

UPPER ADAMS SCHOOL DISTRICT

FINANCIAL REPORT

JUNE 30, 2015

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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, 2015, 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, 2015, 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.

Emphasis of Matter

As disclosed in Note 1 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* as of July 1, 2014. The District expanded its note disclosures and required supplementary information related to its pension plans. Our opinion is not modified with respect to this matter.

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 the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic 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 8, 2015, 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, reading "Boyer & Ritten". The signature is written in black ink and is positioned centrally on the page.

Chambersburg, Pennsylvania
December 8, 2015

**UPPER ADAMS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year Ended June 30, 2015**

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, 2015. 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

- Actual changes in governmental activities net position decreased by \$32,454,251 and business-type activities decreased by \$516,943. This is largely due to recording Upper Adams's pension liability as an asset and liability.
- General Fund unassigned fund balance at June 30, 2015, was \$2,355,049, which represents 9.3% of the 2014-2015 General Fund Approved Budget.
- Total governmental fund balances equaled \$4,268,489. The following shows the breakdown by fund:
 - General Fund Balance of \$2,355,049 (unassigned, unrestricted, committed, and non-spendable)
 - Capital Projects Fund Balance of \$1,901,030
 - Debt Service Fund of \$12,410

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 2015 compared to 2014.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Total Assets	\$ 27,837,029	\$ 27,031,863	\$ 79,295	\$ 139,443	\$ 27,916,324	\$ 27,171,306
Deferred Outflows of Resources	\$ 3,040,328	\$ 163,482	\$ 74,391	\$ -	\$ 3,114,719	\$ 163,482
Total Liabilities	\$ 55,466,209	\$ 21,705,540	\$ 866,482	\$ 395,702	\$ 56,332,691	\$ 22,101,242
Deferred Inflows of Resources	\$ 2,375,594	\$ -	\$ 60,406	\$ -	\$ 2,436,000	\$ -
Net Investment in capital assets	\$ 2,147,106	\$ 3,854,702	\$ 64,703	\$ 61,726	\$ 2,211,809	\$ 3,916,428
Restricted	1,901,030	613,462	-	-	1,901,030	613,462
Unrestricted	(31,012,582)	1,021,641	(837,905)	(317,985)	(31,850,487)	703,656
Total Net Position	\$ (26,964,446)	\$ 5,489,805	\$ (773,202)	\$ (256,259)	\$ (27,737,648)	\$ 5,233,546

Governmental Activities

On June 30, 2015, the School District had total assets from governmental activities of \$27,837,029; which was an increase of \$805,166 or 2.98% during the fiscal year. Total governmental deferred outflows increased by \$2,876,846, while governmental liabilities increased by \$33,760,669. Factors that significantly affected net position in the 2014-2015 fiscal year were:

- Pension, PSERS, assets and liability is now required to be recorded in our statement of net position.
- General fund cash and investments increased by \$487,168 from the prior year, while capital project cash (capital project and capital reserve) increased by \$1,297,078. General Fund cash increased as a result of expenditures not exceeding the budget. Capital project cash and investments increased due to the refinancing GOB (General Obligation Bonds) 2015.
- Outstanding debt increased by net of \$550,000 as a general obligation bond was refinanced and principal was repaid.

Table 2 reflects the change in net position for fiscal year 2015 compared to fiscal year 2014. 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, 2015
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program Revenues						
Charges for Services	\$ 393,087	\$ 339,363	\$ 375,159	\$ 647,352	\$ 768,246	\$ 986,715
Operating Grants & Contributions	5,463,858	5,027,222	568,638	522,581	6,032,496	5,549,803
General Revenues						
Property Taxes	10,145,235	9,821,960	-	-	10,145,235	9,821,960
Other Taxes	2,740,606	2,753,966	-	-	2,740,606	2,753,966
Grants, Subsidies & Contributions (Unrestricted)	6,141,058	6,114,757	-	-	6,141,058	6,114,757
Transfers	(345,894)	-	345,894	-	-	-
Other	24,251	30,121	-	-	24,251	30,121
Total Revenues	24,562,201	24,087,389	1,289,691	1,169,933	25,851,892	25,257,322
Expenses:						
Instruction	15,760,774	15,534,186	-	-	15,760,774	15,534,186
Instructional Student Support	2,205,502	2,236,620	-	-	2,205,502	2,236,620
Administrative and Financial Support	2,738,304	2,438,365	-	-	2,738,304	2,438,365
Operation and Plant Maintenance	2,008,319	1,919,303	-	-	2,008,319	1,919,303
Pupil Transportation	1,345,634	1,378,699	-	-	1,345,634	1,378,699
Student Activities	693,258	670,505	-	-	693,258	670,505
Community Services	19,208	8,407	-	-	19,208	8,407
Interest On Long-Term Debt	489,135	507,121	-	-	489,135	507,121
Food Services	-	-	1,001,952	1,258,979	1,001,952	1,258,979
Total Expenses	25,260,134	24,693,206	1,001,952	1,258,979	26,262,086	25,952,185
Increase/(Decrease) in Net Position	\$ (697,933)	\$ (605,817)	\$ 287,739	\$ (89,046)	\$ (410,194)	\$ (694,863)

Governmental revenues, excluding business-type activity transfers, increased by 3.41% or \$820,706 from \$24.1 million to \$24.9 million. Reasons for the increase are primarily attributed to the following changes:

- Current real estate taxes collected increased by 3.29% or \$323,275 as a result of a 2.9% increase in the millage rate.
- Other tax levied revenues decreased overall by 0.49% or \$13,360. This category includes earned income, real estate transfer taxes, public utility, and delinquent earned income taxes. The changes occurred with a decrease in delinquent taxes collected.

- Grants and subsidies not restricted increased by \$26,301 as a result from increased federal programs allocations received post the planning phases and budget adoption for the 2014-2015 fiscal year. Additionally, the District records the property tax relief payment from the State in this category, which was an increase of \$14,467 and reflected as the Homestead/Farmstead Exclusion on the taxpayer's real estate tax bill.
- Charges for services increased by \$53,724. These services include revenue received from other school districts for mainstreaming children placed in private homes, rental of school facilities, and admission revenues. The decline is in the number of students serviced.
- Investment earnings decreased by \$1,500. Investment revenues declined as investments matured and were reinvested in the current low interest rate market.

Property taxes contributed to 39.1% of total revenues for governmental activities at Upper Adams School District in the 2014-2015 fiscal year. Property tax as a percentage of total revenues continues to show increases annually.

Governmental program expenditures increased by 2.29% from \$24.6 million to approximately \$25.2 million. Major changes in expenditures can be primarily attributed to the following:

- Total annual wages decreased overall by .17% or \$18,681. This is the net change from annual contract increases and the decrease from retirement savings through attrition.
- The PSERS employer contribution rate for employee retirement increased, changing from 16.93% in 2013-2014 to 21.40% in 2014-2015. Retirement expense increased by 26.36% or \$486,334 as wages increased. Retirement expense was 21.42% of total wages.
- Total group insurance expenses decreased by 5.3% or \$151,428 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, and retirements.
- Student tuition costs overall decreased to other local educational agencies or charter schools by \$49,009 or 5%.

Instructional costs contributed to 71.1% of total program expenses for governmental activities for Upper Adams School District in fiscal year 2014-2015.

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, 2015
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2015	2014	2015	2014
Functions/Programs				
Instruction	\$ 15,760,774	\$ 15,534,186	\$ 12,423,579	\$ 12,478,759
Instructional Student Support	2,205,502	2,236,620	1,126,237	1,218,543
Administrative	2,738,304	2,438,365	2,475,918	2,229,058
Operation and Maintenance	2,008,319	1,919,303	1,870,915	1,790,191
Pupil Transportation	1,345,634	1,378,699	396,567	513,734
Student Activities	693,258	670,505	601,630	580,808
Community Services	19,208	8,407	19,208	8,407
Interest on Long-Term Debt	489,135	507,121	489,135	507,121
Total Governmental Activities	25,260,134	24,693,206	19,403,189	19,326,621
Less:				
Unrestricted Grants and Subsidies			6,141,058	6,114,757
Total Needs from Local Taxes and Other Revenues			\$ 13,262,131	\$ 13,211,864

Only 19.3% of the 2014-2015 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 \$375,159 and non-operating revenue of \$568,638. Additionally an interfund transfer to/from the General Fund occurred in the amount of \$345,894. The expenses totaled \$1,001,952 for the 2014-2015 fiscal year. School meal prices for lunch and breakfast were at a rate held over from prior year. The School District received 60% 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 \$46,057 due to increase in federal, state, and governmental food commodities received. Total operating revenues decreased by \$272,193 while expenditures decreased by \$257,027. Total net position decreased by \$516,943 as a result of the interfund transfer from General Fund leaving the Food Service ending net position of \$-773,202 on June 30, 2015.

General Fund Budgeting Highlights

For the 2014-2015 fiscal year, total general fund revenue local sources exceeded budget by 2.8% or \$376,235. State funded revenue exceeded budget by 1.9% or \$204,368 and a minimal decrease in federal revenue consisted of 0.16% or \$484.

Total general fund expenditures were under budget by 3.09% or \$745,292. The budgetary reserve of \$305,000 was not transferred during the year. Other significant expenditure budget variances are discussed below.

- Regular program expenditures were less than the original budget by 2.4% or \$231,383. Most of this variance is a result of attritional faculty savings and a favorable benefit cost being less than anticipated.
- Special Education program expenditures were less than original budgeted by 3.7% or \$120,953, mostly due to participating in consortium services with Local Educational Agencies (LEA's) over Lincoln Intermediate Services.
- Vocational Education program expenditures were under original budget by 3.9% or \$28,700 due to student enrollment was less than budgeted.
- Other Instructional program expenditures were greater than original budget by 6.35% or \$26,284 due to an increase cost of providing alternative education services.
- Total Support services was under original budget by 3.9% or \$ 325,454 and even though certain categories exceeded budget expectations such as Pupil Health, Business and Operation of maintenance of plant services, many fell within the established budget.
- Operation and Maintenance of Plant Services exceeded budgetary appropriations by \$8,382. This unfavorable variance resulted from repairs and maintenance of facilities.
- Student Transportation Services were under original budget by 2.54% or \$34,293 due to a dependency reduction on identification on special needs transportation utilizing the LIU.
- Debt Services including principal and interest was right on target with the budget planning.
- Athletic program costs were budgeted and reflected in Student Activities as required by GASB No. 54. Student Activities were under budget by 10.5% or \$67,969.

Capital Assets and Debt Administration

At June 30, 2015, the District had \$26,189,014 that represents invested capital assets including land, building, and equipment.

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

Table 4
Fiscal Year Ended June 30, 2015
Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land and land improvements	\$ 370,297	\$ 370,297	\$ -	\$ -	\$ 370,297	\$ 370,297
Site Improvements	708,221	792,709	-	-	708,221	792,709
Buildings	17,880,278	18,843,966	-	-	17,880,278	18,843,966
Equipment	1,844,215	1,949,886	64,703	61,726	1,908,918	2,011,612
Total Capital Assets	\$ 20,803,011	\$ 21,956,858	\$ 64,703	\$ 61,726	\$ 20,867,714	\$ 22,018,584

Total Governmental Capital Assets decreased by 5.3% or \$1,153,847 as this represents a net decrease (including additions, deletions, and depreciation) from prior year.

Debt Administration

At June 30, 2015, the Upper Adams School District had \$18,606,014 in bonds and capital lease obligations outstanding. 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 2015 and 2014 fiscal years.

Table 5
Outstanding Debt

	2015	2014
General Obligation Bonds		
Bond Series of 2010	\$ -	\$ 4,840,000
Bond Series of 2010-A	2,008,500	2,013,500
Bond Series 2011	2,060,000	2,230,000
Bond Series 2012	7,565,000	7,570,000
Bond Series 2015	5,570,000	-
Capital Lease Obligations	1,402,514	1,484,109
Total outstanding debt and capital lease obligations	\$ 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 and 25.84% for 2015-2016. Future projections are inclined to reach nearly 32% over the next four years. To prepare for future rate increases, the District is considering a committed fund balance of 500,000 for 2015-2016.

The Commonwealth of Pennsylvania provided an increase in the annual basic educational subsidy and basically flat-funded special education for the seventh consecutive year. The continued reductions or 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 June 30, 2015, the Upper Adams School District governmental funds reports total ending unassigned fund balances of \$2.3 million and \$1.9 million restricted for capital projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Upper Adams School District's original budget anticipated revenues at \$24,446,000 and expenditures of \$24,806,000. The actual results for the year were revenues in excess by \$580,119 and that expenses were under by \$745,292.

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, 2015

	Governmental Activities	Business-Type Activity	Total
Assets			
Cash and cash equivalents	\$ 3,132,239	\$ 8,361	\$ 3,140,600
Investments	1,922,857	-	1,922,857
Receivables			
Taxes - net of allowance for uncollectibles	979,723	-	979,723
Federal subsidies	65,443	-	65,443
State subsidies	586,031	-	586,031
Other	8,367	123	8,490
Internal balances	9,683	-	9,683
Due from other governments	290,931	-	290,931
Inventories	-	6,108	6,108
Prepaid bond insurance - net	38,744	-	38,744
Capital Assets			
Land and construction-in-progress	370,297	-	370,297
Other capital assets - net of depreciation	20,432,714	64,703	20,497,417
Total capital assets	20,803,011	64,703	20,867,714
Total assets	27,837,029	79,295	27,916,324
Deferred Outflows of Resources			
Deferred amounts on pension liability	2,925,609	74,391	3,000,000
Deferred amounts on refunding debts	114,719	-	114,719
Total deferred outflows of resources	3,040,328	74,391	3,114,719
Total assets and deferred outflows of resources	\$ 30,877,357	\$ 153,686	\$ 31,031,043

See Notes to Financial Statements.

	Governmental Activities	Business-Type Activity	Total
Liabilities			
Due to other governments	\$ 72,311	\$ -	\$ 72,311
Accounts payable	308,290	-	308,290
Accrued salaries and benefits	1,933,391	-	1,933,391
Accrued interest	124,833	-	124,833
Internal balances	-	9,683	9,683
Unearned revenue	14,697	14,412	29,109
Long-term liabilities			
Due within one year	1,692,141	-	1,692,141
Due in more than one year	51,320,546	842,387	52,162,933
Total long-term liabilities	53,012,687	842,387	53,855,074
Total liabilities	55,466,209	866,482	56,332,691
Deferred Inflows of Resources			
Deferred amounts on pension liability	2,375,594	60,406	2,436,000
Net Position			
Net investment in capital assets	2,147,106	64,703	2,211,809
Restricted for capital projects	1,901,030	-	1,901,030
Unrestricted	(31,012,582)	(837,905)	(31,850,487)
Total net position	(26,964,446)	(773,202)	(27,737,648)
Total liabilities, deferred inflows of resources, and net position	\$ 30,877,357	\$ 153,686	\$ 31,031,043

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2015

Year Ended June 30, 2015		Net (Expense) Revenue and Changes in Net Position				
Functions/Programs	Expenses	Program Revenues		Governmental Activities	Business-Type Activity	Total
		Charges for Services	Operating Grants and Contributions			
Governmental Activities:						
Instructional	\$ 15,760,774	\$ 335,655	\$ 3,001,540	\$ (12,423,579)	\$ -	\$ (12,423,579)
Instructional student support	2,205,502	-	1,079,265	(1,126,237)	-	(1,126,237)
Administration and financial support	2,738,304	-	262,386	(2,475,918)	-	(2,475,918)
Operation and maintenance of plant services	2,008,319	1,750	135,654	(1,870,915)	-	(1,870,915)
Pupil transportation	1,345,634	-	949,067	(396,567)	-	(396,567)
Student activities	693,258	55,682	35,946	(601,630)	-	(601,630)
Community services	19,208	-	-	(19,208)	-	(19,208)
Interest on long-term debt	489,135	-	-	(489,135)	-	(489,135)
Total governmental activities	25,260,134	393,087	5,463,858	(19,403,189)	-	(19,403,189)
Business-Type Activity:						
Food service	1,001,952	375,159	568,638	-	(58,155)	(58,155)
Total District	\$ 26,262,086	\$ 768,246	\$ 6,032,496	(19,403,189)	(58,155)	(19,461,344)
General Revenues:						
Property taxes, levied for general purposes, net				10,145,235	-	10,145,235
Public utility, realty transfer, earned income, and per capita taxes levied for general purposes, net				2,740,606	-	2,740,606
Grants, subsidies, and contributions, not restricted				6,141,058	-	6,141,058
Investment earnings				2,992	-	2,992
Miscellaneous income				21,259	-	21,259
Transfers				(345,894)	345,894	-
Total general revenues				18,705,256	345,894	19,051,150
Changes in net position				(697,933)	287,739	(410,194)
Net Position - July 1, 2014 (as previously reported)				5,489,805	(256,259)	5,233,546
Prior period adjustment (See Note 11)				(31,756,318)	(804,682)	(32,561,000)
Net Position - July 1, 2014 (as restated)				(26,266,513)	(1,060,941)	(27,327,454)
Net Position - June 30, 2015				\$ (26,964,446)	\$ (773,202)	\$ (27,737,648)

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2015

	General	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 3,130,531	\$ -	\$ 1,708	\$ 3,132,239
Investments	8,425	12,410	1,902,022	1,922,857
Receivables				
Taxes - net of allowance for uncollectibles	979,723	-	-	979,723
Federal subsidies	65,443	-	-	65,443
State subsidies	586,031	-	-	586,031
Intergovernmental	290,931	-	-	290,931
Other	8,367	-	-	8,367
Due from other funds	9,683	-	-	9,683
Total assets	\$ 5,079,134	\$ 12,410	\$ 1,903,730	\$ 6,995,274
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 305,590	\$ -	\$ 2,700	\$ 308,290
Due to other governments	72,311	-	-	72,311
Accrued salaries and benefits	1,933,391	-	-	1,933,391
Unearned revenue	14,697	-	-	14,697
Total liabilities	2,325,989	-	2,700	2,328,689
Deferred Inflows of Resources				
Delinquent property taxes	398,096	-	-	398,096
Fund Balances				
Restricted for capital projects	-	12,410	1,901,030	1,913,440
Unassigned	2,355,049	-	-	2,355,049
Total fund balances	2,355,049	12,410	1,901,030	4,268,489
Total liabilities, deferred inflows of resources and fund balances	\$ 5,079,134	\$ 12,410	\$ 1,903,730	\$ 6,995,274

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

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

June 30, 2015

Total fund balances - governmental funds	\$ 4,268,489
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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 \$25,818,717.	20,803,011
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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.	398,096
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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.	114,719
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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.	38,744
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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	(2,375,594)
Deferred outflows	2,925,609

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	(17,203,500)	
Bond issuance (premium) discount - net	(49,891)	
Accrued interest	(124,833)	
Capital-lease obligations	(1,402,514)	
Compensated absences	(576,911)	
Net pension liability	(33,236,613)	
Other post-employment benefits obligation	(543,258)	(53,137,520)

Total net position - governmental activities	\$ (26,964,446)
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See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

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

Year Ended June 30, 2015

	General	Debt Service	Capital Projects	Total Governmental Funds
Revenues				
Local sources	\$ 13,747,323	\$ -	\$ 492	\$ 13,747,815
State sources	10,992,845	-	-	10,992,845
Federal sources	285,951	-	-	285,951
Total revenues	25,026,119	-	492	25,026,611
Expenditures				
Instruction	13,692,178	-	-	13,692,178
Support services	8,187,411	22,590	49,029	8,259,030
Non-instructional services	662,246	-	-	662,246
Facilities acquisition and construction	-	-	443,615	443,615
Debt service	1,518,873	4,035,000	-	5,553,873
Total expenditures	24,060,708	4,057,590	492,644	28,610,942
Excess (deficiency) of revenues over expenditures	965,411	(4,057,590)	(492,152)	(3,584,331)
Other Financing Sources (Uses)				
Refunding-bond proceeds	-	5,570,000	-	5,570,000
Capital leases	-	-	279,720	279,720
Interfund transfers	(345,894)	(1,500,000)	1,500,000	(345,894)
Refunds of prior years' receipts	(22,512)	-	-	(22,512)
Total other financing sources (uses)	(368,406)	4,070,000	1,779,720	5,481,314
Net changes in fund balances	597,005	12,410	1,287,568	1,896,983
Fund Balances - July 1, 2014	1,758,044	-	613,462	2,371,506
Fund Balances - June 30, 2015	\$ 2,355,049	\$ 12,410	\$ 1,901,030	\$ 4,268,489

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, 2015

Net change in fund balances - governmental funds	\$ 1,896,983
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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 \$1,663,587 exceeded capital outlays of \$509,740 in the period.	(1,153,847)
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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.	(118,516)
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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.	3,841
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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	2,163,000
Cost of benefits earned - net of employee contributions (pension expense)	(3,093,280)

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	38,744
Change in compensated absences	161,948
Change in other post-employment benefits	5,706
	206,398

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.	
Issuance of long-term debt	(5,570,000)
Issuance of capital lease obligations	(279,720)
Refunding of general obligation bonds	4,035,000
Repayment of long-term debt	985,000
Repayment of capital lease obligations	361,315
Bond issuance (premiums) discounts - net	(83,905)
Amortization of refunding loss	(48,763)
Amortization of bond issuance (premiums) discounts - net	(1,439)
	(602,512)

Change in net position - governmental activities	\$ (697,933)
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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, 2015

	Original and Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues			
Local sources			
Real estate taxes	\$ 9,812,088	\$ 9,797,199	\$ (14,889)
Public utility realty tax	15,000	15,380	380
Payments in lieu of taxes	8,000	8,062	62
Per capita taxes	67,000	66,632	(368)
Occupation tax	-	-	-
Earned income taxes	2,340,000	2,453,584	113,584
Occupation privilege tax	42,000	70,486	28,486
Real estate transfer taxes	175,000	125,106	(49,894)
Delinquent real estate taxes	350,000	458,489	108,489
Delinquent per capita taxes	8,000	9,044	1,044
Delinquent occupation taxes	-	374	374
Earnings on investments	5,000	2,500	(2,500)
Student activities	-	55,682	55,682
Intermediary sources	230,000	250,153	20,153
Rentals	6,000	1,750	(4,250)
Donations	50,000	75,968	25,968
Tuition	260,000	335,655	75,655
Refunds and other miscellaneous revenue	3,000	21,259	18,259
Total local sources revenue	13,371,088	13,747,323	376,235
State sources			
Basic education	6,066,285	6,065,091	(1,194)
Charter schools	-	-	-
Tuition for orphans and children placed in private homes	10,000	9,232	(768)
Homebound instruction	-	-	-
Vocational education	106,000	43,165	(62,835)
Drivers education - student	-	-	-
Migratory children	-	1,275	1,275
Special education	952,530	950,864	(1,666)
Other program studies	-	-	-
Transportation	690,000	941,677	251,677
Building reimbursement subsidy	161,100	165,387	4,287
Health services	33,000	32,329	(671)
Property tax relief subsidy	815,912	828,259	12,347
Safe schools	-	-	-
Ready to learn	362,650	209,215	(153,435)

(Continued)

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND (Continued)
Year Ended June 30, 2015

	Original and Final	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues (Continued)			
State sources (continued)			
Social security reimbursement	428,000	446,335	18,335
Retirement reimbursement	1,163,000	1,300,016	137,016
Total state sources revenue	10,788,477	10,992,845	204,368
Federal sources			
Title I - Improving the Academic Achievement of the Disadvantaged	196,435	194,408	(2,027)
Title II - Preparing, Training, Recruiting High Quality Teachers & Principals	60,000	59,322	(678)
Title III - Language Instruction for LEP	25,000	32,221	7,221
Medical Assistance Programs	5,000	-	(5,000)
Total federal sources revenue	286,435	285,951	(484)
Total revenues	24,446,000	25,026,119	580,119
Expenditures			
Instruction			
Regular programs	9,547,118	9,315,735	231,383
Special programs	3,334,148	3,213,195	120,953
Vocational education programs	751,808	723,105	28,703
Other instructional programs	413,859	440,143	(26,284)
Total instruction	14,046,933	13,692,178	354,755
Support Services			
Pupil personnel	578,774	561,262	17,512
Instructional staff	2,017,829	1,800,880	216,949
Administration	2,148,845	1,974,361	174,484
Pupil health	230,370	236,193	(5,823)
Business	335,485	440,656	(105,171)
Operation and maintenance of plant services	1,818,118	1,826,500	(8,382)
Student transportation services	1,369,889	1,335,596	34,293
Other support services	13,555	11,963	1,592
Total support services	8,512,865	8,187,411	325,454

(Continued)

UPPER ADAMS SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND (Continued)
Year Ended June 30, 2015**

	Original and Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Expenditures (Continued)			
Non-instructional Services			
Student activities	711,007	643,038	67,969
Community services	17,000	19,208	(2,208)
Total non-instructional services	728,007	662,246	65,761
Debt Service			
Principal	1,074,660	1,074,660	-
Interest	443,535	444,213	(678)
Total debt service	1,518,195	1,518,873	(678)
Total expenditures	24,806,000	24,060,708	745,292
Excess (deficiency) of revenues over expenditures	(360,000)	965,411	1,325,411
Other Financing Sources (Uses)			
Interfund transfers	158,000	(345,894)	(503,894)
Refunds of prior years' receipts	(3,000)	(22,512)	(19,512)
Budgetary reserve	(305,000)	-	305,000
Total other financing uses	(150,000)	(368,406)	(218,406)
Net change in fund balance	\$ (510,000)	597,005	\$ 1,107,005
Fund Balance - July 1, 2014		1,758,044	
Fund Balance - June 30, 2015		<u>\$ 2,355,049</u>	

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

**STATEMENT OF NET POSITION -
PROPRIETARY FUND - FOOD SERVICE
June 30, 2015**

ASSETS	
Current Assets	
Cash and cash equivalents	\$ 8,361
Receivables	
Other	123
Inventories	6,108
Total current assets	<u>14,592</u>
Noncurrent Assets	
Furniture and equipment - net	<u>64,703</u>
Total assets	<u><u>79,295</u></u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amounts on pension liability	<u>74,391</u>
Total assets and deferred outflows of resources	<u><u>\$ 153,686</u></u>
LIABILITIES	
Current Liabilities	
Due to other funds	\$ 9,683
Unearned revenue	14,412
Total current liabilities	<u><u>24,095</u></u>
Noncurrent Liabilities	
Pension	<u>842,387</u>
Total liabilities	<u><u>866,482</u></u>
DEFERRED INFLOWS OF RESOURCES	
Deferred amounts on pension liability	<u>60,406</u>
NET POSITION	
Investment in capital assets	64,703
Unrestricted	(837,905)
Total net position	<u><u>(773,202)</u></u>
Total liabilities, deferred inflows of resources, and net position	<u><u>\$ 153,686</u></u>

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, 2015**

Operating Revenues	
Food service revenue	\$ 375,159
Operating Expenses	
Salaries	302,627
Employee benefits	220,687
Purchased property service	23,176
Other purchased service	320
Food and milk	375,953
Supplies	23,746
Donated commodities used	39,653
Depreciation	12,917
Dues and fees	218
Other operating expenditures	2,655
Total operating expenses	1,001,952
Operating loss	(626,793)
Nonoperating Revenues	
Federal subsidies	462,056
State subsidies	66,929
Value of donated commodities	39,653
Total nonoperating revenues	568,638
Loss before transfers	(58,155)
Interfund Transfers	345,894
Change in net position	287,739
Net Position - July 1, 2014 (as previously reported)	(256,259)
Prior period adjustment (See Note 11)	(804,682)
Net Position - July 1, 2014 (as restated)	(1,060,941)
Net Position - June 30, 2015	<u><u>\$ (773,202)</u></u>

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUND - FOOD SERVICE Year Ended June 30, 2015

Cash Flows From Operating Activities	
Cash received from meal sales	#REF!
Cash payments to employees for services	(499,594)
Cash payments to suppliers for goods and services	#REF!
Net cash used in operating activities	<u>#REF!</u>
Cash Flows From Noncapital Financing Activities	
Federal subsidies	462,056
State subsidies	66,929
Interfund transfers	345,894
Increase in bank overdraft	#REF!
Net cash provided by noncapital financing activities	<u>#REF!</u>
Cash Flows From Capital and Related Financing Activities	
Acquisition of machinery and equipment	<u>(15,894)</u>
Net increase in cash	#REF!
Cash:	
July 1, 2014	-
June 30, 2015	<u>#REF!</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating loss	\$ (626,793)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	12,917
Value of donated commodities	39,653
Changes in assets and liabilities:	
(Increase) decrease in:	
Receivables	#REF!
Inventories	160
Deferred outflows of resources	(74,391)
(Decrease) increase in:	
Due to other funds	(4,764)
Accounts payable	#REF!
Unearned revenue	1,222
Pensions	37,705
Deferred inflows of resources	60,406
Net cash used in operating activities	<u>#REF!</u>

See Notes to Financial Statements.

UPPER ADAMS SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION
June 30, 2015

	Activity Fund
ASSETS	
Cash and cash equivalents	\$ 126,406
Investments	11,245
Total assets	\$ 137,651
 LIABILITIES	
Due to student groups	\$ 137,651

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.

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, 2015. 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.

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.

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.

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)

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, 2014, 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 Transfers: 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: Management uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities and the reported revenues and expenditures.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

F. Other (Continued)

Implementation of New Accounting Principle: In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which amends GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources and deferred inflows of resources, and expense/expenditures related to pensions. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The provisions of this Statement are effective for the District's 2015 financial statements.

Subsequent Events: In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through December 8, 2015, 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 either:
 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 and/or investments may not be returned to it. A summary of the District's deposits at June 30, 2015, are as follows:

	Carrying Amount	Bank Balance	Financial Institution
FDIC Insured	\$ 250,000	\$ 250,000	PNC Bank
			Adams County
FDIC Insured	42,219	40,730	National Bank
FDIC Insured	12,410	12,410	M&T Bank
Uninsured and uncollateralized by assets maintained in conformity with Act 72	3,356,380	2,987,521	
	<u>\$ 3,661,009</u>	<u>\$ 3,290,661</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, 2015, the District had the following investments:

Investment	Maturities	Fair Value
Pennsylvania School District Liquid Asset Fund - Max Series (PSDLAF-Max Series)	51-day weighted-avg	<u>1,911,272</u>

Portfolio Assets

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.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Investments (Continued)

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. 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. As of June 30, 2015, the District's investments in PSDLAF were rated AAAm by Standard & Poor's.

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, 2015, are as follows:

	Amount
Taxes receivable	\$ 1,014,361
Allowance for uncollectible taxes	(34,638)
Taxes Receivable - Net	<u>\$ 979,723</u>
Taxes to be collected within 60 days	\$ 581,627
Deferred inflows of resources - delinquent property taxes	398,096
Taxes Receivable - Net	<u>\$ 979,723</u>
Deferred Inflows of Resources - General Fund	
Delinquent property taxes	<u>\$ 398,096</u>
Unearned Revenue - Food Service Fund	
Student deposits	\$ 13,142
Donated commodities	1,270
	<u>\$ 14,412</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. The schedule for property taxes levied for 2014-2015 is as follows:

July 1	Tax-levy date
July 1 - August 31	2.00%-discount period
September 1 - October 31	Face-payment period
November 1	10.00%-penalty period
4 th Monday of January	Lien-filing date
January 1	Interim tax-levy date

The District tax rate for all purposes for the year ended June 30, 2015, was 12.894 mills (\$12.894 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 96.23% of the total tax levy. Adams County Tax Claim Bureau collects delinquent real estate taxes for the District.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 5. Interfund Accounts

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

	Interfund Receivables	Interfund Payables
Governmental Funds		
General	\$ 9,683	\$ -
Proprietary Fund - Food Service	-	9,683
	<u>\$ 9,683</u>	<u>\$ 9,683</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.

Operating transfers between funds during the fiscal year ended June 30, 2015, are as follows:

	Transfers In	Transfers Out
Governmental Funds		
General	\$ -	\$ 345,894
Capital reserve	1,500,000	-
Debt service	-	1,500,000
Proprietary Fund - Food Service	345,894	-
	<u>\$ 1,845,894</u>	<u>\$ 1,845,894</u>

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, 2015, is as follows:

	Amount
Materials and supplies	\$ 1,983
Purchased food	2,855
Donated food	1,270
	<u>\$ 6,108</u>

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Capital Assets

Capital asset activity for the year ended June 30, 2015, was as follows:

	July 1, 2014	Increases	Decreases	June 30, 2015
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	36,853,916	4,970	-	36,858,886
Furniture and equipment	6,750,101	504,770	-	7,254,871
Total capital assets, being depreciated	45,741,691	509,740	-	46,251,431
Less accumulated depreciation				
Site improvements	1,344,965	84,488	-	1,429,453
Buildings and improvements	18,009,950	968,658	-	18,978,608
Furniture and equipment	4,800,215	610,441	-	5,410,656
Total accumulated depreciation	24,155,130	1,663,587	-	25,818,717
Total capital assets, being depreciated, net	21,586,561	(1,153,847)	-	20,432,714
Governmental Activities, Capital Assets - Net	\$ 21,956,858	\$ (1,153,847)	\$ -	\$ 20,803,011
Business-Type Activity				
Machinery and equipment	\$ 642,793	\$ 15,894	\$ -	\$ 658,687
Accumulated depreciation	(581,067)	(12,917)	-	(593,984)
Business-Type Activity, Capital Assets - Net	\$ 61,726	\$ 2,977	\$ -	\$ 64,703

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

	Amount
Governmental Activities	
Instructional	\$ 1,112,224
Instructional student support	194,312
Administration and financial support	233,152
Operation and maintenance of plant services	85,392
Pupil transportation	6,566
Student activities	31,941
Total governmental activities	1,663,587
Business-Type Activity	
Food service	12,917
Total School District	\$ 1,676,504

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 8. Accrued Salaries and Benefits

Accrued salaries and benefits at June 30, 2015, consist of the following:

	Amount
Accrued salaries	\$ 1,117,071
Retirement	721,236
Social security	80,141
Unemployment compensation	2,204
Workers' compensation	12,739
	<u>\$ 1,933,391</u>

Accrued salaries represent teachers' salaries earned during the 2014-2015 school year which will be paid subsequent to June 30, 2015. Accrued retirement represents the Public School Employees' Retirement Board contribution for May and June of calendar year 2015, including the portion pertaining to accrued salaries at June 30, 2015. Accrued social security represents the District's liability arising from accrued salaries at June 30, 2015.

Note 9. Long-Term Obligations

During the fiscal year ended June 30, 2015, long-term obligations changed as follows:

	Balances July 1, 2015	Increases	Decreases	Balances June 30, 2015	Due Within One Year
Governmental Activities					
General Obligation Bonds - Series of 2010	\$ 4,840,000	\$ -	\$ 4,840,000	\$ -	\$ -
General Obligation Bonds - Series A of 2010	2,013,500	-	5,000	2,008,500	5,000
General Obligation Notes - Series of 2011	2,230,000	-	170,000	2,060,000	175,000
General Obligation Notes - Series of 2012	7,570,000	-	5,000	7,565,000	1,185,000
General Obligation Notes - Series of 2015	-	5,570,000	-	5,570,000	5,000
	<u>16,653,500</u>	<u>5,570,000</u>	<u>5,020,000</u>	<u>17,203,500</u>	<u>1,370,000</u>
Bond issuance premium (discount) - net	(35,453)	83,905	(1,439)	49,891	-
	<u>16,618,047</u>	<u>5,653,905</u>	<u>5,018,561</u>	<u>17,253,391</u>	<u>1,370,000</u>
Capital lease obligations	1,484,109	279,720	361,315	1,402,514	-
Compensated absences	738,859	-	161,948	576,911	-
Retirement incentive	-	-	-	-	-
Other post-employment benefits obligation	548,964	-	5,706	543,258	-
Net pension liability	31,756,318	1,480,295	-	33,236,613	-
	<u>\$ 51,146,297</u>	<u>\$ 7,413,920</u>	<u>\$ 5,547,530</u>	<u>\$ 53,012,687</u>	<u>\$ 1,370,000</u>
Business-Type Activities					
Net pension liability	\$ 804,682	\$ 37,705	\$ -	\$ 842,387	\$ -

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Long-Term Obligations (Continued)

General Obligation Bonds - Series of 2010 - On February 16, 2010, the District issued General Obligation Bonds in the principal amount of \$7,620,000. The proceeds were used to currently refund the General Obligation Bonds - Series of 2005 and pay the costs of issuing the bonds. The bonds bear annual interest rates ranging from 1.00% to 3.40%. Interest is payable semi-annually, on February 15 and August 15, and the bonds mature serially in amounts ranging from \$460,000 to \$1,510,000 through February 15, 2019. Total interest expense on the Series of 2010 Bonds for the year ended June 30, 2015, was \$136,990. These bonds were refunded during 2014-2015 fiscal year.

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. Total interest expense on the Series A of 2010 Bonds for the year ended June 30, 2015, was \$81,658.

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. Total interest expense on the Series of 2011 Notes for the year ended June 30, 2015, was \$51,819.

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. Total interest expense on the Series of 2012 Notes for the year ended June 30, 2015, was \$132,918.

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. Total interest expense on the Series of 2015 Notes for the year ended June 30, 2015, was \$-0-.

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
2016	\$ 1,370,000	\$ 391,571	\$ 1,761,571
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
2021-2024	7,528,500	376,531	7,905,031
	<u>\$ 17,203,500</u>	<u>\$ 2,056,565</u>	<u>\$ 19,260,065</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	(1,341,162)
	<u>\$ 1,494,456</u>

The present value of future minimum lease payments as of June 30, 2015, is as follows:

Year Ending June 30,	Amount
2016	\$ 366,013
2017	257,249
2018	212,791
2019	144,959
2020	149,256
2021-2023	446,978
Total minimum lease payments	<u>1,577,246</u>
Less: amount representing interest	(174,732)
Present value of minimum lease payments	<u>\$ 1,402,514</u>

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 11. 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 11. 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, 2015, the District's contribution rate was 21.40% of covered payroll. The 21.40% rate is composed of a contribution rate of 20.50% for pension benefits and 0.90% for healthcare-insurance premium assistance.

The District is required to pay the entire 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, 2015, 2014, and 2013, were \$2,267,387, \$1,812,991 and \$1,294,156, respectively, and are equal to the required contributions for said years. For the year ended June 30, 2015, the District recognized retirement subsidy revenue from the Commonwealth in the amount of \$1,300,016.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 11. Defined Benefit Pension Plan (Continued)

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

At June 30, 2015, the District reported a liability of \$34,079,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2013 to June 30, 2014. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2014, the District's proportion was 0.0861%, which was an increase of 0.0022% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of \$3,159,000. At June 30, 2015, 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	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual investment earnings	-	2,436,000
Changes in proportions	726,000	-
Difference between employer contributions and proportionate share of total contributions	56,000	-
Contributions subsequent to the measurement date	2,218,000	-
	<u>\$ 3,000,000</u>	<u>\$ 2,436,000</u>

\$2,218,000 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, 2015. 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
2016	\$ (420,000)
2017	(420,000)
2018	(420,000)
2019	(420,000)
2020	26,000
	<u>\$ (1,654,000)</u>

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 11. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions

The total pension liability as of June 30, 2014, was determined by rolling forward the System's total pension liability as of the June 30, 2013, actuarial valuation to June 30, 2014, using the following actuarial assumptions, applied to all periods included in the 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, 2013, valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the PSERS Board at its March 11, 2011, Board meeting, and were effective beginning with the June 30, 2011, actuarial valuation.

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

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

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 11. Defined Benefit Pension Plan (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public markets global equity	19%	5.0%
Private markets (equity)	21%	6.5%
Private real estate	13%	4.7%
Global fixed income	8%	2.0%
U.S. long treasuries	3%	1.4%
TIPS	12%	1.2%
High yield bonds	6%	1.7%
Cash	3%	90.0%
Absolute return	10%	4.8%
Risk parity	5%	3.9%
MLPs/Infrastructure	3%	5.3%
Commodities	6%	3.3%
Financing (LIBOR)	-9%	1.1%
	<u>100%</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, 2014.

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 11. 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	\$ 42,509,000	\$ 34,079,000	\$ 26,882,000

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, 2015, the District has payables to the PSERS pension plan of \$721,236 which is comprised of staff payroll accruals and the quarterly PSERS liability for second quarter 2015 retirement contributions.

Prior Period Adjustment - GASB No. 68 Implementation

Implementation of GASB No. 68 required the District to recognize net pension liability and deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate share of the PSERS net pension liability as of June 30, 2013. The effects of this implementation were increases in governmental and business-type activities' net pension liability of \$31,756,318 and \$804,682, respectively. Consequently, net positions of governmental and business-type activities as of July 1, 2014, were restated by like amounts.

UPPER ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 12. 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	24,703
Adjustment to annual required contribution	(33,702)
Annual OPEB cost (expense)	144,101
Contributions made (estimated)	(149,807)
Estimated increase in net OPEB obligation	(5,706)
Net OPEB obligation - beginning of year	548,964
Estimated net OPEB obligation - end of year	\$ 543,258

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, 2015, 2014 and 2013, are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2013	\$ 240,840	56.49%	\$ 464,703
6/30/2014	\$ 239,122	64.76%	\$ 548,964
6/30/2015	\$ 144,101	103.96%	\$ 543,258

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 13. 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, 2015, the District paid \$207,279 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, 2015, approximated \$715,090. Complete financial information for LIU can be obtained from the Administrative Office at 65 Billerbeck Street, New Oxford, PA 17350.

Note 14. 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, 2015, 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 15. 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 16. Significant Commitments

The District has not entered into any significant commitments as of June 30, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

UPPER ADAMS SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

POST-EMPLOYMENT BENEFITS PLAN

SCHEDULE OF FUNDING PROGRESS

Year Ended June 30, 2015

Actuarial- Valuation Date	Actuarial Value of Assets (a)	Actuarial- Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
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, 2015**

District's proportion of the net pension liability	<u><u>\$ 34,079,000</u></u>
District's proportionate share of the net pension liability	0.0861%
District's covered-employee payroll	<u><u>\$ 10,981,061</u></u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	310.34%
Plan fiduciary net position as a percentage of the total pension liability	57.24%

UPPER ADAMS SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
Year Ended June 30, 2015**

Contractually required contribution	\$ 2,169,789
Contributions in relation to the contractually required contribution	<u>(2,169,789)</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
 District's covered-employee payroll	 <u><u>\$ 10,809,787</u></u>
Contributions as a percentage of covered-employee payroll	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, 2015, 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 8, 2015.

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.

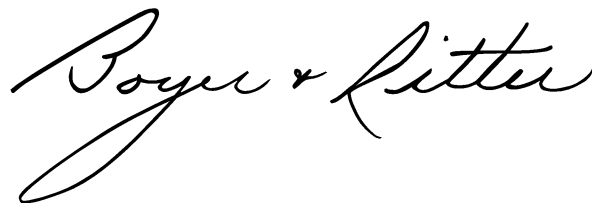
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

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 8, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE AS REQUIRED BY OMB CIRCULAR A-133**

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 OMB Circular A-133, *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, 2015. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2015.

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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 OMB Circular A-133. Accordingly, this report 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.

Chambersburg, Pennsylvania
December 8, 2015

Section I - Summary of Independent Auditor's Results

UPPER ADAMS SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Section II -- Financial-Statement Findings

A. Significant Deficiencies in Internal Control

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

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 Federal awards requiring reporting in accordance with Section .510(a) of OMB Circular A-133.

B. Compliance Findings

There were no findings relating to Federal awards requiring reporting in accordance with Section .510(a) of OMB Circular A-133.

UPPER ADAMS SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2015

Grantor/Program Title	Source Code	Federal C.F.D.A. Number	Pass- Through Grantor's Number	Grant Period
U. S. Department of Education				
Passed through the Pennsylvania Department of Education				
Title I, Improving Basic Programs	I	84.010	013-140447	13-14
Title I, Improving Basic Programs	I	84.010	013-150447	14-15
Title II, Improving Teacher Quality	I	84.367	020-140447	13-14
Title II, Improving Teacher Quality	I	84.367	020-150447	14-15
Title III, Language Instruction LEP and Immigrants	I	84.365	010-140447	13-14
Title III, Language Instruction LEP and Immigrants	I	84.365	010-140447	14-15
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	12-15
Special Education Cluster				
Special Education Grants to States	I	84.027	N/A	14-15
Special Education - Preschool Grants	I	84.173	N/A	14-15
Total Special Education Cluster				
Total passed through Lincoln Intermediate Unit #12				
Total U. S. Department of Education				
U. S. Department of Agriculture				
Passed through Pennsylvania Department of Education				
National School Lunch Program *	I	10.555	N/A	13-14
National School Lunch Program *	I	10.555	N/A	14-15
School Breakfast Program *	I	10.553	N/A	13-14
School Breakfast Program *	I	10.553	N/A	14-15
Total passed through Pennsylvania Department of Education				
Passed through the Pennsylvania Department of Agriculture				
Food Donation *	I	10.555	N/A	14-15
Total U. S. Department of Agriculture				
Total Expenditures of Federal Awards				

(Continued)

Program or Annual Award	Total Received (Refunded) in Fiscal Year	Accrued (Deferred) Revenue at 07/01/14	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue at 06/30/15
\$ 185,006	\$ (1,644)	\$ (1,644)	\$ -	\$ -	\$ -
\$ 194,408	147,302	-	194,408	194,408	47,106
\$ 58,983	11,759	11,759	-	-	-
\$ 59,322	54,411	-	59,322	59,322	4,911
\$ 26,253	5,251	5,251	-	-	-
\$ 32,221	18,796	-	32,221	32,221	13,425
	235,875	15,366	285,951	285,951	65,442
\$ 13,211	850	850	1,790	1,790	1,790
\$ 247,047	247,047	-	247,047	247,047	-
\$ 1,316	1,316	-	1,316	1,316	-
	248,363	-	248,363	248,363	-
	249,213	850	250,153	250,153	1,790
	485,088	16,216	536,104	536,104	67,232
N/A	53,486	53,486	-	-	-
N/A	383,035	-	383,035	383,035	-
N/A	11,332	11,332	-	-	-
N/A	79,021	-	79,021	79,021	-
	526,874	64,818	462,056	462,056	-
N/A	39,702	(1,222)	39,653	39,653	(1,271)
	566,576	63,596	501,709	501,709	(1,271)
	\$ 1,051,664	\$ 79,812	\$ 1,037,813	\$ 1,037,813	\$ 65,961

UPPER ADAMS SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Year Ended June 30, 2015

* Programs in the Child Nutrition Cluster	
National School Lunch Program	\$ 383,035
School Breakfast Program	79,021
National School Lunch Program - Food Donation	39,653
	<u>\$ 501,709</u>

Source Codes:

- D - Direct Funding
- I - Indirect Funding

See Notes to Schedule of Expenditures of Federal Awards.

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 grant activity of Upper Adams School District under programs of the Federal government for the year ended June 30, 2015. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of financial statements.

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 OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* and 2 CFR 200 Subpart E Cost Principles, as applicable, whereby 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 identifying numbers are presented where available.

Note 3. Sub-recipients

With respect to the Federal expenditures presented in the Schedule, Upper Adams School District did not provide any Federal awards to sub-recipients.

UPPER ADAMS SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
Year Ended June 30, 2015

Child Nutrition Cluster
Grant Period: 2013-2014

CFDA # 10.553 and 10.555

U.S. Department of Agriculture, Passed through PA Department of Education

SD 2014-001 - Inaccurate Final Eligibility Status

Audit Finding: The improper entry into the software system from data presented on the application as well as lack of removal of prior information, produced errors in eligibility status. Findings may result in a reduction or termination of Federal funding to the District.

Corrective Action Taken: The corrective action plan was to immediately implement a procedure to verify accuracy of entry into the software system in order to produce accurate applicant status. The Food Service Director will verify final eligibility determination/results per the software system are accurately presented. The District began using the state-allowed PrimeroEdge system during 2014-2015 school year to properly determine eligibility.