied but collected beyond 60 days after year-end, are recorded as deferred revenue to be recognized as revenue when the taxes are collected. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: property taxes, intergovernmental revenues, investment income, rent and certain miscellaneous revenues. In general, other revenues are recognized when cash is received. In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the District; therefore, revenues are recognized based upon the expenditures incurred. In the other, monies are virtually unrestricted and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges for services. Principal operating expenses are the cost of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

(NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED)

In governmental funds when an expenditure is incurred that can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to other, less-restricted classifications- committed, assigned, and then unassigned fund balances.

E. BUDGETARY DATA

An operating budget is adopted each year for the General Fund on a modified accrual basis of accounting. The District utilizes the Executive Budget approach to budgetary control. This approach requires the Superintendent, together with the Business Office, to prepare and submit a plan of financial operation to the School Board. The District is not required to adopt an operating budget for its Capital Projects Fund.

F. ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in government funds. Encumbrances at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities but serve as authorization for expenditures in the subsequent year. As of June 30, 2017, the District had no such encumbrances.

G. INTERFUND TRANSACTIONS

Advances between funds are accounted for in the appropriate interfund receivables and payable accounts. Any outstanding amounts (reported in "due from" asset accounts) are considered "available spendable resources". As of June 30, 2017 the outstanding interfund balances was \$127,116.

H. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash, certificates of deposit and liquid asset funds, are all carried at cost, which approximates fair value. The District considers all investments purchased with an original maturity of three months or less to be cash equivalents.

I. TAXES RECEIVABLE AND UNEARNED TAX REVENUES

The portion of delinquent real estate taxes receivable that is expected to be received within 60 days of June 30 is recorded as revenue in the current year. The remaining amount of those and other tax receivables is recorded as unearned tax revenues.

J. INVENTORIES AND PREPAID EXPENSES

Supplies are recorded as expenditures or expenses of all fund types when consumed. Supplies inventories are valued at cost, determined by the first-in, first-out method. Donated inventory is valued at fair value on the date donated.

Prepaid expenses represent the cost of goods and services that has been paid for in advance of receipt. The consumption method is used to account for prepaid expenses in all fund types. Under the consumption method, prepaid expenses are recorded as assets and expended or expensed as the goods or services are received.

Inventories and prepaid expenses in the General Fund are reported as a nonspendable fund balance, which indicates that the amounts do not represent spendable resources and that they are unavailable for appropriation.

K. CAPITAL ASSETS AND DEPRECIATION

The District's property, plant and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Proprietary fund capital assets are also reported in their fund financial statements. Donated assets are stated at fair value on the date donated. The District generally capitalizes assets with a cost of \$5,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable gain or loss is recorded in operations. Estimated useful lives, in years, for depreciable assets are generally as follows:

School buildings	40 years
Land improvements & building improvements	20 years
Furniture, fixtures, equipment & vehicles	4-12 years
Computer hardware	5 years

L. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, 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 governmental funds. However, compensated absences 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 fiscal year. The capital leases, and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

M. LIABILITY FOR FUTURE COMPENSATED ABSENCES

Employees of the District are entitled to paid vacation, paid sick days and personal days off, depending on job classification, length of service, and other factors. Employees are represented by a number of labor unions, and each contract contains different provisions for such employee-compensated absences.

In addition, administration and other non-union employees have agreements with the District that provide for compensated absences. The District normally pays its compensated absences from the general fund.

At June 30, 2017 the District had a compensated absence liability of \$1,956,628.

N. PENSION PLAN

Substantially all full-time and part-time employees of the District participates in a cost-sharing multiple employer defined pension plan. The District recognizes annual pension expenditures or expenses equal to its contractually required contributions, subject to the modified accrual basis of accounting in governmental funds. (That is, if contributions from governmental funds are required but not made, the difference would not be reported as an expenditure until payable with expendable, available financial resources.) The District made all required contributions for the year ended June 30, 2017 and has recognized them as expenditures and expenses in the governmental and proprietary funds, respectively.

O. UNEARNED REVENUES

Unearned revenue arises when amounts are received prior to the delivery of goods and/or services or expenditures of allowable costs.

P. NET POSITION

Net position represents the difference between assets and liabilities. 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 their 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.

The School District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Q. INVESTMENTS

Investments consist of certificates of deposit and are carried at fair market value.

R. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

S. ALLOCATION OF INDIRECT EXPENSES

The District allocates the indirect cost of depreciation. (See Note 5)

T. FUND BALANCES

Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" was implemented during fiscal year 2011. The statement establishes fund balance classifications that comprise hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/undesignated were replaced with five new classifications: nonspendable, restricted, committed, assigned, and unassigned.



(NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED)

In the governmental fund financial statements, reservations of fund balance are reported for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. Fund balances are classified as follows:

- Nonspendable – Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to remain intact.
- Restricted – Amounts which can be spent only for specific purposes because of state or federal laws, or externally imposed conditions by grantors or creditors.
- Committed – Amounts which can be used only for specific purposes determined by the Board of Education's formal action through a resolution.
- Assigned – Amounts that reflect the District's intent to spend resources for a specific purpose expressed by who is authorized by policy approved by the Board of Education to make assignments.
- Unassigned – All amounts not included in other spendable classifications.

U. DEFERRED INFLOWS OF RESOURCES

The Government Accounting Standards Board (GASB) has issued Statement No. 65, Items Previously Reported as Assets and Liabilities (GASB 65). Under GASB 65, in addition to liabilities the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents a decrease in net position or fund balance that applies to a future period(s) and thus, will not be recognized as an inflow of resources (revenue) until then. The District has three items that qualify for reporting in this category. The first is the unamortized premium on debt issuance reported in the government-wide financial statement of net position. An unamortized premium results from the difference between the face value of a bond and the price above this face value, at which the bond has been issued. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second is the unavailable property tax revenue reported in the balance sheet of the governmental funds financial statements. Unavailable property tax revenue represents property taxes not collected (delinquent taxes) within 60 days subsequent to the District's year-end. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available. The third are the amounts related to the pension that include the difference between actual and projected investment earning and the difference between the District's actual and proportionate share of pension contributions.

V. DEFERRED OUTFLOWS OF RESOURCES

The Government Accounting Standards Board (GASB) has issued Statement No. 65, Items Previously Reported as Assets and Liabilities (GASB 65). Under GASB 65, in addition to assets the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents an increase in net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expenditure) until then. The District has one item that qualifies for reporting in this category which is the amounts related to pensions such as the District's contributions for the period subsequent to the measurement date.

W. PENSION LIABILITY

Effective July 1, 2014, the District adopted Governmental Accounting Standards Board Statements No. 68, Accounting and Financial Reporting for Pensions and No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, to be in conformity with generally accepted accounting principles.

Statement No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures in order to improve accounting and financial reporting by governments for pensions. The statement also enhances note disclosure and required supplementary information for government pension plans.

Statement No. 71 establishes standards for recording and reporting contributions made to a defined benefit plan after the measurement date of the government's beginning net pension liability.

NOTE 2 – CASH AND INVESTMENTS WITH FINANCIAL INSTITUTIONS

Under Section 440.1 of the Public School Code of 1949, as amended, the District is permitted to invest funds in the following types of investments:

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

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

The deposit and investment policy of the District adheres to state statutes. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the District.

Deposits With Financial Institutions and PLGIT

Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance. The District's investment policy limits investment of funds to instruments backed by the full faith and credit of the federal and state governments or those investments specified in the Public School Code. At June 30, 2017, the bank balance of the District's deposits with financial institutions, including cash equivalents, was \$6,106,979 compared to the carrying amount of \$5,466,828. The difference is caused by items in-transit and outstanding checks. \$5,745,443 of the District's deposits was exposed to custodial credit risk and was uninsured and collateralized by securities pledged by the financial institutions for such funds but not in the District's name in accordance with the collateralization provisions of Commonwealth of Pennsylvania Act 72 of 1971 ("Act 72"), as amended. Act 72 allows banking institutions to satisfy the collateralization required by pooling eligible investments to cover public funds on deposit in excess of federal insurance.

(NOTE 2 – CASH AND INVESTMENTS WITH FINANCIAL INSTITUTIONS – CONTINUED)

The Pennsylvania Local Government Investment Trust (“PLGIT”) is a common law trust organized to provide Pennsylvania local governments with a convenient method of pooling their cash for temporary investment. PLGIT functions similar to a money market fund, seeking to maintain a net asset value of \$1 per share. Participants purchase “shares” in PLGIT, which invests the proceeds in: obligations of the United States Government, its agencies or instrumentalities; obligations of the Commonwealth of Pennsylvania, its agencies, instrumentalities or political subdivisions; and deposits in savings accounts, 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 may be withdrawn at any time. PLGIT/PLGIT PLUS have received a “AAAm” rating from Standard & Poor’s, an independent credit rating agency. At June 30, 2017, the bank balance of the District’s deposits with PLGIT was \$56,898 compared to the carrying amount of \$56,944.

Investments

As of June 30, 2017, the District’s investments are carried at fair market value and consist of the following:

	<u>MATURITY</u>	
Certificate of Deposit	4/20/21	<u>\$ 2,250</u>
TOTAL INVESTMENTS		<u>\$ 2,250</u>

NOTE 3 – TAXES RECEIVABLE

Real estate taxes and taxpayer-assessed taxes are recognized as revenue when available on the modified accrual basis, which means collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed sixty days. The government-wide financial statements recognize real estate tax revenue when the taxes are levied.

Estimated collectible delinquent taxes at June 30, 2017 are as follows:

	<u>OUTSTANDING BALANCE</u>
Real estate, occupational, transfer tax and per capita taxes	<u>\$560,609</u>

The tax on real estate, as levied by the Board, was 47.3027 mills (\$47.3027 per \$1,000 of assessed valuation) for Susquehanna County for fiscal 2017. Assessed valuations of property are determined by the County and the elected tax collectors are responsible for collection. The schedule for real estate taxes levied for each fiscal year is as follows:

July 1	-Levy Date
July 1 – August 31	-2% Discount Period
September 1 – October 31	-Face Payment Period
November 1 – December 31	-10% Penalty Period
January 1	-Turned over to Susquehanna County

(NOTES TO FINANCIAL STATEMENTS – CONTINUED)

NOTE 4 – DUE FROM OTHER GOVERNMENTS

A summary of the receivables due from other governments at June 30, 2017 is as follows:

	<u>GOVERNMENTAL</u>	<u>PROPRIETARY</u>	<u>TOTAL</u>
Federal grants	\$ 359,450	\$ 26,333	\$ 385,783
State subsidies	789,593	1,960	791,553
Other	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Due from Other Governments	<u>\$1,149,043</u>	<u>\$ 28,293</u>	<u>\$1,177,336</u>

NOTE 5 – CAPITAL ASSETS

A summary of changes in the capital assets is as follows:

	<u>BALANCE</u> <u>2016</u>	<u>NET</u> <u>ADDITIONS</u>	<u>BALANCE</u> <u>2017</u>
Governmental activities:			
Land & improvements (not depreciated)	\$ 1,167,737	\$ -0-	\$ 1,167,737
Buildings & building improvements	19,002,426	2,568,475	21,570,901
Furniture, equipment & vehicles	<u>4,395,692</u>	<u>222,708</u>	<u>4,618,400</u>
Total Historical Cost	<u>\$24,565,855</u>	<u>\$2,791,183</u>	<u>\$27,357,038</u>
LESS: Accumulated depreciation:			
Buildings & building improvements	\$10,967,370	\$ 608,162	\$11,575,532
Furniture, equipment & vehicles	<u>3,616,192</u>	<u>184,244</u>	<u>3,800,436</u>
Total Accumulated Depreciation	<u>\$14,583,562</u>	<u>\$ 792,406</u>	<u>\$15,375,968</u>
Governmental Activities, net	<u>\$ 9,982,293</u>	<u>\$1,998,777</u>	<u>\$11,981,070</u>
Business-type activities:			
Furniture and equipment	\$ 527,147	\$ 9,191	\$ 536,338
Accumulated depreciation	<u>476,999</u>	<u>13,370</u>	<u>490,369</u>
Business-type Activities, net	<u>\$ 50,148</u>	<u>\$ ( 4,179)</u>	<u>\$ 45,969</u>

Depreciation expense of \$792,406 was charged to governmental functions as follows:

Instructional	\$532,599
Pupil Personnel	25,181
Instructional Staff	18,261
Administration	50,700
Pupil Health	14,024
Business	13,548
Operation & Maintenance of	
Plant Services	65,485
Central	54,669
Student Activities	<u>17,939</u>
TOTAL	<u>\$792,406</u>



(NOTES TO FINANCIAL STATEMENTS – CONTINUED)

NOTE 6 – LONG-TERM OBLIGATIONS

The changes in long-term debt obligations payable during fiscal 2017 are as follows:

	<u>BALANCE</u> <u>7/1/16</u>	<u>ADDITIONS</u>	<u>PAYMENTS</u>	<u>BALANCE</u> <u>6/30/17</u>
G.O.B. Series of 2015	<u>\$ 5,175,000</u>	<u>\$ -0-</u>	<u>\$ 475,000</u>	<u>\$ 4,700,000</u>
TOTAL	<u>\$ 5,175,000</u>	<u>\$ -0-</u>	<u>\$ 475,000</u>	<u>\$ 4,700,000</u>

Total interest paid on the general obligation bonds for the year ended June 30, 2017 was \$107,593, which was funded through appropriations from the general fund.

During the year ended June 30, 2016 the School District issued General Obligation Bonds – Series of 2015 for improvements and renovations to the District’s facilities, capital equipment, and the costs and expenses incurred with the issuance and sale of the Bonds. The bonds are due in varying annual installments plus interest at rates ranging from 0.60% to 2.75% with final maturity scheduled for 2025. Principal due in fiscal 2018 is \$480,000.

The following summarizes the District’s estimated future debt service requirements on these bonds as of June 30, 2017:

<u>FISCAL YEAR</u> <u>ENDED 6/30</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2018	\$ 480,000	\$ 101,368	\$ 581,368
2019	490,000	91,668	581,668
2020	500,000	81,768	581,768
2021	510,000	71,668	581,668
2022	520,000	61,305	581,305
2023-2027	<u>2,200,000</u>	<u>118,749</u>	<u>2,318,749</u>
TOTAL	<u>\$4,700,000</u>	<u>\$ 526,526</u>	<u>\$5,226,526</u>



NOTE 7 – RETIREMENT PLAN

Summary of Significant Accounting Policies

Pensions

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

General Information about the Pension Plan

Plan Description

PSERS is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania under Title 24 Part IV of the Pennsylvania General Assembly. The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at [www.psers.state.pa.us](http://www.psers.state.pa.us).

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age, Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E 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 percent or 2.5 percent, 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 percent or 2.5 percent, 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.

(NOTES TO FINANCIAL STATEMENTS – CONTINUED)

(NOTE 7 – RETIREMENT PLAN-CONTINUED)

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.

Contributions

The contribution policy is set by the state statute and requires contributions by active members, employees, and the Commonwealth of Pennsylvania.

Member Contributions:

Active members who joined the System prior to July 22, 1983, contribute at 5.25 percent (Membership Class T-C) or at 6.50 percent (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 percent (Membership Class T-C) or at 7.50 percent (Membership Class T-D) of the member's qualifying compensation.

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

Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5 percent (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 percent (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 percent and 9.5 percent and Membership Class T-F contribution rate to fluctuate between 10.3 percent and 12.3 percent.

Employer Contributions:

The District's contractually required contribution rate for fiscal year ended June 30, 2017 was 29.20 percent of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The rate was certified by the PSERS Board of Trustees. Contributions to the pension plan from the District were \$3,296,144 for the year ended June 30, 2017.

The District is also required to contribute a percentage of covered payroll to PSERS for healthcare insurance premium assistance. For the year ended June 30, 2017 the contribution rate was 0.83 percent of covered payroll and the District contributed \$93,692.

Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for approximately one-half of the employer contributions made, including contributions related pension and healthcare. The reimbursement recognized by the District for the year ended June 30, 2017 was \$1,787,395.

(NOTES TO FINANCIAL STATEMENTS – CONTINUED)

(NOTE 7 – RETIREMENT PLAN-CONTINUED)

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

At June 30, 2017, the District reported a liability of \$43,015,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015 to June 30, 2016. 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, 2016, the District's proportion was .0868 percent, which was an decrease of .0006 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$5,334,106. 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
Net difference between projected and actual investment earnings	\$ 1,911,745	\$ -
Changes in proportion	466,571	262,396
Changes in actual experience and expected experience	-	285,526
Changes in assumptions	1,238,606	-
Contributions subsequent to the measurement date	3,296,144	-
	<u>\$ 6,913,066</u>	<u>\$ 547,922</u>

The \$3,296,144 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the years ending June 30:

2018	\$ 779,000
2019	1,440,000
2020	<u>850,000</u>
	<u>\$ 3,069,000</u>

(NOTES TO FINANCIAL STATEMENTS – CONTINUED)

Actuarial Assumptions

The total pension liability as of June 30, 2016 was determined by rolling forward the System's total pension liability as of the June 30, 2015 actuarial valuation to June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method-Entry Age Normal-level percent of pay
- Investment return-7.25 percent, includes inflation at 3.00 percent
- Salary increases-Effective average of 5.00 percent, which reflects an allowance for inflation of 2.75 percent, real wage growth and merit or seniority increases of 2.25 percent
- Mortality rates were based on RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

The actuarial assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the five-year period ending June 30, 2015. The recommended assumption changes based on this experience study were adopted by the board at its June 10, 2016 board meeting, and were effective beginning with the June 30, 2016 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>
Global public equity	22.5%	5.3%
Fixed income	28.5%	2.1%
Commodities	8.0%	2.5%
Absolute return	10.0%	3.3%
Risk parity	10.0%	3.9%
MLPs/Infrastructure	5.0%	4.8%
Real estate	12.0%	4.0%
Alternative investments	15.0%	6.6%
Cash	3.0%	0.2%
Financing (LIBOR)	-14.0%	0.5%
	<u>100.0%</u>	

(NOTES TO FINANCIAL STATEMENTS – CONTINUED)

(NOTE 7 – RETIREMENT PLAN-CONTINUED)

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, 2016.

Discount Rate

The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability, calculated using the discount rate of 7.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
District's proportionate share of the net pension liability	<u>\$ 52,619,000</u>	<u>\$ 43,015,000</u>	<u>\$ 34,945,000</u>

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

At June 30, 2017, the District had an accrued balance due to PSERS of \$1,207,485. This amount represents the District's contractually obligated contributions for wages earned in April 2017 through June 30, 2017. The balance will be paid in September 2017.



(NOTES TO FINANCIAL STATEMENTS – CONTINUED)

NOTE 8 – CONTINGENT LIABILITIES

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

The District is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of the District solicitor, the ultimate disposition of any matters outstanding at June 30, 2017 will not have a material effect on the District's financial position.

NOTE 9 – SPECIAL TERMINATION BENEFITS

The District's collective bargaining agreements provide an early retirement incentive for those employees who retire with a specified level of service to the District. The District pays from 10% to 35% of the final salary based upon the unused sick and personal days that the employee has accumulated over three (3) years. The District used a discount rate of 6.00% to estimate the effect of making these payments over future years.

The summary of these changes in special termination benefits in 2017 is:

Balance at June 30, 2017	\$ 80,691
LESS: Amortized discount	<u>4,811</u>
Present Value of Special Termination Benefits	75,880
LESS: Current Portion	<u>71,812</u>
Long-Term Special Termination Benefits	<u>\$ 4,068</u>

NOTE 10 - POST-EMPLOYMENT BENEFITS

PLAN DESCRIPTION

The District's collective bargaining agreements with its employees provides for post-employment health insurance benefits for eligible employees that have reached fifteen years with PSERS and have retired through PSERS. The District is providing coverage from the date of retirement until the individual becomes eligible for the federal government health insurance program. The cost of such medical, vision and dental coverage for retirees and spouses is determined by the contract provisions at the time of retirement. The plan provides post-retirement medical, prescription drug, and dental benefits. The plan is unfunded and no financial report is prepared. These benefits are accounted for in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Retired employees who are ineligible under the above requirements and choose to participate in the medical plan must pay 100% of the composite rate cost of such coverage.

FUNDING POLICY

The contribution requirements of plan members and the School District are established and may be amended by the School Board. The plan is funded on a pay-as-you-go basis, i.e., premiums are paid annually to fund the health care benefits provided to current retirees. Retiree contribution rates and amounts vary depending on classification and years of service with the School District. The School District paid premiums of approximately \$370,805 for the fiscal year ended June 30, 2017. Total retiree contributions made by plan members were \$145,074 for the fiscal year ended June 30, 2017.

(NOTE 10 – POST-EMPLOYMENT BENEFITS – CONTINUED)

ANNUAL OPEB COST AND NET OPEB OBLIGATION

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

Service cost	\$461,016
Interest on net OPEB obligation	257,891
Differences between expected and actual experience	<u>137,769</u>
	<u>856,676</u>
 Annual OPEB cost (expense)	 856,676
 Contributions made	 <u>370,805</u>
 Increase in net OPEB obligation	 485,871
 Net OPEB obligation at July 1, 2016	 <u>9,102,250</u>
 Net OPEB obligation at June 30, 2017	 <u>\$9,588,121</u>

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for June 30, 2017 were as follows:

<u>FISCAL YEAR ENDED</u>	<u>ANNUAL OPEB COST</u>	<u>PERCENTAGE OF ANNUAL OPEB COST CONTRIBUTED</u>	<u>NET OPEB OBLIGATION</u>
June 30, 2017	<u>\$856,676</u>	<u>43.3%</u>	<u>\$9,588,121</u>

FUNDED STATUS AND FUNDING PROGRESS

The funded status of the plan as of July 1, 2017, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability	\$9,588,121
Actuarial value of plan assets	<u>-0-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$9,588,121</u>
Funded ratio (actuarial value of plan assets/UAAL)	0%
Covered payroll	<u>\$10,106,742</u>
UAAL as a percentage of covered payroll	94.87%

#### (NOTE 10 – POST-EMPLOYMENT BENEFITS – CONTINUED)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Actuarial amounts determined regarding the funded status of the plan and the annual required contributions of the School District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

#### ACTUARIAL METHODS AND ASSUMPTIONS

The calculations are based on the types of benefits provided under the terms of the School District's Retirement Benefits plan at the time of the valuation. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the 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, 2017 actuarial valuation, the Entry Age Actuarial Cost Method was used. Under the Entry age Actuarial Cost Method, the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit age. The Accrued Liability as of the valuation date is the excess of the present value of future benefits over the present value of future Normal Cost. The Unfunded Accrued Liability is the excess of the Accrued Liability over the Actuarial Value of Assets. Actuarial gains and losses serve to reduce or increase the Unfunded Accrued Liability.

The actuarial assumptions included a 2.75% investment rate of return, which is the expected rate to be earned on the School District's deposits and investments, and an annual healthcare cost trend rate of 10% initially, reduced by 1% biennially to an ultimate rate of 5.0% in 2028 and later.

#### NOTE 11 – SELF-FUNDED UNEMPLOYMENT COMPENSATION BENEFITS

The School District is self-insured for the purposes of unemployment compensation benefits. Amounts paid on current claims are paid out of the Unemployment Compensation Fund. The School District maintains a balance of \$1 at June 30, 2017. Reimbursements are made from other funds based on benefits paid less interest earned by the fund.

#### NOTE 12 – RISK MANAGEMENT

##### Other Risks

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has purchased various insurance policies to safeguard the assets of the District from risk of loss.

#### NOTE 13 – NONSPENDABLE FUND BALANCE

At June 30, 2017, the District has segregated the ending fund balance of the General Fund for the nonspendable portion consisting of the following amount:

Inventories	<u>\$ 80,764</u>
-------------	------------------

(NOTES TO FINANCIAL STATEMENTS – CONTINUED)

NOTE 14 – BOARD COMMITTED FUND BALANCE

The Board of Education committed the following amounts of their June 30, 2017 fund balance by resolution as follows:

For future pension costs	\$ 571,827
Curriculum	<u>1,531,981</u>
Total	<u>\$2,103,808</u>

REQUIRED

SUPPLEMENTARY INFORMATION



MONTROSE AREA SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY

Last Ten (10) Fiscal Years\*

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
District's proportion of the net pension liability	0.0868%	0.0874%	0.0851%	0.0858%
District's proportionate share of the net pension liability	\$ 43,015,000	\$ 37,857,000	\$ 33,683,000	\$ 35,124,000
District's covered-employee payroll	\$ 11,245,720	\$ 11,240,150	\$ 10,854,025	\$ 11,005,035
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	382.50%	336.80%	310.33%	319.16%
Plan fiduciary net position as a percentage of the total pension liability	50.14%	54.35%	57.24%	54.49%

\*This schedule is presented to illustrate the requirement to show information for ten (10) years, however, until a full 10-year trend is complete, available information is presented.

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

MONTROSE AREA SCHOOL DISTRICT  
SCHEDULE OF DISTRICT CONTRIBUTIONS  
TO THE PENSION PLAN

Last Ten (10) Fiscal Years\*

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Contractually required contribution	\$ 3,296,144	\$ 2,800,302	\$ 2,303,322	\$ 1,736,542
Contributions in relation to the contractually required contribution	<u>\$ (3,296,144)</u>	<u>\$ (2,800,302)</u>	<u>\$ (2,303,322)</u>	<u>\$ (1,736,542)</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
School's covered-employee payroll	\$ 11,245,720	\$ 11,240,150	\$ 10,854,025	\$ 11,005,035
Contributions as a percentage of covered-employee payroll	29.3%	24.9%	21.2%	15.8%

Amounts are based on actual contributions during the fiscal year.

\*This schedule is presented to illustrate the requirement to show information for ten (10) years, however, until a full 10-year trend is complete, available information is presented.

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

SUPPLEMENTARY INFORMATION

OTHER FINANCIAL STATEMENTS

MONTROSE AREA SCHOOL DISTRICT  
GENERAL FUND  
STATEMENT OF REVENUE, EXPENDITURES AND FUND BALANCE  
YEARS ENDING JUNE 30, 2017 AND 2016

EXHIBIT A

	<u>SCHEDULE</u>	<u>BUDGET</u>	<u>2017 ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>	<u>2016 ACTUAL</u>
<u>REVENUES</u>					
Local Sources	1	\$11,056,708	\$12,576,673	\$ 1,519,965	\$10,745,312
State Sources	2	13,959,307	13,689,791	(269,516)	13,478,774
Federal Sources	3	528,288	584,001	55,713	503,754
Extended term financing	-	0	0	0	0
Sale of fixed assets	-	0	0	0	0
Interfund transfers	-	0	0	0	0
		<u>25,544,303</u>	<u>26,850,465</u>	<u>1,306,162</u>	<u>24,727,840</u>
<u>EXPENDITURES</u>					
1100-INSTRUCTION-					
Regular Programs	4	11,968,572	11,475,991	492,581	11,352,041
1200-INSTRUCTION-					
Special Programs	5	3,042,532	3,002,418	40,114	2,827,674
1300-VOCATIONAL EDUCATION	6	608,541	586,131	22,410	604,151
1400-OTHER INSTRUCTIONAL					
PROGRAMS-E/S	7	80,595	122,431	(41,836)	106,118
2100-SUPPORT SERVICES-					
Pupil Personnel	8	706,776	718,041	(11,265)	825,298
2200-SUPPORT SERVICES-					
Instructional Staff	9	461,900	520,709	(58,809)	429,711
2300-SUPPORT SERVICES-					
Administration	10	1,420,622	1,445,703	(25,081)	1,399,829
2400-SUPPORT SERVICES-					
Pupil Health	11	412,573	399,906	12,667	383,138
2500-SUPPORT SERVICES-Business	12	360,796	386,330	(25,534)	356,557
2600-SUPPORT SERVICES-Operation					
& Maintenance of Plant Services	13	1,907,052	1,867,310	39,742	1,829,963
2700-SUPPORT SERVICES-Student					
Transportation Services	14	1,835,713	1,958,118	(122,405)	2,034,300
2800-SUPPORT SERVICES-Central	15	1,540,106	1,558,866	(18,760)	1,410,760
2900-SUPPORT SERVICES-Other	16	33,046	36,446	(3,400)	32,986
3200-OPERATION OF NONIN-					
STRUCTIONAL SERVICES-					
STUDENT ACTIVITIES	17	512,522	511,526	996	478,543
3300-COMMUNITY SERVICES	18	1,600	1,430	170	1,680
4000-FACILITIES ACQUISITION,					
CONSTRUCTION & IMPROVE-					
MENT SERVICES	19	65,000	43,458	21,542	73,753
5100- DEBT SERVICE	20	582,593	610,773	(28,180)	478,352
5200-FUND TRANSFERS	21	93,446	0	93,446	0
5900-BUDGETARY RESERVE		150,000	0	150,000	0
		<u>25,783,985</u>	<u>25,245,587</u>	<u>538,398</u>	<u>24,624,854</u>
<u>EXCESS REVENUE OVER</u>					
<u>EXPENDITURES</u>		(239,682)	1,604,878	1,844,560	102,986
<u>Fund Balance-Beginning</u>		1,226,424	1,668,772	442,348	1,535,840
<u>Inventory Reserve Adjustment</u>		0	0	0	29,946
<u>FUND BALANCE, ENDING</u>		<u>\$ 986,742</u>	<u>\$ 3,273,650</u>	<u>\$ 2,286,908</u>	<u>\$ 1,668,772</u>

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

SCHEDULE 1

			VARIANCE	
		2017	FAVORABLE	2016
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>(UNFAVORABLE)</u>	<u>ACTUAL</u>
<u>REVENUE FROM LOCAL SOURCES</u>				
Current real estate taxes	\$ 9,492,944	\$ 9,543,829	\$ 50,885	\$ 9,188,626
Public utility realty taxes	12,300	10,882	(1,418)	10,918
Payment in lieu of taxes	1,341	3,936	2,595	6,314
Per capita - Section 679	27,900	17,788	(10,112)	19,346
Per capita - Act 511	27,900	17,788	(10,112)	19,346
Occupation privilege taxes	81,401	70,133	(11,268)	74,182
Real estate transfer taxes	150,000	161,203	11,203	112,941
Delinquent taxes	616,100	605,987	(10,113)	604,798
Earnings on investments	39,300	57,209	17,909	29,905
District activities	2,470	9,690	7,220	12,708
Revenue from intermediary services	251,952	263,233	11,281	252,260
Rentals and gas lease	0	658,550	658,550	14,399
Contributions & donations from private sources	5,000	0	(5,000)	5,800
Tuition	0	1,521	1,521	624
Community service activities	311,600	304,451	(7,149)	369,449
Refund of prior year expenses	0	846,102	846,102	21,157
Miscellaneous	36,500	4,371	(32,129)	2,539
	<u>\$11,056,708</u>	<u>\$12,576,673</u>	<u>\$ 1,519,965</u>	<u>\$10,745,312</u>

SCHEDULE 2

<u>REVENUE FROM STATE SOURCES</u>				
Basic instructional subsidy	\$ 7,522,477	\$ 7,523,705	\$ 1,228	\$ 7,430,513
Charter schools	0	0	0	0
Section 1305 & 1306	2,000	0	(2,000)	4,339
Homebound instruction	0	0	0	0
Vocational education	16,500	6,206	(10,294)	4,356
Driver education	1,800	1,750	(50)	1,820
Special education of exceptional pupils	1,149,248	1,135,893	(13,355)	1,124,775
Transportation	1,513,624	1,417,743	(95,881)	1,519,784
Rentals and sinking fund payments	10,000	0	(10,000)	10,490
Health services	27,800	26,284	(1,516)	25,926
Property tax reduction allocation	1,098,743	1,098,743	0	1,098,662
Ready to learn block grant	290,716	290,716	0	290,716
Revenue for social security	500,999	438,219	(62,780)	426,229
Revenue for retirement	1,825,320	1,750,532	(74,788)	1,541,044
Miscellaneous	80	0	(80)	120
	<u>\$13,959,307</u>	<u>\$13,689,791</u>	<u>\$ (269,516)</u>	<u>\$13,478,774</u>

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



SCHEDULE 3

	BUDGET	2017 ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	2016 ACTUAL
<u>REVENUE FROM FEDERAL SOURCES</u>				
NCLB, Title I	\$ 350,049	\$ 399,569	\$ 49,520	\$ 350,049
NCLB, Title II	78,239	76,575	(1,664)	78,239
IDEA grant	0	0	0	0
NCLB, Title IV - 21st Century	0	0	0	0
ARRA - Education Jobs Fund	0	0	0	0
ACCESS	100,000	107,857	7,857	75,466
Other federal grants	0	0	0	0
	<u>\$ 528,288</u>	<u>\$ 584,001</u>	<u>\$ 55,713</u>	<u>\$ 503,754</u>

SCHEDULE 4

<u>1100-INSTRUCTION-REGULAR PROGRAMS</u>				
Salaries	\$ 6,536,901	\$ 6,476,897	\$ 60,004	\$ 6,528,334
Employee benefits	4,305,924	4,027,315	278,609	3,661,417
Purchased professional and technical services	48,812	53,804	(4,992)	64,795
Purchased property services	50,912	51,954	(1,042)	57,819
Other purchased services	699,010	637,488	61,522	824,911
Supplies	226,875	172,707	54,168	151,613
Property	84,770	40,597	44,173	51,618
Other objects	15,368	15,229	139	11,534
	<u>\$11,968,572</u>	<u>\$11,475,991</u>	<u>\$ 492,581</u>	<u>\$11,352,041</u>

SCHEDULE 5

<u>1200-INSTRUCTION-SPECIAL PROGRAMS</u>				
Salaries	\$ 1,593,936	\$ 1,518,464	\$ 75,472	\$ 1,482,096
Employee benefits	1,011,127	968,872	42,255	905,285
Purchased professional and technical services	162,957	289,466	(126,509)	236,702
Purchased property services	0	0	0	0
Other purchased services	223,750	193,724	30,026	148,612
Supplies	47,400	31,173	16,227	54,129
Property	1,402	0	1,402	0
Other objects	1,960	719	1,241	850
	<u>\$ 3,042,532</u>	<u>\$ 3,002,418</u>	<u>\$ 40,114</u>	<u>\$ 2,827,674</u>

SCHEDULE 6

<u>1300-VOCATIONAL EDUCATION PROGRAMS</u>				
Salaries	\$ 38,398	\$ 38,398	\$ -	\$ 38,483
Employee benefits	19,343	19,209	134	18,318
Other purchased services	550,800	528,524	22,276	547,350
	<u>\$ 608,541</u>	<u>\$ 586,131</u>	<u>\$ 22,410</u>	<u>\$ 604,151</u>

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

SCHEDULE 7

	<u>BUDGET</u>	<u>2017 ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>	<u>2016 ACTUAL</u>
<u>1400-OTHER INSTRUCTIONAL PROGRAMS-E/S</u>				
Salaries	\$ 49,194	\$ 84,155	\$ (34,961)	\$ 61,381
Employee benefits	16,341	31,943	(15,602)	20,695
Purchased professional and technical services	1,745	0	1,745	458
Purchased property services	500	0	500	33
Other purchased services	7,715	6,000	1,715	22,272
Supplies	5,100	333	4,767	1,279
Property	0	0	0	0
Other objects	0	0	0	0
	<u>\$ 80,595</u>	<u>\$ 122,431</u>	<u>\$ (41,836)</u>	<u>\$ 106,118</u>
 <u>TOTAL INSTRUCTIONAL</u>	 <u>\$15,700,240</u>	 <u>\$15,186,971</u>	 <u>\$ 513,269</u>	 <u>\$14,889,984</u>

SCHEDULE 8

<u>2100-SUPPORT SERVICES- PUPIL PERSONNEL</u>				
Salaries	\$ 422,470	\$ 432,784	\$ (10,314)	\$ 496,048
Employee benefits	265,883	274,180	(8,297)	315,917
Purchased professional and technical services	6,808	6,992	(184)	10,106
Purchased property services	0	0	0	0
Other purchased services	5,020	291	4,729	166
Supplies	5,390	3,415	1,975	2,836
Property	0	0	0	0
Other objects	1,205	379	826	225
	<u>\$ 706,776</u>	<u>\$ 718,041</u>	<u>\$ (11,265)</u>	<u>\$ 825,298</u>

SCHEDULE 9

<u>2200-SUPPORT SERVICES- INSTRUCTIONAL SERVICES</u>				
Salaries	\$ 245,257	\$ 238,522	\$ 6,735	\$ 239,955
Employee benefits	159,662	220,074	(60,412)	145,325
Purchased professional and technical services	0	0	0	0

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

SCHEDULE 9 - CONTINUED

			VARIANCE	
	BUDGET	2017 ACTUAL	FAVORABLE (UNFAVORABLE)	2016 ACTUAL
Purchased property services	5,000	4,956	44	4,956
Other purchased services	0	0	0	0
Supplies	50,837	56,148	(5,311)	38,657
Property	744	744	0	758
Other objects	400	265	135	60
	<u>\$ 461,900</u>	<u>\$ 520,709</u>	<u>\$ (58,809)</u>	<u>\$ 429,711</u>

SCHEDULE 10

2300-SUPPORT SERVICES-  
ADMINISTRATION

Salaries	\$ 816,344	\$ 808,152	\$ 8,192	\$ 803,538
Employee benefits	388,527	402,948	(14,421)	379,012
Purchased professional and technical services	119,000	144,054	(25,054)	142,594
Purchased property services	2,393	4,961	(2,568)	4,344
Other purchased services	55,148	52,440	2,708	45,226
Supplies	12,025	7,772	4,253	10,838
Property	5,000	4,165	835	400
Other objects	22,185	21,211	974	13,877
	<u>\$ 1,420,622</u>	<u>\$ 1,445,703</u>	<u>\$ (25,081)</u>	<u>\$ 1,399,829</u>

SCHEDULE 11

2400-SUPPORT SERVICES-  
PUPIL HEALTH

Salaries	\$ 223,520	\$ 224,811	\$ (1,291)	\$ 223,152
Employee benefits	165,603	157,856	7,747	145,907
Purchased professional and technical services	8,910	6,686	2,224	7,396
Purchased property services	590	280	310	180
Other purchased services	0	0	0	0
Supplies	13,000	9,738	3,262	6,503
Property	950	535	415	0
	<u>\$ 412,573</u>	<u>\$ 399,906</u>	<u>\$ 12,667</u>	<u>\$ 383,138</u>

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

SCHEDULE 12

			VARIANCE	
	BUDGET	2017 ACTUAL	FAVORABLE (UNFAVORABLE)	2016 ACTUAL
<u>2500-SUPPORT SERVICES-BUSINESS</u>				
Salaries	\$ 197,250	\$ 187,400	\$ 9,850	\$ 181,680
Employee benefits	114,024	149,181	(35,157)	121,384
Purchased professional and technical services	9,650	9,915	(265)	10,388
Purchased property services	6,920	7,244	(324)	8,394
Other purchased services	14,496	13,587	909	16,964
Supplies	17,456	17,880	(424)	16,550
Property	0	0	0	0
Other objects	1,000	1,123	(123)	1,197
	<u>\$ 360,796</u>	<u>\$ 386,330</u>	<u>\$ (25,534)</u>	<u>\$ 356,557</u>

SCHEDULE 13

<u>2600-SUPPORT SERVICES-OPERATION &amp; MAINTENANCE OF PLANT SERVICES</u>				
Salaries	\$ 529,595	\$ 550,694	\$ (21,099)	\$ 550,998
Employee benefits	458,953	391,311	67,642	351,448
Purchased professional and technical services	30,142	51,067	(20,925)	32,342
Purchased property services	365,575	260,373	105,202	415,689
Other purchased services	142,838	111,783	31,055	95,232
Supplies	327,699	448,058	(120,359)	314,234
Property	50,000	52,624	(2,624)	67,874
Other objects	2,250	1,400	850	2,146
	<u>\$ 1,907,052</u>	<u>\$ 1,867,310</u>	<u>\$ 39,742</u>	<u>\$ 1,829,963</u>

SCHEDULE 14

<u>2700-SUPPORT SERVICES-STUDENT TRANSPORTATION SERVICES</u>				
Salaries	\$ 43,260	\$ 50,500	\$ (7,240)	\$ 31,346
Employee benefits	5,781	37,686	(31,905)	23,007
Purchased professional and technical services	3,397	4,289	(892)	4,920
Purchased property services	2,821	17,427	(14,606)	13,353
Other purchased services	1,731,872	1,801,289	(69,417)	1,961,200
Supplies	1,611	1,093	518	474
Property	46,771	45,717	1,054	0
Other objects	200	117	83	0
	<u>\$ 1,835,713</u>	<u>\$ 1,958,118</u>	<u>\$ (122,405)</u>	<u>\$ 2,034,300</u>

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

SCHEDULE 15

		2017	VARIANCE FAVORABLE (UNFAVORABLE)	2016
	<u>BUDGET</u>	<u>ACTUAL</u>		<u>ACTUAL</u>
<u>2800-SUPPORT SERVICES-CENTRAL</u>				
Salaries	\$ 448,704	\$ 457,043	\$ (8,339)	\$ 486,140
Employee benefits	615,160	587,225	27,935	497,275
Purchased professional and technical services	11,450	7,537	3,913	7,463
Purchased property services	148,745	166,117	(17,372)	128,336
Other purchased services	62,296	92,075	(29,779)	87,067
Supplies	95,835	91,482	4,353	81,425
Property	157,416	157,387	29	122,934
Other objects	500	0	500	120
	<u>\$ 1,540,106</u>	<u>\$ 1,558,866</u>	<u>\$ (18,760)</u>	<u>\$ 1,410,760</u>

SCHEDULE 16

<u>2900-SUPPORT SERVICES-OTHER</u>				
Other purchased services	<u>\$ 33,046</u>	<u>\$ 36,446</u>	<u>\$ (3,400)</u>	<u>\$ 32,986</u>
 <u>TOTAL SUPPORT SERVICES</u>	 <u>\$ 8,678,584</u>	 <u>\$ 8,891,429</u>	 <u>\$ (212,845)</u>	 <u>\$ 8,702,542</u>

SCHEDULE 17

<u>3200-OPERATION OF NONINSTRUCTIONAL SERVICES-STUDENT ACTIVITIES</u>				
Salaries	\$ 227,151	\$ 213,611	\$ 13,540	\$ 213,235
Employee benefits	82,431	86,066	(3,635)	70,943
Purchased professional and technical services	11,250	34,899	(23,649)	35,683
Purchased property services	16,700	16,894	(194)	10,241
Other purchased services	91,350	80,810	10,540	74,424
Supplies	58,935	54,205	4,730	58,478
Property	4,000	6,492	(2,492)	650
Other objects	20,705	18,549	2,156	14,889
	<u>\$ 512,522</u>	<u>\$ 511,526</u>	<u>\$ 996</u>	<u>\$ 478,543</u>

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



SCHEDULE 18

	<u>BUDGET</u>	<u>2017 ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>	<u>2016 ACTUAL</u>
<u>3300-OPERATION OF NONINSTRUCTIONAL SERVICES-COMMUNITY SERVICES</u>				
Other objects	\$ 1,600	\$ 1,430	\$ 170	\$ 1,680

SCHEDULE 19

<u>4000-FACILITIES ACQUISITION, CONSTRUCTION &amp; IMPROVE- MENT SERVICES</u>	\$ 65,000	\$ 43,458	\$ 21,542	\$ 73,753
---	-----------	-----------	-----------	-----------

SCHEDULE 20

<u>5100- DEBT SERVICE</u>				
Other objects	\$ 107,593	\$ 135,773	\$ (28,180)	\$ 58,352
Other financing uses	475,000	475,000	0	420,000
	\$ 582,593	\$ 610,773	\$ (28,180)	\$ 478,352

SCHEDULE 21

<u>5200- FUND TRANSFERS</u>				
Other objects	\$ 93,446	\$ -	\$ 93,446	\$ -

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

**MURPHY, DOUGHERTY & COMPANY**  
**Certified Public Accountants**

**1310 CHURCH STREET**  
**SUITE 3000**  
**MOSCOW, PA 18444**

**J. PAUL MURPHY, CPA**  
**MICHAEL DOUGHERTY, CPA**  
**PAUL T. MURPHY, CPA**

**(570) 848-2866 Tel**  
**(570) 848-2833 Fax**

October 27, 2017

Board of Education  
Montrose Area School District  
Montrose, Pennsylvania 18801

To the Members of the Board:

We have performed the Single Audit of the Montrose Area School District for the year ended June 30, 2017, and have enclosed the Single Audit reporting package.

The Single Audit was done to fulfill the requirements of the Uniform Guidance. It entailed: 1. An audit of the general purpose financial statements and our opinion thereon; 2. a review of compliance and internal control over financial reporting based on an audit of financial statements performed in accordance with Government Auditing Standards; 3. an audit of the Schedule of Expenditures of Federal Awards and our opinion thereon; 4. a review of compliance with requirements applicable to each major program and internal control over compliance in accordance with Uniform Guidance.

Please be advised that a management letter was not necessary as part of our report.

One copy of the Audit Report was distributed to:

- |   |  |
|---|--|
| a) Federal Audit Clearinghouse<br>Bureau of the Census<br>1201 E. 10 <sup>th</sup> Street<br>Jeffersonville, IN 47132 | b) Office of Prothonotary<br>Susquehanna County<br>Montrose, Pennsylvania<br>18801 |
| c) N.E.I.U. # 19<br>1200 Line Street<br>Archbald, Pennsylvania 18403  |  |

The Audit Report was distributed electronically to:

- a) Commonwealth of Pennsylvania  
Bureau of Audits  
Special Audit Services Division  
Forum Place – 8<sup>th</sup> Floor  
555 Walnut Street  
Harrisburg, Pennsylvania 17101

Your cooperation in this matter is appreciated.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Murphy, Dougherty & Company", written in a cursive style.

Murphy, Dougherty & Company  
Certified Public Accountants

**MURPHY, DOUGHERTY & COMPANY**  
**Certified Public Accountants**

**1310 CHURCH STREET**  
**SUITE 3000**  
**MOSCOW, PA 18444**

**J. PAUL MURPHY, CPA**  
**MICHAEL DOUGHERTY, CPA**  
**PAUL T. MURPHY, CPA**

**(570) 848-2866 Tel**  
**(570) 848-2833 Fax**

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

Board of Education  
Montrose Area School District  
Montrose, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards" issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Montrose Area School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Montrose Area School District's basic financial statements and have issued our report thereon dated October 27, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Montrose Area 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 Montrose Area School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Montrose Area 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 Montrose Area School District's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

(MONTROSE AREA SCHOOL DISTRICT – AUDITORS’ REPORT – CONTINUED)

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Montrose Area School District’s financial statements are free of 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 Montrose Area School District’s internal control or on compliance. This report is an integral part of an audit performed in accordance with “Government Auditing Standards” in considering the Montrose Area School District’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

October 27, 2017  
Moscow, Pennsylvania

A handwritten signature in black ink, appearing to read "Mary Rust Healy", with a large, stylized loop at the end.

**MURPHY, DOUGHERTY & COMPANY**  
**Certified Public Accountants**

**1310 CHURCH STREET**  
**SUITE 3000**  
**MOSCOW, PA 18444**

**J. PAUL MURPHY, CPA**  
**MICHAEL DOUGHERTY, CPA**  
**PAUL T. MURPHY, CPA**

**(570) 848-2866 Tel**  
**(570) 848-2833 Fax**

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

Board of Education  
Montrose Area School District  
Montrose, Pennsylvania

**Report on Compliance for Each Major Federal Program**

We have audited the Montrose Area School District's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017. Montrose Area School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Montrose Area School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Montrose Area School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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



**Opinion on Each Major Federal Program**

In our opinion, the Montrose Area School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

**Report on Internal Control Over Compliance**

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

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

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

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

October 27, 2017  
Moscow, Pennsylvania



MONTROSE AREA SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2017

**Section I – Summary of Auditor’s Results**

Financial Statements

Type of auditor’s report issued: Unmodified  
Internal control over financial reporting:  
    Material weakness (es) identified? ☐ yes ☒ no  
    Significant deficiency (ies) identified? ☐ yes ☒ none reported  
  
Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:  
    Material weakness (es) identified? ☐ yes ☒ no  
    Significant deficiency (ies) identified? ☐ yes ☒ none reported  
  
Type of auditor’s report issued on compliance for major programs: Unmodified  
  
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? ☐ yes ☒ no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555, & 10.559	Child Nutrition Cluster

Dollar threshold used to distinguish between type A and type B programs: \$750,000  
Auditee qualified as low risk auditee? ☒ yes ☐ no

**Section II – Financial Statement Findings**

No matters were reported.

**Section III – Federal Award Findings and Questioned Costs**

No matters were reported.

MONTROSE AREA SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDING JUNE 30, 2017

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR PROJECT TITLE	SOURCE CODE	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	GRANT PERIOD BEGINNING/ ENDING DATE	PROGRAM OR AWARD AMOUNT	TOTAL RECEIVED FOR THE YEAR	ACCRUED OR (DEFERRED) REVENUE AT 7/1/2016	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT 6/30/2017
<u>U.S. DEPARTMENT OF EDUCATION</u>										
<u>Passed through the Pennsylvania</u>										
<u>Department of Education</u>										
NCLB - Title I	I	84.010	013-170265	7/1/16-9/30/17	\$ 321,399	\$ 299,693	\$ -	\$ 270,853	\$ 270,853	\$ (28,840)
NCLB - Title I	I	84.010	013-160265	7/1/15-9/30/16	350,049	104,510	(24,206)	128,716	128,716	0
TOTAL CFDA# 84.010						404,203	(24,206)	399,569	399,569	(28,840)
Title II-Improving Teacher Quality	I	84.367	020-170265	7/1/16-9/30/17	76,575	76,575	0	76,575	76,575	0
Title II-Improving Teacher Quality	I	84.367	020-160265	7/1/15-9/30/16	78,239	7,812	7,812	0	0	0
TOTAL CFDA# 84.367						84,387	7,812	76,575	76,575	0
<u>TOTAL PASSED THROUGH PENNSYLVANIA</u>						488,590	(16,394)	476,144	476,144	(28,840)
<u>DEPARTMENT OF EDUCATION</u>										
<u>Passed through the N.E.I.U. # 19</u>										
Individuals with Disabilities Education Act	I	84.027	N/A	7/1/16-6/30/17	254,295	4,881	0	254,295	254,295	249,414
Individuals with Disabilities Education Act	I	84.027	N/A	7/1/15-6/30/16	246,010	246,010	246,010	0	0	0
IDEA - Section 619	I	84.173	N/A	7/1/16-6/30/17	3,522	0	0	3,522	3,522	3,522
IDEA - Section 619	I	84.173	N/A	7/1/15-6/30/16	1,441	1,441	1,441	0	0	0
TOTAL IDEA PROGRAM CLUSTER						252,332	247,451	257,817	257,817	252,936
<u>TOTAL N.E.I.U. # 19</u>						252,332	247,451	257,817	257,817	252,936
<u>TOTAL DEPARTMENT OF EDUCATION</u>						740,922	231,057	733,961	733,961	224,096
<u>U.S. DEPARTMENT OF AGRICULTURE</u>										
<u>Passed through the Pennsylvania</u>										
<u>Department of Agriculture</u>										
National School Lunch Program-Commodities	I	10.555	N/A	7/1/16-6/30/17	N/A	53,805 (a)	(897) (b)	53,079	53,079 ©	(1,623) (d)
<u>Passed through the Pennsylvania</u>										
<u>Department of Education</u>										
National School Lunch Program-Cash	I-F	10.555	N/A	7/1/16-6/30/17	N/A	254,418	13,407	260,513	260,513	19,502
TOTAL CFDA# 10.555						308,223	12,510	313,592	313,592	17,879
Summer Food Service Program	I	10.559	N/A	7/1/16-6/30/17	N/A	3,919	0	3,919	3,919	0
School Breakfast Program	I-F	10.553	N/A	7/1/16-6/30/17	N/A	87,711	4,621	89,921	89,921	6,831
TOTAL CHILD NUTRITION CLUSTER						399,853	17,131	407,432	407,432	24,710
<u>TOTAL DEPARTMENT OF AGRICULTURE</u>						399,853	17,131	407,432	407,432	24,710
<u>U.S. DEPARTMENT OF HEALTH &amp; HUMAN SERVICES</u>										
<u>Passed through the Pennsylvania</u>										
<u>Department of Public Welfare:</u>										
Medical Assistance Program	I	93.778	N/A	7/1/16-6/30/17	N/A	1,343	0	1,343	1,343	0
<u>TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						1,343	0	1,343	1,343	0
<u>TOTAL FEDERAL AWARDS</u>						\$ 1,142,118	\$ 248,188	\$ 1,142,736	\$ 1,142,736	\$ 248,806

SOURCE CODES: D - Direct Funding  
I - Indirect Funding  
F - Federal Share

FOOTNOTES: (a) Total commodities received from Department of Agriculture.  
(b) Beginning inventory at July 1.  
© Total amount of commodities used.  
(d) Ending inventory at June 30, 2017.

MONTROSE AREA SCHOOL DISTRICT  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDING JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Montrose Area School District located in Montrose, Pennsylvania is a school district mandated by the Pennsylvania Department of Education. The District provides educational services to children in Grades K-12.

A. REPORTING ENTITY

The reporting entity has been defined in accordance with the criteria established in Statement No. 39 of the Governmental Accounting Standards Board (GASB), Determining Whether Organizations are Component Units – an amendment of GASB Statement No. 14, The Financial Reporting Entity. The specific criteria used is as follows: a) financial interdependency; b) selection of governing authority; c) designation of management; d) ability to significantly influence operations; e) accountability for fiscal matters; f) scope of public service and g) special financing relationships.

As defined, there are no other related organizations which should be included in the financial statements. The reporting entity will consist solely of the accounts and funds of the District.

B. BASIS OF ACCOUNTING

This financial statement has been prepared on the modified basis of accounting except for the National School Lunch Program which uses the full accrual method.

C. INVENTORY OF MATERIALS, SUPPLIES AND EQUIPMENT

Materials, supplies and equipment of all federal funds are expended on a first-in, first-out basis as the foodstuffs and supplies are consumed in providing meals and services.

PROGRAM DISCLOSURES

A. NCLB - TITLE I

The objective of this program is to improve the teaching and learning of children who are at risk of not meeting challenging academic standards and who reside in areas with high concentrations of children from low-income families.



(MONTROSE AREA SCHOOL DISTRICT – NOTES TO SCHEDULE OF  
EXPENDITURES OF FEDERAL AWARDS – CONTINUED)

B. TITLE II – IMPROVING TEACHER QUALITY

The objective of the program is to provide funds to State educational agencies (SEAs), local educational agencies (LEAs), State agencies for higher education (SAHEs), and partnerships comprised of institutions of higher education (IHEs), high-need LEAs and other entities to increase the academic achievement of all students by helping schools and school districts to (1) improve teacher and principal quality (including hiring teachers to reduce class size) and (2) ensure that all teachers are highly qualified.

C. NATIONAL SCHOOL LUNCH PROGRAMS AND FOOD DISTRIBUTION

The objective of the National School Breakfast and the National School Lunch Programs are to: (1) assist states, through cash grants and food donations, in making breakfast and lunch available to school children, and (2) encourage the domestic consumption of agricultural commodities and other foods.

The objective of the Food Distribution Program is to improve the diets of school children, needy persons in households on or near Indian reservations not participating in the Food Stamp Program and in charitable institutions, the elderly, and other individuals in need of food assistance, and to increase the market for domestically produced foods acquired under surplus removal or price support operations.

D. INDIVIDUALS WITH DISABILITIES ACT

The objective of the Individuals with Disabilities Education Act is to ensure that all children with disabilities have available to them a free appropriate public education that emphasizes special education and related services designed to meet their unique needs and prepare them for employment and independent living.

MONTROSE AREA SCHOOL DISTRICT  
SCHEDULE OF PRIOR FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2017

\* NO PRIOR FINDINGS NOTED.