

UPPER ADAMS SCHOOL DISTRICT

FINANCIAL REPORT

JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

Board of School Directors
Upper Adams School District
Biglerville, Pennsylvania

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*; issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information

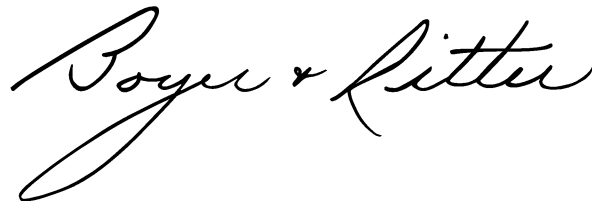
Accounting principles generally accepted in the United States of America require that Management's Discussion & Analysis on pages 4 through 13 and the required supplementary information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Upper Adams School District's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2016, on our consideration of Upper Adams School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, in considering Upper Adams School District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Boyer & Ritten". The signature is written in black ink and is centered on the page.

Chambersburg, Pennsylvania
December 26, 2016

**UPPER ADAMS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year Ended June 30, 2016**

The management discussion and analysis of the Upper Adams School District provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2016. The intent of the discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the financial statements and notes in conjunction with the discussion and analysis to enhance their understanding of the School District's financial performance.

Overview of the Financial Statements

The Annual Financial Report consists of various financial statements and the notes to those statements. The financial reports consist of District-wide and individual fund statements. The district-wide statements present an aggregate long-term view of the School District's finances. The fund financial statements focus on the short-term financing of the School District's services and what remains for future spending.

District-wide Statements

Statement of Net Position and Statement of Activities

The Statement of Net Position and Statement of Activities reflect all assets and liabilities using the accrual basis of accounting similar to the systems 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 was received or paid. These statements report the School District's net position and changes in net position. This change in net position is important because it identifies whether the financial position of the School District has improved or diminished.

In the Statement of Net Position and Statement of Activities, the School District is divided into two categories:

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

Business-Type Activities - This service is provided on a charge for goods and services basis to recover the expenses of the goods or services provided. The Food Service program is reported as a business activity.

Fund Financial Statements

Fund financial reports provide detailed information about the School District's funds. Funds are used to separate financial transactions to better monitor specific activities.

Funds at Upper Adams School District include:

- Major Governmental Funds
 - General Fund
 - Capital Projects Fund
 - Debt Service Fund
- Proprietary Funds
 - Enterprise Fund - Food Services
- Agency Funds
 - Student Activity Funds

Financial Highlights

- Total governmental activities net position decreased by \$2,124,752 for a net in governmental funds of \$29,089,198 whereas the year prior net position was \$26,964,446. Governmental activity net change is largely due to the second year of UA's pension liability as an asset and liability. The business type activities increased by \$849,822 whereas the year prior the pension liability decreased by \$516,943. The change in business type activity is largely due to realizing the gain is UA's pension asset since Food Service operations pension has transferred to the vendor.
- General Fund combined fund balance at June 30, 2016, was \$2,095,198, which represents an assigned fund balance of \$918,695, and an unassigned fund balance of \$1,176,503. The unassigned fund balance is 4.51% of the 2015-2016 General Fund Approved Budget.
- The total assigned fund balance is 3.52% of the General Fund Approved Budget. The assigned fund balance is amounts designed for a specific purpose, in accordance with policy# 623. The assigned fund balance breakdown is as follows:

○ Debt	\$ 672,695
○ Health Benefits	\$ 228,661
○ PSERS (Retirement)	\$ 17,339
- Total governmental fund balances equaled \$3,192,510. The following shows the breakdown by fund:
 - General Fund Balance of \$2,095,198 (unassigned, unrestricted, committed, and non-spendable)
 - Capital Projects Fund Balance of \$1,097,312
 - Debt Service Fund Balance of \$0-

Reporting the School District as a Whole

The perspective of the Statement of Net Position is of the School District as a whole.

Table 1 provides a summary of net position for 2016, 2015 and 2014, respectively.

Table 1
Net Position

	Governmental Activities			Business Type Activities			Totals		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Total Assets	\$ 25,717,443	\$ 27,837,029	\$ 27,031,863	\$ 249,340	\$ 79,295	\$ 139,443	\$ 25,966,783	\$ 27,916,324	\$ 27,171,306
Deferred Outflows of Resources	\$ 3,296,341	\$ 3,040,328	\$ 163,482	\$ -	\$ 74,391	\$ -	\$ 3,296,341	\$ 3,114,719	\$ 163,482
Total Liabilities	\$ 57,166,982	\$ 55,466,209	\$ 21,705,540	\$ 172,720	\$ 866,482	\$ 395,702	\$ 57,339,702	\$ 56,332,691	\$ 22,101,242
Deferred Inflows of Resources	\$ 936,000	\$ 2,375,594	\$ -	\$ -	\$ 60,406	\$ -	\$ 936,000	\$ 2,436,000	\$ -
Net Investment in Capital Assets	\$ 2,290,758	\$ 2,147,106	\$ 3,854,702	\$ 58,857	\$ 64,703	\$ 61,726	\$ 2,349,615	\$ 2,211,809	\$ 3,916,428
Restricted	1,097,312	1,901,030	613,462	-	-	-	1,097,312	1,901,030	613,462
Unrestricted	(32,477,268)	(31,012,582)	1,021,641	17,763	(837,905)	(317,985)	(32,459,505)	(31,850,487)	703,656
Total Net Position	\$ (29,089,198)	\$ (26,964,446)	\$ 5,489,805	\$ 76,620	\$ (773,202)	\$ (256,259)	\$ (29,012,578)	\$ (27,737,648)	\$ 5,233,546

Governmental Activities

On June 30, 2016, the School District had total assets from governmental activities of \$25,717,443; which was a decrease of \$2,119,586 or 7.61% during the fiscal year. Total governmental deferred outflows increased by \$256,013, while governmental liabilities increased by \$1,700,773. Factors that significantly affected net position in the 2015-2016 fiscal year were:

- Second year implementation of Pension, PSERS, assets. The liability is now required to be recorded in our statement of net position.
- General fund cash and investments increased by \$87,844 from the prior year, while capital project cash (capital project and capital reserve) decreased by \$712,758. General Fund cash increased minimally compared to the budget. Capital project cash and investments decreased due to the partial completion of projects that were slated in the refinancing GOB (General Obligation Bonds) 2015.
- Outstanding debt decreased by net of \$1,697,914 as a general obligation bonds were repaid on principal and interest.

Table 2 reflects the change in net position for fiscal year 2016, 2015 and 2014. The comparison is based on 2015 (prior year) to 2016 (current year). This table takes the information from the Statement of Activities and rearranges it so that readers can see the total revenues for the year.

Table 2
Fiscal Year Ended June 30, 2016
Changes in Net Position

	Governmental Activities			Business Type Activities			Total		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Revenues:									
Program Revenues									
Charges for Services	\$ 398,142	\$ 393,087	\$ 339,363	\$ 327,187	\$ 375,159	\$ 647,352	\$ 725,329	\$ 768,246	\$ 986,715
Operating Grants & Contributions	5,835,659	5,463,858	5,027,222	592,014	568,638	522,581	6,427,673	6,032,496	5,549,803
Capital Grants & Contributions	-	-	-	-	-	-	-	-	-
General Revenues									
Property Taxes	10,670,629	10,145,235	9,821,960	-	-	-	10,670,629	10,145,235	9,821,960
Other Taxes	2,786,698	2,740,606	2,753,966	-	-	-	2,786,698	2,740,606	2,753,966
Grants, Subsidies & Contributions (Unrestricted)	6,251,020	6,141,058	6,114,757	-	-	-	6,251,020	6,141,058	6,114,757
Transfers	(828,402)	(345,894)	-	828,402	345,894	-	-	-	-
Other	53,485	24,251	30,121	-	-	-	53,485	24,251	30,121
Total Revenues	<u>\$ 25,167,231</u>	<u>\$ 24,562,201</u>	<u>\$ 24,087,389</u>	<u>\$ 1,747,603</u>	<u>\$ 1,289,691</u>	<u>\$ 1,169,933</u>	<u>\$ 26,914,834</u>	<u>\$ 25,851,892</u>	<u>\$ 25,257,322</u>
Expenses:									
Instruction	\$ 16,915,864	\$ 15,760,774	\$ 15,534,186	\$ -	\$ -	\$ -	\$ 16,915,864	\$ 15,760,774	\$ 15,534,186
Instructional Student Support	3,186,585	2,205,502	2,236,620	-	-	-	3,186,585	2,205,502	2,236,620
Administrative and Financial Support	2,740,629	2,738,304	2,438,365	-	-	-	2,740,629	2,738,304	2,438,365
Operation and Plant Maintenance	1,935,250	2,008,319	1,919,303	-	-	-	1,935,250	2,008,319	1,919,303
Pupil Transportation	1,373,239	1,345,634	1,378,699	-	-	-	1,373,239	1,345,634	1,378,699
Student Activities	676,505	693,258	670,505	-	-	-	676,505	693,258	670,505
Community Services	5,686	19,208	8,407	-	-	-	5,686	19,208	8,407
Interest On Long-Term Debt	458,225	489,135	507,121	-	-	-	458,225	489,135	507,121
Unallocated Depreciation Expense	-	-	-	-	-	-	-	-	-
Food Services	-	-	-	897,781	1,001,952	1,258,979	897,781	1,001,952	1,258,979
Total Expenses	<u>\$ 27,291,983</u>	<u>\$ 25,260,134</u>	<u>\$ 24,693,206</u>	<u>\$ 897,781</u>	<u>\$ 1,001,952</u>	<u>\$ 1,258,979</u>	<u>\$ 28,189,764</u>	<u>\$ 26,262,086</u>	<u>\$ 25,952,185</u>
Increase/(Decrease) in Net Position	<u>\$ (2,124,752)</u>	<u>\$ (697,933)</u>	<u>\$ (605,817)</u>	<u>\$ 849,822</u>	<u>\$ 287,739</u>	<u>\$ (89,046)</u>	<u>\$ (1,274,930)</u>	<u>\$ (410,194)</u>	<u>\$ (694,863)</u>

Governmental revenues, excluding business-type activity transfers, increased by 4.37% for 2016 and 3.41% for 2015. In terms of dollars, this increase is \$1,087,538 for 2016 and \$820,706 for 2015 for a total of \$25.9 million in 2016, \$24.9 million in 2015 and \$24.1 million in 2014, respectively. Reasons for the increase are primarily attributed to the following changes:

- Current year real estate taxes collected increased by 5.18% or \$525,394 as a result of a 2.6% increase in the millage rate.
- Other tax levied revenues increased overall by 1.68% or \$46,092. This category includes earned income, real estate transfer taxes, public utility, and delinquent earned income taxes. The net increase of 1.68% is a result of the following changes occurring: an increase in earned income taxes, an increase in the local service tax, and a decrease in delinquent taxes collected.

- Grants and subsidies not restricted increased by \$109,962 as a result from retirement and social security subsidies. Additionally, the District records the property tax relief payment from the State in this category, which was a slight decrease of \$18,804 and reflected as the Homestead/Farmstead Exclusion on the taxpayer's real estate tax bill.
- Charges for services increased by 1.29% or \$5,055. These services include revenue received from other school districts for mainstreaming children placed in private homes, rental of school facilities, and admission revenues. The number of students serviced has remained consistent.

Property taxes contributed to 42.4% for 2015-2016, 41.30% for 2014-2015, and 40.78% for 2013-2014, respectively, for total revenues for governmental activities at Upper Adams School District. Property tax as a percentage of total revenues continues to show increases annually.

Governmental program expenditures increased by 8.04% for 2015-2016 from \$25.2 million to approximately \$27.2 million. Major changes in expenditures can be primarily attributed to the following:

- Total annual wages for 2015-2016 decreased overall by 3.47% or \$377,053. This is the net change from annual contract increases and outsourcing facility services.
- The PSERS employer contribution rate for employee retirement increased, changing from 16.93% in 2013-2014 to 21.40% in 2014-2015 to 25.84% in 2015-2016. Retirement expense for 2015-2016 increased by 18.08% or \$408,285 compared to 2014-2015 of 22.72% or 418,014. While salaries, net decreased, PSERS expense increase due to the PSERS certified employer rate increase as listed. Retirement expense as a percent of wages was 25.39% for 2015-2016, 20.76% for 2014-2015, and 16.89% of 2013-2014 respectively.
- Total group insurance expenses decreased by 10.89% or \$289,154 for both covered bargaining unit and non- covered collective units; which was comprised of medical, dental, and vision insurance. The benefit insurance decrease is the net change from premium increases, enrollment changes, outsourcing and retirements.
- Purchase of professional and technical services increased 44.34% or \$1,192,153 over prior year due to outsourcing facilities and substitute teachers.
- Student tuition costs overall increased to other local educational agencies or charter schools by \$294,714.57 or 26.2%.

Instructional costs contributed to 73.66%, 71.13%, and 71.97% of total program expenses for governmental activities for Upper Adams School District in fiscal years ended 2016, 2015 and 2014 respectively.

The Statement of Activities reflects the cost of program services and the charges for services, sales, grants, and contributions offsetting those services.

Table 3, for governmental activities, indicates the total cost of services and net cost of services. The table shows the net cost offset by the other unrestricted grants, subsidies, and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

Table 3
Fiscal Year Ended June 30, 2016
Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2016	2015	2014	2016	2015	2014
Functions/Programs						
Instruction	\$ 16,915,864	\$ 15,760,774	\$ 15,534,186	\$ 13,200,311	\$ 12,423,579	\$ 12,478,759
Instructional Student Support	3,186,585	2,205,502	2,236,620	2,063,707	1,126,237	1,218,543
Administrative	2,740,629	2,738,304	2,438,365	2,451,482	2,475,918	2,229,058
Operation and Maintenance	1,935,250	2,008,319	1,919,303	1,876,736	1,870,915	1,790,191
Pupil Transportation	1,373,239	1,345,634	1,378,699	432,667	396,567	513,734
Student Activities	676,505	693,258	670,505	569,368	601,630	580,808
Community Services	5,686	19,208	8,407	5,686	19,208	8,407
Interest on Long-Term Debt	458,225	489,135	507,121	458,225	489,135	507,121
Unallocated Depreciation Expense	-	-	-	-	-	-
Total Governmental Activities	<u>\$ 27,291,983</u>	<u>\$ 25,260,134</u>	<u>\$ 24,693,206</u>	<u>21,058,182</u>	<u>19,403,189</u>	<u>19,326,621</u>
Less:						
Unrestricted Grants and Subsidies				6,251,020	6,141,058	6,114,757
Total Needs from Local Taxes and Other Revenues				<u>\$ 14,807,162</u>	<u>\$ 13,262,131</u>	<u>\$ 13,211,864</u>

Only 29.6% of the 2015-2016 total cost of services for the governmental activities was funded by charges for services, grants, and contributions. The remaining costs were funded by tax revenues and the basic instructional subsidy.

Business-Type Activities

The only business-type activity at Upper Adams School District is the food service operation. The School District provides both breakfast and lunch programs for grades K through 12. This program had operating revenues of \$327,187 and non-operating revenue of \$592,014. Additionally the fund incurred a special item-gain from pension transfer related to outsourcing operations and therefore the pension liability asset and liability is a net change to the net position. The expenses totaled \$897,781 for the 2015-2016 fiscal year. School meal prices for lunch and breakfast were at a rate hold over prior year. The School District received 64.4% of its revenues from operating grants and contributions from the federal and state reimbursable breakfast and lunch programs. Revenue from state and federal grants increased by \$23,376 due to increase in federal, state, and governmental food commodities received. Total operating revenues decreased by \$47,972 while expenditures decreased by \$104,171. Total net position incurred and rose by \$849,822 as a result of the special fund gain leaving the Food Service ending net position of \$76,620 on June 30, 2016.

General Fund Budgeting Highlights

General fund highlights for the 2015-2016 fiscal year, total general fund revenue local sources exceeded budget by 2.08% or \$286,946. State funded revenue did not meet the budget by .03% or \$3,631 and a minimal increase in federal revenue consisted of 7.07% or \$19,872.

Total general fund expenditures were overall under budget by 1.88% or \$499,649 and the budgetary reserve of \$666,500 was transferred during the year. Moreover, the approved budget planned on using \$867,000 of fund balance when in fact the result was more favorable with the fund balance only decreasing by \$259,851. Other significant expenditure budget variances are discussed below.

- Regular program expenditures exceeded the original budget by 1.9% or \$189,145. Most of this variance is a result of reclassifying federal programs to function 1190 rather than in other instructional programs.
- Special Education program expenditures exceeded than original budgeted by 2.1% or \$74,751, mostly due to an increase in consortium services with Local Educational Agencies (LEA's) over Lincoln Intermediate Services.
- Vocational Education program expenditures exceeded the original budget by 4.9% or \$37,902 due to an increase in benefits.
- Other Instructional program expenditures were less than original budget by 48.3% or \$192,816 due to reclassifying federal program expenditures.
- Total Support services exceeded original budget by 2.26% or \$195,481 with pupil personnel services, operation of maintenance and plant services, business, and other support services. The majority is directly related to the operation of maintenance and plant services. This is a result of outsourcing operations leaving many areas identified for repairs by our contractor. Additionally, preventative maintenance systems were instituted by the contractor.
- Student Transportation Services exceeded original budget by .15% or \$2,093 from radios purchased for contractors.
- Debt Services including principal and interest was right on target with the budget planning.
- Athletic program costs were reflected in Student Activities as required by GASB No. 54. Student Activities were under original budget by 13.8% or \$102,038.

Capital Assets and Debt Administration

At June 30, 2016, the District had \$19,300,120 that represents invested capital assets including land, building, and equipment.

Table 4 indicated the breakdown of capital assets net of depreciation for 2016, 2015 and 2014 respectively.

Table 4
Capital Assets - Net of Depreciation

	Governmental Activities			Business Type Activities			Total		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Land and Land Improvements	\$ 370,297	\$ 370,297	\$ 370,297	\$ -	\$ -	\$ -	\$ 370,297	\$ 370,297	\$ 370,297
Site Improvements	625,703	708,221	792,709	-	-	-	625,703	708,221	792,709
Buildings	16,944,013	17,880,278	18,843,966	-	-	-	16,944,013	17,880,278	18,843,966
Equipment	1,301,250	1,844,215	1,949,886	58,857	64,703	61,726	1,360,107	1,908,918	2,011,612
Total Capital Assets	\$ 19,241,263	\$ 20,803,011	\$ 21,956,858	\$ 58,857	\$ 64,703	\$ 61,726	\$ 19,300,120	\$ 20,867,714	\$ 22,018,584

Total Governmental Capital Assets decreased by 7.5% or \$1,561,748 as this represents a net decrease (including additions, deletions, and depreciation) from prior year.

Debt Administration

At June 30, 2016, the Upper Adams School District had \$16,908,100 in bonds and capital lease obligations outstanding.

In 2015, the District refinanced Bond Series 2010 to Bond Series 2015 to gain capital to address structural improvements for building and site improvements.

Table 5 summarizes and compares outstanding debt for the 2016, 2015 and 2014 fiscal years respectively.

Table 5
Outstanding Debt

	2016	2015	2014
General Obligation Bonds			
Bond Series of 2010	\$ -	\$ -	\$ 4,840,000
Bond Series of 2010 - A	1,997,727	2,008,500	2,013,500
Bond Series 2011	1,885,000	2,060,000	2,230,000
Bond Series 2012	6,380,000	7,565,000	7,570,000
Bond Series 2015	5,565,000	5,570,000	-
Capital Lease Obligations	1,080,373	1,402,514	1,484,109
Total Outstanding Debt and Capital Lease Obligations	\$ 16,908,100	\$ 18,606,014	\$ 18,137,609

Economic Impact and Budget Rate Forecast

The Upper Adams School District has investments at PNC Bank, Adams County National Bank, M&T Bank, and the Pennsylvania School District Liquid Asset Fund. The Federal Deposit Insurance Corporation (FDIC) insures the bank account balances and additional protection of investments is guaranteed through Act 72 of 1971 as well. Act 72 requires banks to provide securities as collateral for all public balances on deposit. The Pennsylvania School District Liquid Asset Fund (PSDLAF) provides collateral segregated at a Third Party Institution or guaranteed by the Federal Home Loan Bank Letter of Credit. The PSDLAF collateral is monitored at 102% market value at the close of business daily.

The Public School Employees' Retirement System certified rates of 8.65% for 2011-2012; 12.36% for 2012-2013; 16.93% for 2013-2014, 21.40% for 2014-2015, 25.84% for 2015-2016, and 30.03% for 2016-2017. Future projections are inclined to reach nearly 32% over the next four years. To begin to prepare for future rate increases, the District committed an assigned fund balance for fiscal year ended 2016 of \$17,339 and will continue to set aside as needed within the budget process and by the close of each fiscal year.

The Commonwealth of Pennsylvania provided an increase in the annual special education subsidy, and basically a shortfall from the Governor budget in basic educational subsidy. Moreover, with continued reductions and the possibility of not having a state approved budget or state fluctuations in state subsidies, PSERS increases, pension liabilities and the possibility of new unfunded mandates are matters of concern for the District.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds - Fund Balance

The focus of the District's governmental funds is to provide information on relatively short-term cash flow and future basic services. Such information is useful in assessing the Upper Adams School District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of June 30, 2016, the Upper Adams School District governmental funds reports total ending fund balances of \$2,095,198 and \$1,097,312, restricted for capital projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Upper Adams School District original budget anticipated revenues at \$25,738,000 and expenditures of \$26,605,000. The actual results for the year were revenues in excess by \$108,187 and that expenses were under expended by \$499,649. The overall change in position decreased fund balance by \$259,851.

REQUESTS FOR INFORMATION

The financial report is designed to provide our citizens, taxpayers, investors and creditors, with a general overview of the district's finances and to demonstrate the district's accountability. If you have any questions about this report or need additional information, please contact Belinda M. Wallen, Business Administrator/Board Secretary, at (717) 677-7191 Ext 2704, email b.wallen@upperadams.org or by mail at the Upper Adams School District, 161 North Main Street Biglerville, PA 17307.

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2016

	Governmental Activities	Business-Type Activity	Total
Assets			
Cash and cash equivalents	\$ 1,017,160	\$ 164,674	\$ 1,181,834
Investments	3,400,612	-	3,400,612
Receivables			
Taxes - net of allowance for uncollectibles	977,653	-	977,653
Federal subsidies	45,641	5,114	50,755
State subsidies	905,857	291	906,148
Other	28,031	2,140	30,171
Internal balances	18,891	-	18,891
Due from other governments	51,764	-	51,764
Inventories	-	18,264	18,264
Prepaid bond insurance - net	30,571	-	30,571
Capital Assets			
Land and construction-in-progress	370,297	-	370,297
Other capital assets - net of depreciation	18,870,966	58,857	18,929,823
Total capital assets	19,241,263	58,857	19,300,120
Total assets	25,717,443	249,340	25,966,783
Deferred Outflows of Resources			
Deferred amounts on pension liability	3,203,000	-	3,203,000
Deferred amounts on refunding debts	93,341	-	93,341
Total deferred outflows of resources	3,296,341	-	3,296,341
Total assets and deferred outflows of resources	\$ 29,013,784	\$ 249,340	\$ 29,263,124

See Notes to Financial Statements.

	Governmental Activities	Business-Type Activity	Total
Liabilities			
Accounts payable	\$ 343,027	\$ 105,854	\$ 448,881
Accrued salaries and benefits	1,539,766	-	1,539,766
Payroll deductions and withholdings	791,671	-	791,671
Accrued interest	120,461	-	120,461
Internal balances	-	18,891	18,891
Unearned revenue	33,251	47,975	81,226
Long-term liabilities			
Due within one year	1,641,731	-	1,641,731
Due in more than one year	52,697,075	-	52,697,075
Total long-term liabilities	54,338,806	-	54,338,806
 Total liabilities	 57,166,982	 172,720	 57,339,702
 Deferred Inflows of Resources			
Deferred amounts on pension liability	936,000	-	936,000
 Net Position			
Net investment in capital assets	2,290,758	58,857	2,349,615
Restricted for capital projects	1,097,312	-	1,097,312
Unrestricted	(32,477,268)	17,763	(32,459,505)
Total net position	(29,089,198)	76,620	(29,012,578)
 Total liabilities, deferred inflows of resources, and net position	 \$ 29,013,784	 \$ 249,340	 \$ 29,263,124

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activity	Total
Governmental Activities:						
Instructional	\$ 16,915,864	\$ 329,537	\$ 3,386,016	\$ (13,200,311)	\$ -	\$ (13,200,311)
Instructional student support	3,186,585	-	1,122,878	(2,063,707)	-	(2,063,707)
Administration and financial support	2,740,629	-	289,147	(2,451,482)	-	(2,451,482)
Operation and maintenance of plant services	1,935,250	1,475	57,039	(1,876,736)	-	(1,876,736)
Pupil transportation	1,373,239	-	940,572	(432,667)	-	(432,667)
Student activities	676,505	67,130	40,007	(569,368)	-	(569,368)
Community services	5,686	-	-	(5,686)	-	(5,686)
Interest on long-term debt	458,225	-	-	(458,225)	-	(458,225)
Total governmental activities	27,291,983	398,142	5,835,659	(21,058,182)	-	(21,058,182)
Business-Type Activity:						
Food service	897,781	327,187	592,014	-	21,420	21,420
Total District	\$ 28,189,764	\$ 725,329	\$ 6,427,673	(21,058,182)	21,420	(21,036,762)
General Revenues:						
Property taxes, levied for general purposes, net				10,670,629	-	10,670,629
Public utility, realty transfer, earned income, and per capita taxes levied for general purposes, net				2,786,698	-	2,786,698
Grants, subsidies, and contributions, not restricted				6,251,020	-	6,251,020
Investment earnings				9,042	-	9,042
Miscellaneous income				44,443	-	44,443
Special item - pension transfer				(828,402)	828,402	-
Total general revenues				18,933,430	828,402	19,761,832
Changes in net position				(2,124,752)	849,822	(1,274,930)
Net Position - July 1, 2015				(26,964,446)	(773,202)	(27,737,648)
Net Position - June 30, 2016				\$ (29,089,198)	\$ 76,620	\$ (29,012,578)

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2016

	General	Capital Projects	Debt Service	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,000,369	\$ 16,791	\$ -	\$ 1,017,160
Investments	2,226,431	1,174,181	-	3,400,612
Receivables				
Taxes - net of allowance for uncollectibles	977,653	-	-	977,653
Federal subsidies	45,641	-	-	45,641
State subsidies	905,857	-	-	905,857
Intergovernmental	51,764	-	-	51,764
Other	28,031	-	-	28,031
Due from other funds	18,891	-	-	18,891
Total assets	\$ 5,254,637	\$ 1,190,972	\$ -	\$ 6,445,609
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 249,367	\$ 93,660	\$ -	\$ 343,027
Accrued salaries and benefits	1,539,766	-	-	1,539,766
Payroll deductions and withholdings	791,671	-	-	791,671
Unearned revenue	33,251	-	-	33,251
Total liabilities	2,614,055	93,660	-	2,707,715
Deferred Inflows of Resources				
Delinquent property taxes	545,384	-	-	545,384
Fund Balances				
Restricted for capital projects	-	1,097,312	-	1,097,312
Assigned	918,695	-	-	918,695
Unassigned	1,176,503	-	-	1,176,503
Total fund balances	2,095,198	1,097,312	-	3,192,510
Total liabilities, deferred inflows of resources and fund balances	\$ 5,254,637	\$ 1,190,972	\$ -	\$ 6,445,609

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2016**

Total fund balances - governmental funds	\$	3,192,510
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, they are not reported as assets in governmental funds. The cost of capital assets is \$46,621,728, and the accumulated depreciation is \$27,380,465.		19,241,263
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore, they are deferred inflows of resources in the funds.		545,384
The difference between the re-acquisition price and the net carrying amount of the old debt is a deferred outflow of resources, which is not reported in the governmental funds.		93,341
Bond-insurance premiums that are paid at bond settlement are expensed in the governmental funds. The amounts attributable to future periods are reflected as prepaid bond insurance.		30,571
Deferred inflows and outflows of resources related to pensions are applicable to future periods, and therefore, they are not reported within the funds.		
Deferred inflows and outflows related to pensions are as follows:		
Deferred inflows		(936,000)
Deferred outflows		3,203,000
Long-term liabilities, including bonds payable, compensated absences, net pension liabilities, and other post-employment benefits, are not due and payable in the current period, and therefore, they are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds payable	(15,827,727)	
Bond issuance (premium) discount - net	(42,405)	
Accrued interest	(120,461)	
Capital-lease obligations	(1,080,373)	
Compensated absences	(454,894)	
Net pension liability	(36,385,000)	
Other post-employment benefits obligation	(548,407)	(54,459,267)
Total net position - governmental activities	\$	(29,089,198)

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS Year Ended June 30, 2016

	General	Capital Projects	Debt Service	Total Governmental Funds
Revenues				
Local sources	\$ 14,086,236	\$ 2,159	\$ -	\$ 14,088,395
State sources	11,459,079	-	-	11,459,079
Federal sources	300,872	-	-	300,872
Total revenues	25,846,187	2,159	-	25,848,346
Expenditures				
Instruction	14,730,969	-	-	14,730,969
Support services	8,831,116	-	-	8,831,116
Non-instructional services	641,667	-	-	641,667
Facilities acquisition and construction	-	805,877	-	805,877
Debt service	1,901,599	-	12,410	1,914,009
Total expenditures	26,105,351	805,877	12,410	26,923,638
Deficiency of revenues over expenditures	(259,164)	(803,718)	(12,410)	(1,075,292)
Other Financing Sources (Uses)				
Refunds of prior years' receipts	(687)	-	-	(687)
Net changes in fund balances	(259,851)	(803,718)	(12,410)	(1,075,979)
Fund Balances - July 1, 2015	2,355,049	1,901,030	12,410	4,268,489
Fund Balances - June 30, 2016	<u>\$ 2,095,198</u>	<u>\$ 1,097,312</u>	<u>\$ -</u>	<u>\$ 3,192,510</u>

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES Year Ended June 30, 2016

Net change in fund balances - governmental funds	\$ (1,075,979)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their useful lives as depreciation expense. This is the amount by which depreciation expense of \$1,561,748 exceeded capital outlays of \$-0- in the period.	(1,561,748)
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Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Delinquent property taxes increased by this amount this year.	147,288
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. The decrease in interest accrued reflected in the Statement of Activities is shown here.	4,372
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Governmental funds report district pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.	
District pension contributions	2,580,000
Cost of benefits earned - net of employee contributions (pension expense)	(3,183,000)
Special items -pension transfer	(828,402)

Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, they are not reported as expenditures in governmental funds.	
Change in prepaid bond insurance	(8,173)
Change in compensated absences	122,017
Change in other post-employment benefits	(5,149)
	108,695

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effects of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This is the net effect of these differences in treatment of long-term debt and related items.	
Repayment of long-term debt	1,375,773
Repayment of capital lease obligations	322,141
Amortization of refunding loss	(21,378)
Amortization of bond issuance (premiums) discounts - net	7,486
	1,684,022

Change in net position - governmental activities	\$ (2,124,752)
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See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources				
Real estate taxes	\$ 10,103,290	\$ 10,103,290	\$ 10,213,873	\$ 110,583
Public utility realty tax	15,000	15,000	14,493	(507)
Payments in lieu of taxes	8,000	8,000	8,062	62
Per capita taxes	66,000	66,000	67,450	1,450
Earned income taxes	2,475,000	2,475,000	2,504,152	29,152
Occupation privilege tax	48,000	48,000	60,548	12,548
Real estate transfer taxes	150,000	150,000	132,677	(17,323)
Delinquent real estate taxes	383,000	383,000	301,406	(81,594)
Delinquent per capita taxes	-	-	7,378	7,378
Earnings on investments	1,000	1,000	6,883	5,883
Student activities	-	-	67,130	67,130
Intermediary sources	248,000	248,000	271,437	23,437
Rentals	2,000	2,000	1,475	(525)
Donations	35,000	35,000	55,289	20,289
Tuition	260,000	260,000	329,537	69,537
Refunds and other miscellaneous revenue	5,000	5,000	44,446	39,446
Total local sources revenue	13,799,290	13,799,290	14,086,236	286,946
State sources				
Basic education	6,495,000	6,495,000	6,195,731	(299,269)
Tuition for orphans and children placed in private homes	10,000	10,000	6,664	(3,336)
Vocational education	81,000	81,000	73,224	(7,776)
Migratory children	-	-	1,342	1,342
Special education	952,000	952,000	972,120	20,120
Transportation	935,000	935,000	934,681	(319)
Building reimbursement subsidy	195,000	195,000	196,363	1,363
Health services	33,000	33,000	33,115	115
Property tax relief subsidy	817,710	817,710	809,455	(8,255)
PA accountability grant	100,000	100,000	-	(100,000)
Ready to learn block grant	109,000	109,000	246,843	137,843

(Continued)

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND (Continued)

Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues (Continued)				
State sources (continued)				
Social security reimbursement	405,000	405,000	464,230	59,230
Retirement reimbursement	1,330,000	1,330,000	1,525,311	195,311
Total state sources revenue	11,462,710	11,462,710	11,459,079	(3,631)
Federal sources				
Payments for Federally Impacted Areas	-	-	11,002	11,002
Title I - Improving the Academic Achievement of the Disadvantaged	196,000	196,000	185,317	(10,683)
Title II - Preparing, Training & Recruiting High Quality Teachers & Principals	60,000	60,000	58,977	(1,023)
Title III - Language Instruction for LEP	25,000	25,000	45,576	20,576
Total federal sources revenue	281,000	281,000	300,872	19,872
Total revenues	25,543,000	25,543,000	25,846,187	303,187
Expenditures				
Instruction				
Regular programs	9,945,374	10,134,519	10,134,519	-
Special programs	3,510,591	3,585,342	3,585,342	-
Vocational education programs	766,970	804,872	804,872	-
Other instructional programs	399,052	399,052	206,236	192,816
Total instruction	14,621,987	14,923,785	14,730,969	192,816
Support Services				
Pupil personnel	555,411	583,996	583,996	-
Instructional staff	2,338,271	2,338,271	2,293,909	44,362
Administration	2,148,238	2,146,367	1,995,248	151,119
Pupil health	247,604	249,951	249,951	-
Business	340,156	361,156	361,156	-
Operation and maintenance of plant services	1,654,624	1,924,203	1,924,203	-
Student transportation services	1,365,174	1,367,267	1,367,267	-
Other support services	12,516	55,386	55,386	-
Total support services	8,661,994	9,026,597	8,831,116	195,481

(Continued)

UPPER ADAMS SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND (Continued)**
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Expenditures (Continued)				
Non-instructional Services				
Student activities	738,019	635,981	635,981	-
Community services	15,000	5,686	5,686	-
Total non-instructional services	<u>753,019</u>	<u>641,667</u>	<u>641,667</u>	<u>-</u>
Debt Service				
Principal	1,468,000	1,481,314	1,481,314	-
Interest	433,500	420,285	420,285	-
Total debt service	<u>1,901,500</u>	<u>1,901,599</u>	<u>1,901,599</u>	<u>-</u>
Total expenditures	<u>25,938,500</u>	<u>26,493,648</u>	<u>26,105,351</u>	<u>388,297</u>
Deficiency of revenues over expenditures	(395,500)	(950,648)	(259,164)	691,484
Other Financing Sources (Uses)				
Interfund transfers	195,000	195,000	-	(195,000)
Refunds of prior years' receipts	-	-	(687)	(687)
Budgetary reserve	(666,500)	(111,352)	-	111,352
Total other financing uses	<u>(471,500)</u>	<u>83,648</u>	<u>(687)</u>	<u>(84,335)</u>
Net change in fund balance	<u>\$ (867,000)</u>	<u>\$ (867,000)</u>	(259,851)	<u>\$ 607,149</u>
Fund Balance - July 1, 2015			2,355,049	
Fund Balance - June 30, 2016			<u>\$ 2,095,198</u>	

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

**STATEMENT OF NET POSITION -
PROPRIETARY FUND - FOOD SERVICE
June 30, 2016**

ASSETS	
Current Assets	
Cash and cash equivalents	\$ 164,674
Receivables	
Federal subsidies	5,114
State subsidies	291
Other	2,140
Inventories	18,264
Total current assets	190,483
Noncurrent Assets	
Furniture and equipment - net	58,857
Total assets	\$ 249,340
LIABILITIES	
Current Liabilities	
Accounts payable	\$ 105,854
Due to other funds	18,891
Unearned revenue	47,975
Total current liabilities	172,720
NET POSITION	
Investment in capital assets	58,857
Unrestricted	17,763
Total net position	76,620
Total liabilities and net position	\$ 249,340

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION - PROPRIETARY FUND - FOOD SERVICE

Year Ended June 30, 2016

Operating Revenues	
Food service revenue	\$ 327,187
Operating Expenses	
Purchased professional and technical service	413,258
Purchased property service	58,432
Other purchased service	13,142
Food and milk	300,397
Supplies	47,213
Donated commodities used	46,816
Equipment - replacement	474
Depreciation	5,846
Dues and fees	2,556
Other operating expenditures	9,647
Total operating expenses	897,781
Operating loss	(570,594)
Nonoperating Revenues	
Federal subsidies	514,857
State subsidies	30,341
Value of donated commodities	46,816
Total nonoperating revenues	592,014
Income before special items	21,420
Special items - gain from pension transfer	828,402
Change in net position	849,822
Net Position - July 1, 2015	(773,202)
Net Position - June 30, 2016	<u><u>\$ 76,620</u></u>

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS -
PROPRIETARY FUND - FOOD SERVICE
Year Ended June 30, 2016**

Cash Flows From Operating Activities	
Cash received from meal sales	\$ 360,750
Cash payments to suppliers for goods and services	(744,230)
Net cash used in operating activities	(383,480)
Cash Flows From Noncapital Financing Activities	
Federal subsidies	509,743
State subsidies	30,050
Net cash provided by noncapital financing activities	539,793
Net increase in cash	156,313
Cash:	
July 1, 2015	8,361
June 30, 2016	<u><u>\$ 164,674</u></u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating loss	\$ (570,594)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	5,846
Value of donated commodities	46,816
Changes in assets and liabilities:	
(Increase) decrease in:	
Receivables	(2,017)
Inventories	(12,156)
(Decrease) increase in:	
Due to other funds	9,208
Accounts payable	105,854
Unearned revenue	33,563
Net cash used in operating activities	<u><u>\$ (383,480)</u></u>

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2016

	Activity Fund
ASSETS	
Cash and cash equivalents	\$ 141,432
Investments	11,267
Total assets	\$ 152,699
 LIABILITIES	
Due to student groups	\$ 152,699

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Upper Adams School District (District) operates three elementary schools and one secondary school in Adams County, Pennsylvania. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania. The District operates under a locally-elected, nine-member, Board-form of government.

The financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative, standard-setting body for the establishment of governmental accounting and financial-reporting principles. The more significant of these accounting policies are as follows:

A. Reporting Entity

The District's financial statements include the operations of all entities for which the School Board exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Upper Adams School District is the lowest level of government which has oversight responsibility and control over all activities related to public-school education in the Commonwealth of Pennsylvania. The District receives funding from local, state, and Federal-government sources and must comply with the requirements of these funding-source entities. However, the District is not included in any other governmental "reporting entity" since the School Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. Additionally, the District does not exercise oversight responsibility over any other entities, and consequently, no other entities have been included in the accompanying financial statements.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effects of interfund activity have been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported as general revenues.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note I. Summary of Significant Accounting Policies (Continued)

B. Government-wide and Fund Financial Statements (Continued)

Separate fund financial statements are provided in the report for all of the governmental, proprietary, and fiduciary funds of the District, even though the latter are excluded from the government-wide financial statements. Major, individual governmental funds and the major, individual enterprise fund are reported as separate columns in the fund financial statements. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The District complies with accounting principles generally accepted in the United States of America (GAAP) and applies all relevant Governmental Accounting Standards Board (GASB)

The government-wide financial statements are reported using the economic resources-measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary-fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) is 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 an expense against current operations, and accumulated depreciation is reported on the Statement of Net Position.

Governmental-fund financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues from Federal, state, and other grants designated for payment of specific District expenditures are recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recorded as unearned revenues until earned. Expenditures generally are recorded when liabilities are incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note I. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

When both restricted and unrestricted (including committed, assigned and unassigned) resources are available for use, it is the District's policy to use resources with the most stringent restrictions first, followed by resources in decreasing order of restriction, as funds are needed.

Governmental funds are those through which most governmental functions of the District are financed. The acquisitions, uses, and balances of the District's expendable, financial resources and related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds.

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund. Revenues are primarily derived from local property, earned income, and per capita taxes; and state and Federal distributions. Many of the more important activities of the District, including instruction, administration of the District, and certain non-instructional services are accounted for in this fund.

The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including acquisition or construction of capital facilities and other capital assets (other than those financed by proprietary funds).

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

Proprietary funds are used to account for activities that are similar to those often found in the private sector. The measurement focus is upon the determination of net income and capital maintenance. The District operates one proprietary fund, the Food Service Fund. This fund is used for all financial transactions related to food-service operations. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal, on-going operations. The principal, operating revenue of the District's proprietary fund is food-service charges. Operating expenses for the District's proprietary fund include food-production costs, supplies, administrative costs, and depreciation of capital assets. All revenues or expenses not meeting these classifications are reported as non-operating revenues and expenses.

The District does not attempt to allocate "building-wide costs" to the Food Service Fund. Thus, General Fund expenditures which partially benefit the Food Service Fund (utilities, janitorial services, insurance, etc.) are not proportionately recognized within the Food Service Fund; similarly, the Food Service Fund does not recognize a cost for the building space it occupies (no rental-of-facilities expense).

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note I. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Fiduciary funds are used to account for assets held by the District in a trustee or agent capacity. There are two major types of fiduciary funds: trust funds established by a formal trust agreement that places restrictions on the use of the fund's assets; and agency funds that account for the resources of another entity for which the District has custodial responsibility. Agency funds account for school activities such as various clubs and class funds. Student activity funds are addressed in Section 511 of the Public School Code. Agency Funds are purely custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency Funds are accounted for using the modified-accrual basis of accounting. The District reports on various student activity funds.

D. Budgets and Budgetary Accounting

An operating budget is adopted prior to the beginning of each fiscal year for the General Fund on the modified-accrual basis of accounting. The General Fund is the only fund for which a budget is legally required. The Pennsylvania School Code dictates specific procedures relative to the adoption of the District's budget and reporting of its financial statements, specifically:

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

The District is required to publish notice by advertisement, at least once in two newspapers of general circulation in the municipality in which the District is located, and within fifteen days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative office of the District.

Notice that public hearings will be held on the proposed, operating budget must be included in the advertisement; such hearings are required to be scheduled at least ten days prior to when final action on adoption is taken by the Board.

Legal, budgetary control is maintained at the sub-function/major-object level. The Board of School Directors may make transfers of funds appropriated to any particular item of expenditure by legislative action in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without Board approval. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effects of approved, budget amendments.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity

Cash and Cash Equivalents: For purposes of the Statement of Cash Flows presented for the proprietary fund, the District considers all highly-liquid investments with maturities of three months or less when purchased to be cash equivalents.

Investments: Investments are stated at fair value or at amortized costs, depending on the investment type, consistent with generally accepted accounting principles.

Allowance for Estimated Uncollectible Taxes: The allowance for estimated uncollectible taxes is based upon an historical estimate of delinquent taxes that will not be received within one year of the fiscal year-end. The portion of taxes receivable which is expected to be received within sixty days of June 30 is recorded as revenue in the current year. The remaining amount of taxes receivable which is expected to be received within one year from June 30 is recorded as delinquent property taxes. All other amounts in taxes receivable are written off as estimated uncollectible taxes.

Inventories: Inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

A physical inventory of the Food Service Fund's food and supplies was taken as of June 30, 2016. The inventory consisted of government-donated commodities which were valued at their estimated, fair market values, and purchased commodities and supplies, both of which were valued at cost using the first-in, first-out (FIFO) method. The District has adopted an inventory-recordkeeping system which distinguishes between donated and purchased commodities. Accordingly, unearned revenue for donated commodities has been recorded.

Prepaid Expenses: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items (consumption method) in both the government-wide and fund-financial statements.

Capital Assets and Depreciation: Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activity column in the government-wide financial statements. Capital assets are defined by the District as assets with initial, individual costs of more than \$5,000 and estimated useful lives in excess of two years, unless the assets are acquired by debt proceeds, in which case the assets must be capitalized. Donated capital assets are recorded at their estimated fair market values at the dates of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest expense incurred during the construction phases of capital assets of business-type activities is included as part of the capitalized values of the assets constructed. Management considers various factors in the capitalization of assets, including the assets' estimated useful lives, costs, and the extent to which the assets are parts of larger capital projects. The costs of normal maintenance and repairs that do not add to the values of assets or materially extend assets' lives are not capitalized.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity (Continued)

Capital Assets and Depreciation (Continued)

Depreciation of capital assets is provided on the straight-line method over the estimated useful lives of the assets or groups of assets, as determined by management.

Government Wide Statements: In the government-wide financial statements, depreciation of all exhaustible capital assets is recorded as a direct expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position.

Fund Financial Statements: In the fund-financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the applicable governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for in the same manner as capital assets which are presented in the government-wide statements.

Deferred Outflows of Resources - Deferred Amounts on Refunding Debt: The District recognizes the difference between the re-acquisition price and the net carrying amount of the old debt as a deferred outflow and recognizes it as a component of interest expense over the remaining life of the old or new debt, whichever is shorter.

Deferred Outflows of Resources - Pensions: The District recognizes the difference between actual employer contributions to its pension plan, the proportionate share of contributions and the contributions to the plan subsequent to the measurement date of June 30, 2015, and changes in proportions as deferred outflows of resources. These amounts are amortized over the average remaining service lives of active and inactive members.

Long-Term Obligations: In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activity columns in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the lives of the bonds using the effective-interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond insurance is deferred as a prepaid expense and amortized over the lives of the related bonds. Other bond issuance costs are expensed at the time the debt is issued.

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

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity (Continued)

Compensated Absences: Under the system of financial accounting and reporting for Pennsylvania School Systems, the District accrues certain accumulated employee benefits such as unpaid vacation, and sick and personal leave. The calculation of this amount is determined by the appropriate vacation, sick, personal, and retirement lump-sum payments which would be available to employees if they were to leave or retire from the District, adjusted for expected turnover-rates of employees. Accrued benefit days, multiplied by appropriate salary amounts, are reflected as a long-term liability unless retirements are likely within the upcoming fiscal year. In the governmental funds, the cost of vacation and sick leave is recognized when payments are made to employees. Those costs determined to be current-year costs are reflected as a liability of the General Fund.

Post-Employment Benefits: In the government-wide financial statements, the District recognizes the costs and liabilities associated with post-employment benefits other than pension compensation, which is funded through the District's contribution to the statewide Public School Employees' Retirement System, a governmental, cost-sharing, multiple-employer, defined-benefit pension plan. The District provides access to health, vision, dental, and prescription-drug coverage to eligible, retired employees and qualified spouses/beneficiaries. The District has estimated the cost of providing these benefits through an actuarial valuation.

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

Interfund Activity: Advances between funds that are not expected to be repaid are accounted for as transfers. In those cases when repayment is expected, the advances are accounted for through the various due from and due to accounts.

On fund financial statements, short-term interfund loans are classified as interfund balances. These amounts are eliminated in the Statement of Net Position, except for amounts due between governmental and business-type activities, which are presented as internal balances.

Deferred Inflows of Resources - Pensions: The District recognizes their share of the difference between projected earnings and actual investments of their pension plan and the changes in proportions in the pension plan as deferred inflows of resources. These amounts are amortized over the average remaining service lives of active and inactive members.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity (Continued)

Deferred Inflows of Resources - Delinquent Property Taxes: The District recognizes the property tax revenues when they become available. Available includes those property tax receivables expected to be collected within sixty days after year-end. Those property tax receivables expected to be collected after sixty days after year-end are shown as deferred inflows of resources in the fund financial statements. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Fund Balance: The District's fund balance classifications are defined and described as follows:

Nonspendable: Represents fund balance amounts that cannot be spent because they are not in a spendable form or are contractually required to be maintained intact.

Restricted: Represents fund balance amounts that are constrained for a specific purpose through restrictions of external parties, through constitutional provisions, or by enabling legislation.

Committed: Represents fund balance amounts that can only be used for specific purposes pursuant to the constraints imposed by formal action of the Board of School Directors, the District's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Board removes the constraints or changes the specified purpose through the same action it used to commit the funds.

Assigned: Represents fund balance amounts that are constrained by the government's intent to be used for a specific purpose but are neither restricted nor committed. Through Board policy, the Board has delegated the authority to express intent to the District's Business Administrator.

Unassigned: Represents fund balance amounts that have not been restricted, committed, or assigned to specific purposes within the General Fund.

The District has a board policy which prescribes fund balance guidelines. The District will strive to maintain an unassigned, General Fund balance of not less than one percent and not more than eight percent of the budgeted expenditures for that fiscal year.

F. Other

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 expenditures or expenses during the reporting period. Actual results could differ from those estimates.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

F. Other (Continued)

Subsequent Events: In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through December 26, 2016, the date the financial statements were available to be issued.

Note 2. Deposits and Investments

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

- U.S. Treasury Bills.
- Short-term obligations of the U.S. Government or its agencies or its instrumentalities.
- Deposits in savings accounts or time deposits or share accounts of institutions insured by:
 1. The Federal Deposit Insurance Corporation (FDIC), or
 2. The Federal Savings and Loan Insurance Corporation (FSLIC), or
 3. The National Credit Union Share Insurance Fund (NCUSIF)to the extent that such accounts are so insured, and for any amounts above maximum insurable limits, provided that approved collateral as provided by law shall be pledged by the depository.
- Obligations of (a) the United States of America or its agencies or instrumentalities backed by the full-faith and credit of the United States of America, and (b) the Commonwealth of Pennsylvania or instrumentalities thereof backed by the full-faith and credit of these political subdivisions.
- Shares of investment companies whose investments are restricted to the above categories.

The deposit and investment policies of the District adhere to state statutes and prudent business practices. There were no deposit or investment transactions during the year that violated either state statutes or District policies.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Deposits: Custodial-Credit Risk

Custodial-credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. A summary of the District's deposits at June 30, 2016, are as follows:

	Carrying Amount	Bank Balance	Financial Institution
FDIC Insured	\$ 250,000	\$ 250,000	PNC Bank
FDIC Insured	42,219	52,211	Adams County National Bank
Uninsured and uncollateralized by assets maintained in conformity with Act 72	1,042,314	1,407,791	
	<u>\$ 1,334,533</u>	<u>\$ 1,710,002</u>	

Act 72 of 1971, as amended, is an act standardizing the procedures for pledges of assets to secure deposits of public funds with banking institutions pursuant to other laws; establishing a standard rule for the types, amounts, and valuations of assets eligible to be used as collateral for deposits of public funds; permitting assets to be pledged against deposits on a pooled basis, and authorizing the appointment of custodians to act as the pledgers of the assets.

Investments

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

Investment	Credit Rating	Weighted-Average Maturity	Carrying Value
Pennsylvania School District Liquid Asset Fund - Max Series (PSDLAF-Max Series)	AAAm	74 days	\$ 1,500,612
Full Flex Investment Pool (PSDLAF-Flex)	n/a	166 days	1,900,000
			<u>\$ 3,400,612</u>

Portfolio Assets

Certain external pool investments held by the District, based on portfolio maturity, quality, diversification, and liquidity measures, qualify for measurement at amortized cost at both the pool and the participating government levels consistent with GASB Statement No. 79. The District measures those investments, which include PSDLAF-Max Series, at amortized cost.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Investments (Continued)

PSDLAF-Max Series - This fund invests in securities such as U.S. treasury obligations; securities issued by the U.S. government, its agencies and instrumentalities; and repurchase agreements collateralized by such securities and contracted with highly-rated counterparties. The pool will hold at least 50% of its assets in securities rated 'A-1+' by Standards & Poor's, with the remainder held in securities rated 'A-1'. The fund generally maintains a weighted average maturity to reset of 60 days or less.

PDSLAF-Flex is collateralized in accordance with Act 72 and invests in fixed term instruments in the name of PSDLAF. The District reports these nonparticipating contracts, as nonnegotiable certificates of deposit with redemption terms that do not consider market rates, using a cost-based measure, provided that the fair value of those contracts is not significantly affected by the impairment of the credit standing of the issuer or other factors consistent with GASB Statement No. 31.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Presently, the investments currently held by the District are valued at amortized cost and are not subject to the fair value categorization disclosures.

Weighted-Average Maturity

The weighted-average maturity (WAM) method expresses investment time horizons, the time when investments become due and payable, in years or months, weighted to reflect the dollar-size of individual investments within an investment type. In this illustration, WAMs are computed for each investment type. The portfolio's WAM is derived by dollar-weighting the WAM for each investment type.

Interest-Rate Risk

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

Credit Risk

As indicated above, Section 440.1 of the Public School Code of 1949, as amended, limits the composition of the District's investments, and the District has no investment policy that would further limit its investment choices.

Concentrations-of-Credit Risk

The District places no limit on the amounts invested in any one issuer. The District's investments in Pennsylvania School District Liquid Asset Fund represent 100% of the District's total investments.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 3. Taxes Receivable, Deferred Inflows of Resources and Unearned Revenue

A summary of the taxes receivable and related accounts at June 30, 2016, are as follows:

	Amount
Taxes receivable	\$ 1,011,928
Allowance for uncollectible taxes	(34,275)
Taxes Receivable - Net	<u>\$ 977,653</u>
 Taxes to be collected within 60 days	 \$ 432,269
Deferred inflows of resources - delinquent property taxes	545,384
Taxes Receivable - Net	<u>\$ 977,653</u>
 Deferred Inflows of Resources - General Fund	
Delinquent property taxes	<u>\$ 545,384</u>
 Unearned Revenue - Food Service Fund	
Student deposits	\$ 13,786
Donated commodities	34,189
	<u>\$ 47,975</u>

Note 4. Property Taxes

Based upon assessed valuations provided by the County, the elected, municipal tax collector bills and collects property taxes on behalf of the District. Property taxes are levied on July 1. Taxes are collected at a 2.00% discount until August 31, at their face amount from September 1 until October 31, and include a 10.00% penalty thereafter. Adams County Tax Claim Bureau collects delinquent real estate taxes for the District.

The District's tax rate for all purposes for the year ended June 30, 2016, was 13.229 mills (\$13.229 per \$1,000 assessed valuation) as levied by the Board of School Directors. Refunds on payments of prior-year taxes are classified as other debt-service items under the Commonwealth of Pennsylvania accounting system. Current tax collections for the District were approximately 96.86% of the total tax levy.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 5. Interfund Accounts

Individual fund receivable and payable balances at June 30, 2016, are as follows:

	Interfund Receivables	Interfund Payables
Governmental Funds		
General	\$ 18,891	\$ -
Proprietary Fund - Food Service	-	18,891
	<u>\$ 18,891</u>	<u>\$ 18,891</u>

All interfund receivable/payable balances resulted from time lags between the dates that (1) interfund goods and services were provided or reimbursable expenditures occurred, (2) transactions were recorded in the accounting system, and (3) payments between funds were made. All balances are expected to be repaid within the following year.

There were no operating transfers between funds during the fiscal year ended June 30, 2016.

Transfers and payments within the District are substantially for purposes of subsidizing operations, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

Note 6. Food Service Fund Inventories

The composition of Food Service Fund inventories at June 30, 2016, is as follows:

	Amount
Materials and supplies	\$ 1,883
Purchased food	2,863
Donated food	13,518
	<u>\$ 18,264</u>

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Capital Assets

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

	July 1, 2015	Increases	Decreases	June 30, 2016
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 370,297	\$ -	\$ -	\$ 370,297
Capital assets, being depreciated				
Site improvements	2,137,674	-	-	2,137,674
Buildings and improvements	36,858,886	-	-	36,858,886
Furniture and equipment	7,254,871	-	-	7,254,871
Total capital assets, being depreciated	46,251,431	-	-	46,251,431
Less accumulated depreciation				
Site improvements	1,429,453	82,518	-	1,511,971
Buildings and improvements	18,978,608	936,265	-	19,914,873
Furniture and equipment	5,410,656	542,965	-	5,953,621
Total accumulated depreciation	25,818,717	1,561,748	-	27,380,465
Total capital assets, being depreciated, net	20,432,714	(1,561,748)	-	18,870,966
Governmental Activities, Capital Assets - Net	\$ 20,803,011	\$ (1,561,748)	\$ -	\$ 19,241,263
Business-Type Activity				
Machinery and equipment	\$ 658,687	\$ -	\$ -	\$ 658,687
Accumulated depreciation	(593,984)	(5,846)	-	(599,830)
Business-Type Activity, Capital Assets - Net	\$ 64,703	\$ (5,846)	\$ -	\$ 58,857

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

	Amount
Governmental Activities	
Instructional	\$ 1,105,849
Instructional student support	203,329
Administration and financial support	209,741
Operation and maintenance of plant services	9,536
Pupil transportation	4,273
Student activities	29,020
Total governmental activities	1,561,748
Business-Type Activity	
Food service	5,846
Total School District	\$ 1,567,594

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 8. Accrued Salaries and Benefits

Accrued salaries and benefits at June 30, 2016, consist of the following:

	Amount
Accrued salaries	1,155,499
Retirement	298,233
Social security	85,452
Workers' compensation	582
	<u>\$ 1,539,766</u>

Accrued salaries represent teachers' salaries earned during the 2015-2016 school year which will be paid subsequent to June 30, 2016. Accrued retirement represents the Public School Employees' Retirement Board contribution for the portion pertaining to accrued salaries at June 30, 2016. Accrued social security represents the District's liability arising from accrued salaries at June 30, 2016.

Note 9. Long-Term Obligations

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

	Balances July 1, 2015	Increases	Decreases	Balances June 30, 2016	Due Within One Year
Governmental Activities					
General Obligation Bonds - Series A of 2010	\$ 2,008,500	\$ -	\$ 10,773	\$ 1,997,727	\$ 5,000
General Obligation Notes - Series of 2011	2,060,000	-	175,000	1,885,000	175,000
General Obligation Notes - Series of 2012	7,565,000	-	1,185,000	6,380,000	1,235,000
General Obligation Notes - Series of 2015	5,570,000	-	5,000	5,565,000	5,000
	<u>17,203,500</u>	<u>-</u>	<u>1,375,773</u>	<u>15,827,727</u>	<u>1,420,000</u>
Bond issuance premium (discount) - net	49,891	-	7,486	42,405	-
	<u>17,253,391</u>	<u>-</u>	<u>1,383,259</u>	<u>15,870,132</u>	<u>1,420,000</u>
Capital lease obligations	1,402,514	-	322,141	1,080,373	221,731
Compensated absences	576,911	-	122,017	454,894	-
Other post-employment benefits obligation	543,258	5,149	-	548,407	-
Net pension liability	33,236,613	3,148,387	-	36,385,000	-
	<u>\$ 53,012,687</u>	<u>\$ 3,153,536</u>	<u>\$ 1,827,417</u>	<u>\$ 54,338,806</u>	<u>\$ 1,641,731</u>
Business-Type Activities					
Net pension liability	\$ 842,387	\$ -	\$ 842,387	\$ -	\$ -

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Long-Term Obligations (Continued)

General Obligation Bonds - Series A of 2010 - On August 11, 2010, the District obtained secured financing from Orrstown Bank in the principal amount of \$2,033,500. The proceeds are to be used for improvements to the middle school and central office, acquisition of the District-wide security and communication systems, and to pay the costs of issuing the bonds. Principal payments, commencing on February 1, 2011, are due annually, and interest is payable semi-annually at an annual rate of 4.00%. Minimum principal installments range from \$5,000 to \$615,000 through February 1, 2022. Principal may be advanced by the bank to the District, from time to time, through February 1, 2012.

General Obligation Notes - Series of 2011 - On December 21, 2011, the District issued General Obligation Notes in the principal amount of \$2,640,000. The proceeds were used to provide payment and restructuring of the February 15, 2012 principal payment and interest due on the outstanding General Obligation Bonds - Series of 2010, currently refund the outstanding General Obligation Bonds - Series of 2007, and to pay the costs of issuing the notes. The economic gain on the refunding of the 2007 bonds was \$64,265. The notes bear annual interest rates ranging from 0.40% to 2.875%. Interest is payable semi-annually, on February 1 and August 1, and the notes mature serially in amounts ranging from \$85,000 to \$860,000 through February 1, 2022.

General Obligation Notes - Series of 2012 - On August 21, 2012, the District issued General Obligation Notes in the principal amount of \$7,575,000. The proceeds were used to restructure the outstanding General Obligation Bonds-Series of 2008 and to pay the costs of issuing the bonds. The economic gain on the refunding of the 2008 bonds was \$199,968. The notes bear annual interest rates ranging from 0.80% to 2.30%. Interest is payable semi-annually, on May 1 and November 1, and the notes mature serially in amounts ranging from \$5,000 to \$1,580,000 through May 1, 2022.

General Obligation Notes - Series of 2015 - On February 13, 2015, the District issued General Obligation Notes in the principal amount of \$5,570,000. The proceeds were used to restructure the outstanding General Obligation Bonds-Series of 2010, provide financing for various capital projects, and to pay the costs of issuing and insuring the notes. The notes bear annual interest rates ranging from 0.50% to 4.00%. Interest is payable semi-annually, on February 15 and August 15, and the notes mature serially in amounts ranging from \$5,000 to \$1,625,000 through February 15, 2024.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Long-Term Obligations (Continued)

The District is in compliance with all debt covenants of the outstanding bond issues. Those covenants include the following: the District shall include the annual debt service in its budget for the fiscal year, shall appropriate said debt service from its general revenues, and shall punctually cause the payment of the principal and interest of each of the obligations.

Maturities of general obligation bonds and notes are as follows:

Year Ending June 30,	Governmental Activities		
	Principal	Interest	Total
2017	\$ 1,420,000	\$ 372,759	\$ 1,792,759
2018	2,290,000	353,929	2,643,929
2019	2,300,000	318,579	2,618,579
2020	2,295,000	243,196	2,538,196
2021	2,400,000	180,996	2,580,996
2022-2024	5,122,727	195,535	5,318,262
	<u>\$ 15,827,727</u>	<u>\$ 1,664,994</u>	<u>\$ 17,492,721</u>

Compensated Absences - Under the terms of the District's employment policies, employees are reimbursed for accrued vacation upon retirement or other termination of employment. The reimbursement rate is established by the employment contracts and varies by employee classification. In addition, employees are granted sick and personal days per school year, and any unused days can be carried over to future years. Upon retirement from the District, employees are reimbursed for accumulated sick and personal days in amounts equal to the number of unused days multiplied by amounts established by employment contracts. Certain employees are also offered options regarding retirement incentives as prescribed in the contracts if certain conditions are met. The total liability for accrued vacation, sick and personal leave, and retirement incentives has been reflected in the Statement of Net Position.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 10. Capital Lease Obligations

The District has entered into lease agreements as lessee for financing the acquisition of energy-performance and computer equipment. These lease agreements qualify as capital leases for accounting purposes, and therefore, they have been recorded as such.

The assets acquired through the capital leases are as follows:

	Amount
Buildings and improvements	\$ 1,379,095
Furniture and equipment	1,456,523
Less accumulated depreciation	(1,652,464)
	<u>\$ 1,183,154</u>

The present value of future minimum lease payments as of June 30, 2016, is as follows:

Year Ending June 30,	Amount
2017	\$ 257,249
2018	212,791
2019	144,959
2020	149,256
2021	153,676
2022-2023	293,302
Total minimum lease payments	<u>1,211,233</u>
Less: amount representing interest	(130,860)
Present value of minimum lease payments	<u>\$ 1,080,373</u>

Note 11. Fund Balance Designations

The District has designated certain portions of the General Fund balance as follows:

Description of assigned	Amount
General Fund	
Future debt service	\$ 672,695
LBT insurance	228,661
PSERS	17,339
	<u>\$ 918,695</u>

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 12. Defined-Benefit Pension Plan

Plan Description

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

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

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

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

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 12. Defined Benefit Pension Plan (Continued)

Contributions

Member Contributions:

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

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

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

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

Employer Contributions:

The District's contractually required contribution rate is 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. For the fiscal year ended June 30, 2016, the District's contribution rate was 25.84% of covered payroll. The 25.84% rate is composed of a contribution rate of 25.00% for pension benefits and 0.84% for healthcare-insurance premium assistance.

The District is required to pay the entire contribution and will be reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income-aid ratio (as defined in Act 29 of 1994), which is at least one half of the total District's rate. The District's contributions to the Plan for the years ended June 30, 2016, 2015, and 2014, were \$2,574,113, \$2,267,387, and \$1,812,991, respectively, and are equal to the required contributions for said years. For the year ended June 30, 2016, the District recognized retirement subsidy revenue from the Commonwealth in the amount of \$1,525,311.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 12. Defined Benefit Pension Plan (Continued)

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

At June 30, 2016, the District reported a liability of \$36,385,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2014 to June 30, 2015. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2015, the District's proportion was 0.0840%, which was an decrease of 0.0021% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$3,162,000. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources in the governmental and business-type activities:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 150,000
Changes in assumptions	-	-
Net difference between projected and actual investment earnings	-	74,000
Changes in proportions	551,000	712,000
Difference between employer contributions and proportionate share of total contributions	72,000	-
Contributions subsequent to the measurement date	2,580,000	-
	<u>\$ 3,203,000</u>	<u>\$ 936,000</u>

\$2,580,000 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Total
2017	\$ (187,000)
2018	(187,000)
2019	(187,000)
2020	245,000
2021	3,000
	<u>\$ (313,000)</u>

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 12. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions

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

- Actuarial cost method - Entry Age Normal - level % of pay
- Investment return - 7.50%, includes inflation at 3.00%
- Salary increases - Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1%, and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females

The actuarial assumptions used in the June 30, 2014, valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the PSERS Board at its March 11, 2011, Board meeting, and were effective beginning with the June 30, 2011, actuarial valuation.

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

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

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 12. Defined Benefit Pension Plan (Continued)

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

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

Discount Rate

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

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 12. Defined Benefit Pension Plan (Continued)

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

The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50%) or 1-percentage point higher (8.50%) than the current rate:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
District's proportionate share of the net pension liability	\$ 44,848,000	\$ 36,385,000	\$ 29,272,000

Pension Plan Fiduciary Net Position

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

Plan Payables

At June 30, 2016, the District has payables to the PSERS pension plan of \$1,038,319 which is comprised of staff payroll accruals and the quarterly PSERS liability for second quarter 2016 retirement contributions.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 13. Post-Employment Benefits Other Than Pensions

Plan Description: Upper Adams School District administers a single-employer, defined-benefit healthcare plan. The plan provides medical, prescription-drug, dental, and vision benefits to eligible retirees and their spouses through the District's group health-insurance plan, which covers both active and retired members. Benefit provisions are established through negotiations between the District and the various unions representing District employees; said provisions are renegotiated each bargaining period. All employees are eligible upon retirement with 30 years of PSERS service or upon superannuation retirement (age 60 with 30 years of service, age 62 with 1 year of service, or 35 years of service regardless of age). Retired employees are allowed to continue coverage for themselves and their dependents in the employer's group-health plan until the retired employees reach Medicare age. The plan does not issue a publicly-available financial report.

Funding Policy: Contribution requirements are negotiated between the District and the various unions. Retired employees are responsible for payments equal to the premium determined by the District's plan. The District funds the plan on a pay-as-you-go basis, and there is no obligation to make contributions in advance of when the insurance premiums or claims are due for payment.

Annual OPEB Cost and Net OPEB Obligation - The District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents the level of funding that, if paid on an on-going basis, is projected to cover normal cost each year and to amortize any unfunded, actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the plan.

	Amount
Annual required contribution (ARC)	\$ 153,100
Interest on net OPEB obligation	24,447
Adjustment to annual required contribution	(33,351)
Annual OPEB cost (expense)	144,196
Contributions made (estimated)	(139,047)
Estimated increase in net OPEB obligation	5,149
Net OPEB obligation - beginning of year	543,258
Estimated net OPEB obligation - end of year	\$ 548,407

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 239,122	64.76%	\$ 548,964
6/30/2015	\$ 144,101	103.96%	\$ 543,258
6/30/2016	\$ 144,196	96.43%	\$ 548,407

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 13. Post-Employment Benefits Other Than Pensions (Continued)

Funded Status and Funding Progress - As of January 1, 2014, the most recent actuarial-valuation date, the actuarial-accrued liability for benefits was \$1,306,202, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$10,834,396, and the ratio of the unfunded, actuarial-accrued liability to the covered payroll was 12.06%.

Actuarial valuations of an on-going plan involve estimates of the values of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare-cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations, and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year, trend information that shows whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial-accrued liability for benefits.

Actuarial Method and Assumptions - Projections of benefits for financial-reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial-accrued liabilities and the actuarial values of assets, consistent with the long-term perspectives of the calculations.

In the January 1, 2014, actuarial valuation, a 4.50% interest rate assumption was used; as well as an assumption for salary increases used only for spreading contributions over future pay comprised of a 2.50% cost of living adjustment, 1.00% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.75% to 0.25%. The actuarial assumptions include an annual health-care, cost trend rate of 6.50% in 2014, decreasing by 0.5% per year to 5.50% in 2016 with rates gradually decreasing from 5.3% in 2017 to 4.2% in 2089 and later years. The actuarial value of assets is equal to the market value of assets. The entry-age normal actuarial cost method was used. The unfunded actuarial accrued liability (UAAL) is being amortized over 30 years as a level percentage of projected payroll on an open basis, with 29 years remaining.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 14. Joint Ventures

Cumberland/Perry Area Vocational-Technical School (CPAVTS):

CPAVTS provides vocational technical training and education to participating students of the member districts. The District is one of thirteen member school districts participating in the operation of CPAVTS. CPAVTS is operated, administered and managed by a joint-operating committee consisting of board members from the member school districts. Member districts are responsible for funding the major portion of CPAVTS' operating budget. The District's share of annual operating costs for CPAVTS is based on the number of students attending the school from the District, and is reflected as instructional expenditures of the District's General Fund. For the year ended June 30, 2016, the District paid \$185,918 for its estimated share of the operating budget. Complete financial information for CPAVTS can be obtained from the Administrative Office at 110 Old Willow Mill Road, Mechanicsburg, PA 17050.

Lincoln Intermediate Unit (LIU):

The LIU Board of Directors consists of 13 members from the 25 member school districts in Adams, Franklin, and York counties. The LIU Board members are school-district board members, who are elected by the public, and are appointed to the LIU Board by the member districts' Boards of School Directors. Currently, Upper Adams School District is not responsible for appointing one of these members. The LIU Board has decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. Upper Adams School District contracts with LIU for special education services for District students, instructional services, and certain internal-service functions. The direct and indirect amounts paid for these services during the year ended June 30, 2016, approximated \$689,759. Complete financial information for LIU can be obtained from the Administrative Office at 65 Billerbeck Street, New Oxford, PA 17350.

Note 15. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; and natural disasters. Significant losses are covered by commercial insurance for all major programs. For insured programs, there have been no significant reductions in settlement coverage. Settlement amounts have not exceeded insurance coverage for the current or three prior years. During the year ended June 30, 2016, the District did not incur any significant losses that were not covered by insurance.

The District elects to be self-insured for unemployment. The District is paying unemployment claims from the General Fund.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 16. Contingencies

Grant Program Involvement - In the normal course of operations, the District participates in various Federal or state grant/loan programs. The grant/loan programs are often subject to additional audits by agents of the granting or lending agencies, the purpose of which is to ensure compliance with the specific conditions of the grants or loans. Any liabilities for reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although management believes the amount, if any, would not be material.

Note 17. Significant Commitments

The District has not entered into any significant commitments as of June 30, 2016.

Note 18. Subsequent Events

The District has entered into two lease agreements as lessee for financing the acquisition of computer equipment. The lease agreements qualify as capital leases for accounting purposes, and require annual payments of \$163,649 and \$99,980, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

UPPER ADAMS SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

POST-EMPLOYMENT BENEFITS PLAN

SCHEDULE OF FUNDING PROGRESS

Year Ended June 30, 2016

Actuarial- Valuation Date	Actuarial Value of Assets (a)	Actuarial- Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
1/1/2010	\$ -	\$ 1,765,260	\$ 1,765,260	0.00%	\$ 10,635,046	16.60%
1/1/2012	\$ -	\$ 2,050,510	\$ 2,050,510	0.00%	\$ 10,153,262	20.20%
1/1/2014	\$ -	\$ 1,306,202	\$ 1,306,202	0.00%	\$ 10,834,396	12.06%

For financial reporting purposes, an actuarial valuation is required at least biennially for OPEB plans with a total membership (including employees in active service; terminated employees who have accumulated benefits, but are not yet receiving them; and retired employees and beneficiaries currently receiving benefits) of 200 or more employees, or at least triennially for plans with a total membership of fewer than 200 employees.

Trend information is presented only for years in which information is available.

UPPER ADAMS SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
Year Ended June 30, 2016**

	2016	2015
District's proportion of the net pension liability	0.0840%	0.0861%
District's proportionate share of the net pension liability	\$ 36,385,000	\$ 34,079,000
District's covered-employee payroll	\$ 10,810,045	\$ 10,981,061
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	336.59%	310.34%
Plan fiduciary net position as a percentage of the total pension liability	54.36%	57.24%

UPPER ADAMS SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
Year Ended June 30, 2016**

	2016	2015
Contractually required contribution	\$ 2,579,839	\$ 2,169,789
Contributions in relation to the contractually required contribution	(2,579,839)	(2,169,789)
Contribution deficiency (excess)	\$ -	\$ -
District's covered-employee payroll	\$ 10,131,928	\$ 10,809,787
Contributions as a percentage of covered-employee payroll	25.46%	20.07%

SUPPLEMENTARY INFORMATION

**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 School Directors
Upper Adams School District
Biglerville, 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 activity, each major fund, and the aggregate remaining fund information of Upper Adams School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Upper Adams School District's basic financial statements, and have issued our report thereon dated December 26, 2016.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies as Items IC 2016-001 and 2016-002.

Compliance and Other Matters

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

District's Response to Findings

Upper Adams School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Upper Adams School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, reading "Boyer & Ritter". The signature is written in a cursive, flowing style with a large loop at the end of the word "Ritter".

Chambersburg, Pennsylvania
December 26, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE AS REQUIRED BY THE UNIFORM GUIDANCE**

Board of School Directors
Upper Adams School District
Biglerville, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Upper Adams 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 the District's major Federal programs for the year ended June 30, 2016. Upper Adams 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 Upper Adams 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 District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Upper Adams 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, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Item IC 2016-003. Our opinion on each major federal program is not modified with respect to these matters.

The District's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and/or corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

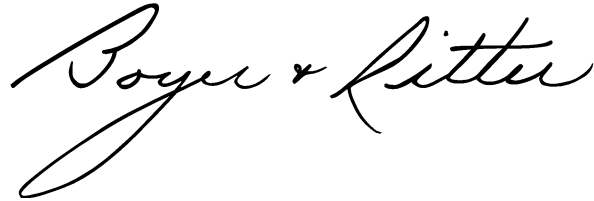
Report on Internal Control over Compliance

Management of Upper Adams 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 Upper Adams 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 Upper Adams School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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.

A handwritten signature in cursive script that reads "Boyer & Fitter". The signature is written in black ink and is centered on the page.

Chambersburg, Pennsylvania
December 26, 2016

UPPER ADAMS SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

Section I - Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? Yes X No
- Significant deficiencies identified? X Yes None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? Yes X No
- Significant deficiencies identified? Yes X 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 Section 2 CFR 200.516(a)? X Yes No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.027	Special Education – Grants to States (IDEA, Part B)
84.173	Special Education – Preschool Grants (IDEA Preschool)

Dollar threshold used to distinguish between type A and type B programs \$750,000

Auditee qualified as low-risk auditee? X Yes No

UPPER ADAMS SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

Section II -- Financial-Statement Findings

A. Significant Deficiencies in Internal Control

Finding 2016-001

Criteria: Reconciliations of bank balances to the general ledger should be completed on a timely basis, to provide assurance that all transactions have been entered by the bank and recorded in the books properly.

Condition and context: During our audit, we noted several months of bank statements, applicable to all funds, were not reconciled to the general ledger.

Cause: The District's Business Office transitioned to new software during the year which impaired their ability to process, record, and reconcile transactions on a timely basis. Also, a lack of supervision over the reconciliation process contributed to the deficiency.

Effect: The District's staff and Board of Directors cannot reasonably rely on financial records without the performance of bank reconciliations.

Recommendations: We recommend the bank accounts be reconciled monthly to the general ledger and that any differences be promptly investigated and adjusted with adequate explanations. Ideally, all bank accounts should be reconciled no later than the 20th day of the following month or within a week of receipt of the bank statements. Additionally, we recommend the bank reconciliations be included in the monthly finance report to the Board.

Views of responsible officials and planned corrective actions: The District acknowledges the finding. The District has reconciled all bank accounts to the current reporting periods. The District has identified a consistent approach to reconciliations and will continue to perform monthly bank reconciliations on a timely basis.

Finding 2016-002

Criteria: The financial records submitted for audit, and the related audit support should not require material adjustments in order to support financial statements prepared in accordance with GAAP.

Condition and context: The financial records required material adjustments in order for them to be presented in accordance with GAAP. The District has assumed responsibility for evaluating the adequacy and results of the financial statements. However, the District's staff was not able to prepare the financial records and related support to a level which did not require material adjustments.

Cause: The District's Business Office transitioned to new software during the year which impaired their capability to process, record, and reconcile all transactions on a timely basis. This impacted their ability to prepare the final financial records for audit.

Effect: The financial records required material adjustment in order for them to support financial statements prepared in accordance with GAAP.

Recommendations: The District's staff should adhere to strict monthly and annual closing schedules with defined roles and responsibilities. The balance sheet and income statement accounts should be monitored on a monthly basis.

Views of responsible officials and planned corrective actions: The District recognizes the finding. Through the audit process, the District has consulted with its auditors to establish a process whereby adequate documentation and closing schedules will be followed. Currently the Business Office is in the beginning stages of developing and implementing month-end and year-end closing procedures.

B. Compliance Findings

There were no findings relating to the financial statement audit required to be reported.

Section III – Federal Award Findings and Questioned Costs

A. Significant Deficiencies in Internal Control

There were no findings relating to the Federal awards as required to be reported in accordance with section 2 CFR 200.516(a) of the Uniform Guidance

B. Compliance Findings

Finding 2016-003

IDEA Special Education Cluster

84.027 – Special Education – Grants to States (IDEA, Part B)

84.173 – Special Education – Preschool Grants (IDEA Preschool)

Criteria: Financial management standards and procedures require the District to identify, in its accounts, all federal awards received and expended, and the federal programs under which they were received.

Condition and context: During our audit, we noted that general ledger funding sources are not consistently used to track federal funded expenditures.

Cause: The software has not been set up to use the funding source dimension as provided by PA Department of Education.

Effect: The District's staff and Board of Directors cannot reasonably rely on financial records to prepared grant reports without the use of funding sources in the chart of accounts.

Recommendations: We recommend the District begin using separate funding sources for each grant program to facilitate the reporting requirements for grants and contracts.

Views of responsible officials and planned corrective actions: The District acknowledges the finding. The Business Office is in the beginning stages of adapting the chart of accounts.

UPPER ADAMS SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2016

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Source Code	Federal CFDA Number	Pass-Through Entity Identifying Number	Grant Period
U. S. Department of Education				
Passed through the Pennsylvania Department of Education				
Title I - Grants to Local Educational Agencies	I	84.010	013-150447	2014-2015
Title I - Grants to Local Educational Agencies	I	84.010	013-160447	2015-2016
 Title II - Supporting Effective Instruction State Grant	 I	 84.367	 020-150447	 2014-2015
Title II - Supporting Effective Instruction State Grant	I	84.367	020-160447	2015-2016
 Title III - English Language Acquisition State Grants	 I	 84.365	 010-150447	 2014-2015
Title III - English Language Acquisition State Grants	I	84.365	010-160447	2015-2016
 Total passed through the Pennsylvania Department of Education				
 Passed through Lincoln Intermediate Unit #12				
Race to the Top - Phase 3	I	84.413A	N/A	2012-2016
Special Education Cluster				
Special Education Grants to States	I	84.027	N/A	2015-2016
Special Education - Preschool Grants	I	84.173	N/A	2015-2016
Total Special Education Cluster				
Total passed through Lincoln Intermediate Unit #12				
 Total U. S. Department of Education				
U. S. Department of Homeland Security				
Passed through the Pennsylvania Emergency Management Agency				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	I	97.036	N/A	2015-2016
Total U. S. Department of Homeland Security				

(Continued)

Program or Annual Award	Total Received (Refunded) for the Year	Accrued (Deferred) Revenue at 7/1/2015	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue at 6/30/2016	Amount Passed Through to Subrecipients
\$ 194,408	\$ 47,106	\$ 47,106	\$ -	\$ -	\$ -	\$ -
\$ 185,317	169,978	-	185,317	185,317	15,339	-
	217,084	47,106	185,317	185,317	15,339	-
\$ 59,322	4,911	4,911	-	-	-	-
\$ 58,977	49,179	-	58,977	58,977	9,798	-
	54,090	4,911	58,977	58,977	9,798	-
\$ 32,221	8,055	13,425	-	-	5,370	-
\$ 45,576	41,778	-	45,576	45,576	3,798	-
	49,833	13,425	45,576	45,576	9,168	-
	321,007	65,442	289,870	289,870	34,305	-
\$ 13,873	2,899	1,790	1,443	1,443	334	-
\$ 253,194	253,194	-	253,194	253,194	-	-
\$ 2,398	2,398	-	2,398	2,398	-	-
	255,592	-	255,592	255,592	-	-
	258,491	1,790	257,035	257,035	334	-
	579,498	67,232	546,905	546,905	34,639	-
\$ 11,002	-	-	11,002	11,002	11,002	-
	-	-	11,002	11,002	11,002	-

UPPER ADAMS SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

Year Ended June 30, 2016

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Source Code	Federal CFDA Number	Pass-Through Entity Identifying Number	Grant Period
U. S. Department of Agriculture				
Passed through Pennsylvania				
Department of Education				
National School Lunch Program *	I	10.555	N/A	2015-2016
School Breakfast Program *	I	10.553	N/A	2015-2016
Total passed through Pennsylvania				
Department of Education				
Passed through the Pennsylvania				
Department of Agriculture				
National School Lunch Program -Food Donation *	I	10.555	N/A	2015-2016
Total U. S. Department of Agriculture				
Total Expenditures of Federal Awards				

* Programs in the Child Nutrition Cluster

National School Lunch Program	\$ 432,628
School Breakfast Program	82,229
National School Lunch Program - Food Donation	46,816
	<u>\$ 561,673</u>

Source Codes:

D - Direct Funding

I - Indirect Funding

See Notes to Schedule of Expenditures of Federal Awards.

Program or Annual Award	Total Received (Refunded) for the Year	Accrued (Deferred) Revenue at 7/1/2015	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue at 6/30/2016	Amount Passed Through to Subrecipients
N/A	428,264	-	432,628	432,628	4,364	-
N/A	81,478	-	82,229	82,229	751	-
	509,742	-	514,857	514,857	5,115	-
N/A	59,064	(1,271)	46,816	46,816	(13,519)	-
	568,806	(1,271)	561,673	561,673	(8,404)	-
	<u>\$ 1,148,304</u>	<u>\$ 65,961</u>	<u>\$ 1,119,580</u>	<u>\$ 1,119,580</u>	<u>\$ 37,237</u>	<u>\$ -</u>

UPPER ADAMS SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

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

Note 2. Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Revenue is recognized when earned, and expenses are recognized when incurred. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity numbers are presented where available. The District has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

UPPER ADAMS SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
Year Ended June 30, 2016

There were no prior year's audit findings.