

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2016**

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

JUNE 30, 2016

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JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

Board of School Directors
Elizabethtown Area School District
Elizabethtown, PA 17022

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
General Fund	Unmodified
Capital Projects Fund	Unmodified
Debt Service Fund	Unmodified
Enterprise Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of the District's proportionate share of the net pension liability and schedule of District contributions on pages 4 through 14 and 54 through 57 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 Elizabethtown Area School District's basic financial statements. The combining fund financial statements and other supplementary statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining fund financial statements and other supplementary statements listed in the table of contents and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 combining fund financial statements and other supplementary statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Elizabethtown Area School District's internal control over financial reporting and compliance.

Sager, Swisher and Company, LLP

Columbia, Pennsylvania
November 22, 2016

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
June 30, 2016**

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

The Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999.

FINANCIAL HIGHLIGHTS

Enrollment has been relatively flat during the last 10 years. Real estate taxes were increased in 2015-16 by 4%. More detail of what created these results is provided within the analysis.

THE ANNUAL FINANCIAL REPORT

The financial statements include the Management Discussion and Analysis (this section) and a series of financial statements and notes to those statements. These statements are organized so that the reader can understand Elizabethtown Area School District as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The first two statements are government-wide financial statements – the Statement of Net Position and the Statement of Activities. These provide both long-term and short-term information about the District's overall financial status.

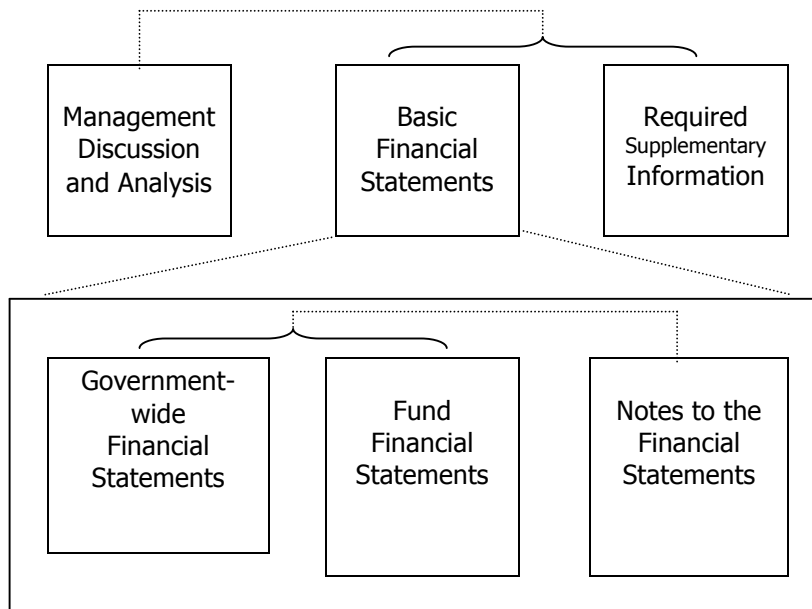
The remaining statements are fund financial statements that focus on individual parts of the District's operations in more detail than the government-wide statements. The governmental funds statements tell how general District services were financed in the short term as well as what remains for future spending. Proprietary fund statements offer short- and long-term financial information about the activities that the District operates like a business. For this District the Food Service Fund is the only proprietary fund. An internal service fund tracks the District's deposits and expenditures for medical benefits. Fiduciary fund statements provide information about financial relationships where the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

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

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

Figure A-1 shows how the required parts of the Financial Report are arranged and relate to one another:

Figure A-1
Required components of
Elizabethtown Area School District's
Financial Report



**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District they cover and the types of information they contain. The remainder of this overview section of management discussion and analysis explains the structure and contents of each of the statements

Figure A-2
Major Features of Elizabethtown Area School District's
Government-wide and Fund Financial Statements

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

ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA

OVERVIEW OF FINANCIAL STATEMENTS

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets, deferred outflow of resources, liabilities, and deferred inflow of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how they have changed. Net position, the difference between the District's assets, deferred outflow of resources, liabilities, and deferred inflow of resources, are one way to measure the District's financial health or position.

Over time, increases or decreases in the District's net position are an indication of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the District, you need to consider additional non-financial factors, such as changes in the District's property tax base and the performance of the students.

The government-wide financial statements of the District are divided into two categories:

- **Governmental activities** – All of the District's basic services are included here, such as instruction, administration and community services. Property taxes and other taxes, state and federal subsidies and grants finance most of these activities.
- **Business type activities** –The District operates a food service operation and charges fees to staff, students and visitors to help it cover the costs of the food service operation.

Fund Financial Statements

The District's fund financial statements, which begin on page 18, provide detailed information about the most significant funds – not the District as a whole. Some funds are required by state law and by bond requirements.

Governmental funds – Most of the District's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary funds – These funds are used to account for the District activities that are similar to business operations in the private sector; or where the reporting is based on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the District charges customers for services it provides – whether to outside customers or to other units in the District – these services are generally reported in proprietary funds. The Food Service Fund is the District's proprietary fund and is the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows.

Fiduciary funds - The District is the trustee, or fiduciary, for some scholarship funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position on page 27. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations.

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

As can be seen in Table A-1, the District's total net position was (\$34,558,412) at June 30, 2016, a slight decrease over the previous year.

Table A-1
Fiscal Year ended June 30
Net Position

	2016			2015		
	<u>Governmental</u>	<u>Business-type</u>	-	<u>Governmental</u>	<u>Business-type</u>	-
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
Current and other assets	16,425,268	387,891	16,813,159	15,966,770	285,836	16,252,606
Capital assets	70,397,465	3,063	70,400,528	71,440,771	3,964	71,444,735
Total assets	86,822,733	390,954	87,213,687	87,407,541	289,800	87,697,341
Deferred Outflows for Pensions	8,463,966	153,613	8,617,579	7,002,456	137,079	7,139,535
Bond Refinancing Charges	149,528		149,528	159,900		159,900
Total Deferred Outflows of Resources	8,613,494	153,613	8,767,107	7,162,356	137,079	7,299,435
Current and other liabilities	8,385,198	192,086	8,577,284	8,407,806	125,333	8,533,139
Long-term liabilities	120,046,206	1,393,571	121,439,777	113,563,043	1,392,993	114,956,036
Total Liabilities	128,431,404	1,585,657	130,017,061	121,970,849	1,518,326	123,489,175
Deferred Inflows of Resources						
Pension	513,060	9,085	522,145	5,087,021	99,583	5,186,604
Net investment in capital assets	30,322,899	3,063	30,325,962	30,116,181	3,964	30,120,145
Restricted for:						
Capital Projects	1,241,289		1,241,289	1,326,256		1,326,256
Debt Service				2,865		2,865
Music Program			-	3,880		3,880
Unrestricted	(65,072,425)	(1,053,238)	(66,125,663)	(63,937,155)	(1,194,994)	(65,132,149)
Total Net Position	(33,508,237)	(1,050,175)	(34,558,412)	(32,487,973)	(1,191,030)	(33,679,003)

Most of the District's net position is invested in capital assets (buildings, land, and equipment). The remaining unrestricted net position is comprised primarily of the balances in the General Fund and is available for future needs of the District.

The results of this year's operations as a whole are reported in the Statement of Activities on page 17 of the basic financial statements and are compared to the prior year's results. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are represented to determine the final amount of the District's activities that are supported by other general revenues. The two largest general revenues are the Basic Education Subsidy provided by the State of Pennsylvania, and the local taxes levied on community taxpayers.

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

Table A-2 takes the information from that Statement and rearranges it so you can see our total revenues and expenses for the year and the resulting decrease in net position. Net position decreased from June 30, 2015.

Table A-2
Fiscal Year ended June 30
Changes in Net Position

	2016				2015			
	Governmental	Business-type	-	-	Governmental	Business-type	-	-
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>	<u>%</u>	<u>Activities</u>	<u>Activities</u>	<u>Total</u>	<u>%</u>
Revenues								
Program revenues								
Charges for services	610,120	716,654	1,326,774	2.3%	665,314	710,428	1,375,742	2.5%
Operating grants and contributions	9,299,180	734,459	10,033,639	17.7%	8,714,596	665,282	9,379,878	17.3%
Capital grants and contributions	811,328	0	811,328	1.4%	1,040,954	0	1,040,954	1.9%
-								
General Revenues								
Property taxes	30,777,343		30,777,343	54.3%	29,303,568	0	29,303,568	54.0%
Other taxes	4,596,705		4,596,705	8.1%	4,145,646	0	4,145,646	7.6%
Grants, subsidies and contributions, unrestricted	9,070,670		9,070,670	16.0%	8,873,166	0	8,873,166	16.4%
Other	106,264	73	106,337	0.2%	145,356	138	145,494	0.3%
Total revenues	55,271,610	1,451,186	56,722,796	100%	52,888,600	1,375,848	54,264,448	100%
Expenses								
Instruction	36,970,908		36,970,908	64.2%	36,185,537		36,185,537	63.3%
Instructional student support	4,824,292		4,824,292	8.4%	4,442,168		4,442,168	7.8%
Administrative and financial support	4,882,637		4,882,637	8.5%	5,212,162		5,212,162	9.1%
Operation and maintenance of plant	4,656,766		4,656,766	8.1%	4,890,818		4,890,818	8.6%
Pupil transportation	2,516,811		2,516,811	4.4%	2,419,021		2,419,021	4.2%
Student activities	1,051,480		1,051,480	1.8%	1,060,879		1,060,879	1.9%
Community services	100,532		100,532	0.2%	100,951		100,951	0.2%
Interest on long-term debt	1,288,448		1,288,448	2.2%	1,410,183		1,410,183	2.5%
Food Services		1,310,331	1,310,331	2.3%		1,436,860	1,436,860	2.5%
Loss on Sale of Cap Asst		-	0	0.0%	0	-	0	0.0%
	56,291,874	1,310,331	57,602,205	100%	55,721,719	1,436,860	57,158,579	100%
Increase (decrease) in net position	-1,020,264	140,855	-879,409	-	-2,833,119	-61,012	2,894,131	-

**ELIZABETHTOWN AREA SCHOOL DISTRICT
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Table A-3 shows the District's primary activities- instructional programs, instructional student support, administrative, operation and maintenance of plant, pupil transportation, student activities, community services, and interest on long-term debt, as well as each program's net cost (total cost less revenues generated by the activities). This table also shows the net costs offset by the other unrestricted grants, subsidies and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

Table A-3
Fiscal Year ended June 30
Governmental Activities

	<u>2016</u>		<u>2015</u>	
<u>Functions/Programs</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
<i>Instruction</i>	36,970,908	29,556,889	36,185,537	29,152,593
<i>Instructional student support</i>	4,824,292	4,316,778	4,442,168	3,990,653
<i>Administrative</i>	4,882,637	4,487,766	5,212,162	4,842,183
<i>Operation and maintenance</i>	4,656,766	4,337,461	4,890,818	4,682,951
<i>Pupil transportation</i>	2,516,811	1,451,009	2,419,021	1,282,231
<i>Student activities</i>	1,051,480	672,654	1,060,879	734,207
<i>Community services</i>	100,532	96,569	100,951	96,808
<i>Interest on long-term debt</i>	1,288,448	652,120	1,410,183	519,229
<i>Total governmental activities</i>	\$56,291,874	\$45,571,246	\$55,721,719	\$45,300,855
<i>Less:</i>				
<i>Unrestricted grants, subsidies</i>		<u>9,070,670</u>		<u>8,873,166</u>
<i>Total needs from local taxes and other revenues</i>	-	<u>\$36,500,576</u>	-	<u>\$36,427,689</u>

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

Table A-4 reflects the activities of the Food Service program, the District's only Business-type activity. Our food service operation generated a profit of \$140,000, driven mainly by careful cost controls and a small price increase in lunch sales. The District continued to focus on cost control and complying with the federal mandates regarding school lunches. Due to these new government mandates, many popular but less healthy foods are no longer available for purchase in District cafeterias. The District will continue to closely monitor its cafeteria operations to guard against future losses. In addition to increasing prices, the District may have to contribute to the food service program out of its General Fund.

Table A-4
Fiscal Year ended June 30
Business-type Activities

<i>Functions/Programs</i>	<i>2016</i>		<i>2015</i>	
	<i><u>Total Cost of Services</u></i>	<i><u>Net Rev/(Exp) of Services</u></i>	<i><u>Total Cost of Services</u></i>	<i><u>Net Rev/(Exp) of Services</u></i>
<i>Food Services</i>	<i>\$1,310,331</i>	<i>\$140,782</i>	<i>\$1,436,860</i>	<i>(\$61,150)</i>
<i>Plus:</i>				
<i>Investment earnings</i>		<i>73</i>		<i>138</i>
		<i>-</i>		<i>-</i>
<i>Total business-type activities</i>	<i>-</i>	<i><u>140,855</u></i>	<i>-</i>	<i><u>-61,012</u></i>

THE DISTRICT FUNDS

At June 30, 2016, the District governmental funds reported a combined fund balance of \$9,361,305. In 2015-16, the District raised real estate taxes 4%.

General Fund:

Actual revenues of the General Fund were approximately as budgeted. Actual expenditures of the General Fund were less than budgeted due to a concerted effort to restrict and constrain spending during the state budget impasse. Starting on page 51, Note 15 lists the District's fund balance classifications. These conform to the GASB 54 standards. The District will continue to monitor its fund balance and will make appropriate adjustments to commit or assign part of it to comply with state regulations.

Based upon actuarial calculations provided by a health industry actuarial firm, the District deposits monthly amounts into an internal service fund established solely for the purpose of paying medical benefits and related expenses for its employees. Stop loss insurance protects against catastrophic medical occurrences. The District ended the year with a balance of \$367,479, down from \$1.03 million in 2015. The decrease in this balance was caused by two things: the District did not make two monthly transfers into the fund from the General Fund (due to positive claims experience during the fiscal year and concerns about cash flow related to the state budget impasse), and the District started transitioning to a high deductible health plan by pre-funding health savings accounts out of this fund. The positive response from employees required approximately \$440,000 to be used from this internal fund. The operating expenses of the fund were \$7.04 million. The results of operation of that fund are shown with the proprietary funds.

The budget to actual experience of the General Fund is shown with the required supplemental information.

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

Capital Projects Fund:

The District is engaged in planned annual maintenance of its capital assets. Within the next few years, it will begin construction and renovation of two buildings and an energy conservation program. The fund balance of \$2,695,524 is a result of planned budgeting and remaining bond proceeds that were intended to be used for capital improvements.

General Fund Budget

During the fiscal year, the Board of School Directors (The Board) may authorize revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the District. All adjustments are again confirmed at the time the annual audit is accepted, which is after the end of the fiscal year, and which is permitted by state law. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided on pages 54 and 55.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2016, the District had \$70,397,464 invested in a broad range of capital assets, including land, buildings and furniture and equipment. This is a slight decrease from the previous year, and it reflects a recent appraisal that was completed for the District.

Table A-5
Governmental Activities
Capital assets - net of depreciation

ASSET	2016	2015
Land & Improvements	\$5,974,562	\$6,073,574
Buildings	62,044,558	62,264,391
Furniture & Equipment	2,278,624	2,467,321
Construction in Progress	99,721	635,485
Total Capital Assets	\$70,397,464	\$71,440,771

DEBT ADMINISTRATION

Outstanding debt as of June 30, 2016 is \$41,770,000. Other obligations include accrued vacation pay and sick leave for specific employees of the District. More detailed information about our long-term liabilities is included in Note 7 to the financial statements.

Table A-6
Outstanding Debt

	2016	2015
General Obligation Notes/Bonds:		
- Bonds, Series of 2009	-	1,985,000
- Bonds, Series A of 2009	-	1,065,000
- Bonds, Series of 2010	-	6,985,000
- Bonds, Series of 2011	5,235,000	5,240,000
- Bonds, Series of 2012	9,855,000	9,905,000
- Bonds, Series of 2013	9,120,000	9,195,000
- Bonds, Series of 2015	8,780,000	8,865,000
- Bonds, Series of 2015A	8,780,000	
Total Outstanding Debt	\$41,770,000	\$43,240,000

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

ECONOMIC FACTORS AND FUTURE BUDGETS AND RATES

The District has experienced modest growth of real estate assessment in recent years from increasing residential construction. Elizabethtown is centrally located to Harrisburg, Hershey, Lancaster and York. Residents enjoy relatively short commutes to work and housing prices are stable. Enrollment in the school District has remained relatively constant over the last five years, but local municipalities have reported that subdivisions are being planned that could increase the population over the next five to ten years.

In September 2008, the District entered into a payment in lieu of taxes (PILOT) agreement with the Masonic Villages, the largest property tax payer in the District. The Masonic Villages properties will be removed from the tax rolls until 2028. In return, the Masonic Villages will make a payment to the District that is roughly equal to its 2007 payment. Small annual adjustments are permitted. Other benefits to the District are also included in the agreement.

The District increased real estate taxes 4% for the 2015-16 year. This tax increase was necessary to fund operations with an expected contribution from fund balance.

Another budgetary concern is the impact on the District of the state teachers pension funding shortfall. Employer contribution rates are projected to rise from the 2014-15 rate of 21.40% to 32.30% in 2023-24.

The District's general obligation bond rating is a Moody's Aa3 rating. The rating is based upon the additional security for bonds provided by the Commonwealth of Pennsylvania Act 150 School District Intercept Program. The Act provides for undistributed state aid to be diverted to bond holders in the event of default. Moody's states the rating "reflects the District's sizeable and mature tax base with average wealth levels and adequate financial position. The rating also incorporates the District's average debt burden that is expected to increase modestly given future borrowing plans." However, given the recent events in the financial markets generally and with bond insurers specifically, it may be difficult for the District to obtain enhanced ratings for future bond offerings.

The comparison of total governmental funds revenue and expenditure categories is as follows:

Table A-7

BUDGETED REVENUES

	2016-17	2015-16
Local	67.58%	66.91%
State	31.46%	31.89%
Federal/Other	0.96%	1.19%
	100.00%	100.00%

BUDGETED EXPENDITURES

	2016-17	2015-16
Instruction	61.88%	62.73%
Support Services	29.38%	28.66%
Non-Instruction/Community	2.05%	2.00%
Fund Transfers/Debt Service	6.69%	6.62%
	100.00%	100.00%

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact George Longridge, Business Manager at Elizabethtown Area School District, 600 East High Street, Elizabethtown, PA 17022, (717) 367-1521.

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**STATEMENT OF NET POSITION
JUNE 30, 2016**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 8,779,410	\$ 218,524	\$ 8,997,934
Investments	2,753,757	--	2,753,757
Taxes Receivable, Net	737,849	--	737,849
Due from Other Governments	3,356,942	20,315	3,377,257
Other Receivables	113,978	10	113,988
Inventories	198,644	149,042	347,686
Prepaid Expenses	<u>484,688</u>	<u>--</u>	<u>484,688</u>
Total Current Assets	<u>16,425,268</u>	<u>387,891</u>	<u>16,813,159</u>
Noncurrent Assets			
Land	1,095,713	--	1,095,713
Land Improvements (Net of Accumulated Depreciation)	4,878,849	--	4,878,849
Buildings and Structures (Net of Accumulated Depreciation)	62,044,558	--	62,044,558
Machinery and Equipment (Net of Accumulated Depreciation)	2,243,251	3,063	2,246,314
Licensed Vehicles (Net of Accumulated Depreciation)	35,373	--	35,373
Construction in Progress	<u>99,721</u>	<u>--</u>	<u>99,721</u>
Total Noncurrent Assets	<u>70,397,465</u>	<u>3,063</u>	<u>70,400,528</u>
TOTAL ASSETS	<u>86,822,733</u>	<u>390,954</u>	<u>87,213,687</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows for Pensions	8,463,966	153,613	8,617,579
Bond Refinancing Charges	<u>149,528</u>	<u>--</u>	<u>149,528</u>
Total Deferred Outflows of Resources	<u>8,613,494</u>	<u>153,613</u>	<u>8,767,107</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 95,436,227</u>	<u>\$ 544,567</u>	<u>\$ 95,980,794</u>
LIABILITIES			
Current Liabilities			
Due to Other Governments	\$ 354,091	\$ --	\$ 354,091
Accounts Payable	940,150	159	940,309
Internal Balances	(136,685)	136,685	--
Current Portion of Bonds and Notes Payable	1,915,000	--	1,915,000
Current Portion of Compensated Absences	57,749	--	57,749
Accrued Salaries and Benefits	4,588,662	--	4,588,662
Payroll Deductions and Withholdings	319,816	--	319,816
Unearned Revenue	114,914	55,242	170,156
Other Current Liabilities	<u>231,501</u>	<u>--</u>	<u>231,501</u>
Total Current Liabilities	<u>8,385,198</u>	<u>192,086</u>	<u>8,577,284</u>
Noncurrent Liabilities			
Bonds and Notes Payable, Net	39,613,800	--	39,613,800
Long-Term Portion of Compensated Absences	1,097,240	--	1,097,240
Other Postemployment Benefits Payable	638,476	--	638,476
Net Pension Liability	<u>78,696,690</u>	<u>1,393,571</u>	<u>80,090,261</u>
Total Noncurrent Liabilities	<u>120,046,206</u>	<u>1,393,571</u>	<u>121,439,777</u>
TOTAL LIABILITIES	<u>128,431,404</u>	<u>1,585,657</u>	<u>130,017,061</u>

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**STATEMENT OF NET POSITION
JUNE 30, 2016**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
DEFERRED INFLOWS OF RESOURCES – PENSION	<u>513,060</u>	<u>9,085</u>	<u>522,145</u>
NET POSITION			
Net Investment in Capital Assets	30,322,899	3,063	30,325,962
Restricted for			
Capital Projects	1,241,289	--	1,241,289
Unrestricted	<u>(65,072,425)</u>	<u>(1,053,238)</u>	<u>(66,125,663)</u>
TOTAL NET POSITION	<u>(33,508,237)</u>	<u>(1,050,175)</u>	<u>(34,558,412)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 95,436,227</u>	<u>\$ 544,567</u>	<u>\$ 95,980,794</u>

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

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities							
Regular Instruction	\$ 27,150,480	\$ 440,954	\$ 3,277,644	\$ --	\$ (23,431,882)	\$ --	\$ (23,431,882)
Special Instruction	7,093,412	--	3,351,849	--	(3,741,563)	--	(3,741,563)
Vocational Education	2,453,091	--	239,955	--	(2,213,136)	--	(2,213,136)
Other Instruction Programs	269,025	--	98,717	--	(170,308)	--	(170,308)
Nonpublic School Program	4,900	--	4,900	--	--	--	--
Student Services	2,069,039	--	267,555	--	(1,801,484)	--	(1,801,484)
Instructional Staff	559,410	--	67,372	--	(492,038)	--	(492,038)
Administration	3,893,177	--	321,910	--	(3,571,267)	--	(3,571,267)
Pupil Health	733,443	--	61,208	--	(672,235)	--	(672,235)
Business Services	989,460	--	72,961	--	(916,499)	--	(916,499)
Operation of Plant and Maintenance Services	4,656,766	31,475	287,830	--	(4,337,461)	--	(4,337,461)
Student Transportation Services	2,516,811	--	1,065,802	--	(1,451,009)	--	(1,451,009)
Central Services	1,436,328	--	111,379	--	(1,324,949)	--	(1,324,949)
Other Support Services	26,072	--	--	--	(26,072)	--	(26,072)
Student Activities	1,051,480	137,691	66,135	175,000	(672,654)	--	(672,654)
Community Services	100,532	--	3,963	--	(96,569)	--	(96,569)
Interest on Long-Term Debt	1,288,448	--	--	636,328	(652,120)	--	(652,120)
Total Governmental Activities	56,291,874	610,120	9,299,180	811,328	(45,571,246)	--	(45,571,246)
Business-Type Activities							
Food Services	1,310,331	716,654	734,459	--	--	140,782	140,782
Total Primary Government	<u>\$ 57,602,205</u>	<u>\$ 1,326,774</u>	<u>\$10,033,639</u>	<u>\$ 811,328</u>	<u>(45,571,246)</u>	<u>140,782</u>	<u>(45,430,464)</u>
General Revenues							
Property Taxes, and Other Payments Levied for General Purposes, Net					30,777,343	--	30,777,343
Public Utility Realty, Earned Income Taxes Levied for Specific Purposes, Net					4,596,705	--	4,596,705
Grants, Subsidies, and Contributions Not Restricted					9,070,670	--	9,070,670
Investment Earnings					23,717	73	23,790
Miscellaneous Income					82,547	--	82,547
Total General Revenues					<u>44,550,982</u>	<u>73</u>	<u>44,551,055</u>
Change in Net Position					(1,020,264)	140,855	(879,409)
Net Position – July 1, 2015					<u>(32,487,973)</u>	<u>(1,191,030)</u>	<u>(33,679,003)</u>
Net Position – June 30, 2016					<u>\$ (33,508,237)</u>	<u>\$ (1,050,175)</u>	<u>\$ (34,558,412)</u>

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

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	Major Funds			Total
	General	Capital	Debt Service	Governmental
	Fund	Projects	Fund	Funds
		Fund		
ASSETS				
Cash and Cash Equivalents	\$ 6,918,514	\$ 1,660,559	\$ --	\$ 8,579,073
Investments	1,753,757	1,000,000	--	2,753,757
Taxes Receivable (Net)	737,849	--	--	737,849
Due from Other Funds	7,841	193,380	--	201,221
Due from Other Governments	3,356,942	--	--	3,356,942
Other Receivables	75,604	--	--	75,604
Inventories	198,644	--	--	198,644
Prepaid Expenditures	<u>22,278</u>	<u>--</u>	<u>--</u>	<u>22,278</u>
TOTAL ASSETS	<u>\$ 13,071,429</u>	<u>\$ 2,853,939</u>	<u>\$ --</u>	<u>\$ 15,925,368</u>
LIABILITIES				
Due to Other Funds	\$ 325,740	\$ --	\$ --	\$ 325,740
Due to Other Governments	354,091	--	--	354,091
Accounts Payable	186,889	158,415	--	345,304
Accrued Salaries and Benefits	4,588,662	--	--	4,588,662
Payroll Deductions and Withholdings	319,816	--	--	319,816
Unearned Revenue - Other	<u>114,914</u>	<u>--</u>	<u>--</u>	<u>114,914</u>
TOTAL LIABILITIES	<u>5,890,112</u>	<u>158,415</u>	<u>--</u>	<u>6,048,527</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue – Property Taxes	<u>515,536</u>	<u>--</u>	<u>--</u>	<u>515,536</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>515,536</u>	<u>--</u>	<u>--</u>	<u>515,536</u>
FUND BALANCES				
Nonspendable	220,922	--	--	220,922
Restricted	--	2,695,524	--	2,695,524
Committed	1,000,000	--	--	1,000,000
Assigned	2,354,600	--	--	2,354,600
Unassigned	<u>3,090,259</u>	<u>--</u>	<u>--</u>	<u>3,090,259</u>
TOTAL FUND BALANCES	<u>6,665,781</u>	<u>2,695,524</u>	<u>--</u>	<u>9,361,305</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 13,071,429</u>	<u>\$ 2,853,939</u>	<u>\$ --</u>	<u>\$ 15,925,368</u>

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

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

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

Total Fund Balances – Governmental Funds \$ 9,361,305

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

Capital Assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is **\$98,366,774**, and the accumulated depreciation is **\$27,969,309**. 70,397,465

Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds. 515,536

Bond discounts and similar items are reported in the governmental funds when debt is first issued. The statement of net position reports these items as assets or liabilities with amortization over the life of the related debt. Bond discount totaled **\$306,631** with accumulated amortization of **\$58,079**. Bond premium totaled **\$11,381** with related accumulated amortization of **\$4,029**. Bond refinancing charges totaled **\$159,900** with related accumulated amortization of **\$10,372**. 390,728

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

Bonds/notes payable	\$ (41,770,000)	
Accrued interest on the bonds/notes	(231,501)	
Compensated absences	(1,154,989)	
Other postemployment benefits	(638,476)	
Net Pension Liability	<u>(78,696,690)</u>	(122,491,656)

Deferred inflows and outflows of resources related to pensions are applicable to future periods and, therefore are not reported within the fund. Deferred inflows and outflows related to pensions are as follows (see note disclosures for detail):

Deferred outflows	\$ 8,463,966	
Deferred inflows	<u>(513,060)</u>	7,950,906

Internal service fund is used to account for medical insurance claims and premiums. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position. 367,479

TOTAL NET POSITION – GOVERNMENTAL ACTIVITIES \$ (33,508,237)

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

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**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016**

	Major Funds			Total
	General Fund	Capital Projects Fund	Debt Service Fund	Governmental Funds
REVENUES				
Local Sources				
Real Estate Taxes and Penalties	\$ 30,729,564	\$ --	\$ --	\$ 30,729,564
Other Taxes	4,596,705	--	--	4,596,705
Interest	18,427	3,457	--	21,884
Revenue from District Activities	137,691	--	--	137,691
Revenue from Intermediate Sources	706,198	--	--	706,198
Tuition	440,954	--	--	440,954
Other Revenue	282,045	20,299	--	302,344
Refund of Prior Year's Expenditures	<u>23,754</u>	<u>--</u>	<u>--</u>	<u>23,754</u>
Total Local Sources	36,935,338	23,756	--	36,959,094
State Sources	17,603,544	--	--	17,603,544
Federal Sources	<u>659,235</u>	<u>--</u>	<u>--</u>	<u>659,235</u>
TOTAL REVENUES	<u>55,198,117</u>	<u>23,756</u>	<u>--</u>	<u>55,221,873</u>
EXPENDITURES				
Current				
Instruction	33,953,040	--	--	33,953,040
Support Services	15,513,091	10,726	77,422	15,601,239
Operation of Non-Instructional Services	<u>1,080,353</u>	<u>--</u>	<u>--</u>	<u>1,080,353</u>
Total Current	<u>50,546,484</u>	<u>10,726</u>	<u>77,422</u>	<u>50,634,632</u>
Capital Outlay				
Facilities Acquisition, Construction and Improvement Services	<u>--</u>	<u>1,042,146</u>	<u>--</u>	<u>1,042,146</u>
Total Capital Outlay	<u>--</u>	<u>1,042,146</u>	<u>--</u>	<u>1,042,146</u>
Debt Service				
Principal	--	--	10,400,000	10,400,000
Interest and Fiscal Charges	<u>--</u>	<u>--</u>	<u>1,213,006</u>	<u>1,213,006</u>
Total Debt Service	<u>--</u>	<u>--</u>	<u>11,613,006</u>	<u>11,613,006</u>
TOTAL EXPENDITURES	<u>50,546,484</u>	<u>1,052,872</u>	<u>11,690,428</u>	<u>63,289,784</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>4,651,633</u>	<u>(1,029,116)</u>	<u>(11,690,428)</u>	<u>(8,067,911)</u>

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016**

	Major Funds			Total Governmental Funds
	General Fund	Capital Projects Fund	Debt Service Fund	
OTHER FINANCING SOURCES (USES)				
Transfers In	501,071	676,071	3,408,490	4,585,632
Transfers Out	(4,084,561)	--	(501,071)	(4,585,632)
Sale/Compensation for Capital Assets	125	--	--	125
Refunding Bonds Issued	--	--	8,930,000	8,930,000
Discount on Refunded Bonds	--	--	(149,856)	(149,856)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(3,583,365)</u>	<u>676,071</u>	<u>11,687,563</u>	<u>8,780,269</u>
Changes in Fund Balances	1,068,268	(353,045)	(2,865)	712,358
Fund Balances – July 1, 2015	5,564,185	3,048,569	2,865	8,615,619
Inventory Adjustment	<u>33,328</u>	<u>--</u>	<u>--</u>	<u>33,328</u>
Fund Balances – June 30, 2016	<u>\$ 6,665,781</u>	<u>\$ 2,695,524</u>	<u>\$ --</u>	<u>\$ 9,361,305</u>

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

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**RECONCILIATION OF THE GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

Total change in fund balances – governmental funds \$ 712,358

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlays in the period.

Depreciation expense	\$ (2,091,983)	
Capital outlays	<u>1,048,677</u>	(1,043,306)

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. Unearned tax revenues decreased by this amount this year.

47,779

The issuance of general obligation bonds provides current financial resources to governmental funds, but has no affect on net position. Also, governmental funds report the bond discounts and other similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:

Issuance of general obligation bonds	\$ (8,930,000)	
Bond discount	149,856	
Amortization of bond discount	(84,130)	
Amortization of bond insurance	<u>(3,030)</u>	(8,867,304)

Internal service fund is used to account for medical insurance claims and premiums. The net revenue of certain activities of the internal service fund is reported with governmental activities.

(665,102)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

10,400,000

Governmental funds report the bond discounts and other similar items when debt is first issued; whereas, these amounts are deferred and amortized in the statement of activities:

Amortization of bond discount (premium)	\$ (17,624)	
Amortization of bond refinancing charges	<u>(10,372)</u>	(27,996)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

(Increase) in compensated absences	(65,687)
------------------------------------	----------

Bond insurance costs are reported as a prepaid expense on the statement of net position and are expensed in a rational systematic method over the life of the debt

(1,254)

The governmental funds follow the purchase method of inventory. However, the statement of net position uses the consumption method of inventory.

33,328

Some expenditures reported in the governmental funds do not require the use of current financial resources, however, the cost of other post-employment benefits is recorded as a noncurrent liability as required by GASB Statement No. 45.

(78,211)

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**RECONCILIATION OF THE GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

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	\$ 6,159,144	
Cost of benefits earned net of employee contributions (pension expense)	<u>(7,661,645)</u>	(1,502,501)

OTHER

Net change in accrued interest expense on bonds payable		<u>37,632</u>
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Change in net position of governmental activities		<u><u>\$ (1,020,264)</u></u>
--	--	------------------------------

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

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016**

	<u>Business-Type Activities – Enterprise Funds Food Service</u>	<u>Governmental Activities – Internal Service Fund</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 218,524	\$ 200,337
Due from Other Funds	120,751	269,045
Due from Other Governments	20,315	--
Accounts Receivable	10	30,533
Inventories	149,042	--
Prepaid Expenses	<u>--</u>	<u>462,410</u>
Total Current Assets	<u>508,642</u>	<u>962,325</u>
Non-current Assets		
Machinery and Equipment (Net of Accumulated Depreciation)	<u>3,063</u>	<u>--</u>
Total Non-current Assets	<u>3,063</u>	<u>--</u>
TOTAL ASSETS	<u>511,705</u>	<u>962,325</u>
DEFERRED OUTFLOWS OF RESOURCES – PENSION	<u>153,613</u>	<u>--</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 665,318</u>	<u>\$ 962,325</u>
LIABILITIES		
Current Liabilities		
Due to Other Funds	\$ 257,436	\$ --
Accounts Payable	159	594,846
Unearned Revenue	<u>55,242</u>	<u>--</u>
Total Current Liabilities	<u>312,837</u>	<u>594,846</u>
Noncurrent Liabilities		
Net Pension Liability	<u>1,393,571</u>	<u>--</u>
Total Noncurrent Liabilities	<u>1,393,571</u>	<u>--</u>
TOTAL LIABILITIES	<u>1,706,408</u>	<u>594,846</u>
DEFERRED INFLOWS OF RESOURCES – PENSION	<u>9,085</u>	<u>--</u>
NET POSITION		
Net Investment in Capital Assets	3,063	--
Unrestricted	<u>(1,053,238)</u>	<u>367,479</u>
TOTAL NET POSITION	<u>(1,050,175)</u>	<u>367,479</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 665,318</u>	<u>\$ 962,325</u>

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

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016**

	Business-Type Activities – Enterprise Funds Food Service	Governmental Activities – Internal Service Fund
OPERATING REVENUES		
Health Insurance Premiums	\$ --	\$ 6,377,837
Lunch Sales	641,490	--
Breakfast Sales	21,362	--
Special Function Revenue	18,999	--
Contracted Service Revenue	22,764	--
Miscellaneous Revenue	<u>12,039</u>	<u>--</u>
TOTAL OPERATING REVENUES	<u>716,654</u>	<u>6,377,837</u>
OPERATING EXPENSES		
Salaries	453,091	--
Employee Benefits	165,679	--
Purchased Property Service	33,666	--
Other Purchased Service	2,307	--
Supplies	643,417	--
Dues and Fees	11,270	--
Depreciation	901	--
Health Insurance Claims	--	6,456,275
Insurance Expense	<u>--</u>	<u>588,497</u>
TOTAL OPERATING EXPENSES	<u>1,310,331</u>	<u>7,044,772</u>
OPERATING (LOSS)	<u>(593,677)</u>	<u>(666,935)</u>
NONOPERATING REVENUES		
Earnings on Investments	73	1,833
State Sources	112,579	--
Federal Sources	<u>621,880</u>	<u>--</u>
TOTAL NONOPERATING REVENUES	<u>734,532</u>	<u>1,833</u>
Changes in Net Position	140,855	(665,102)
Net Position – July 1, 2015	<u>(1,191,030)</u>	<u>1,032,581</u>
Net Position – June 30, 2016	<u>\$ (1,050,175)</u>	<u>\$ 367,479</u>

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

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016**

	Business-Type Activities – Enterprise Funds Food Service	Governmental Activities – Internal Service Fund
Cash Flows from Operating Activities		
Cash Received from Customers and Users	\$ 721,580	\$ --
Cash Received from Assessments Made of Other Funds	--	5,759,833
Cash Payments to Employees for Services	(590,979)	--
Cash Payments to Suppliers for Goods and Services	(538,504)	(6,666,305)
Cash Payments for Other Operating Expenses	<u>(47,244)</u>	<u>--</u>
Net Cash (Used for) Operating Activities	<u>(455,147)</u>	<u>(906,472)</u>
Cash Flows from Noncapital Financing Activities		
State Sources	39,382	--
Federal Sources	<u>512,395</u>	<u>--</u>
Net Cash Provided by Noncapital Financing Activities	<u>551,777</u>	<u>--</u>
Cash Flows from Capital and Related Financing Activities	<u>--</u>	<u>--</u>
Cash Flows from Investing Activities		
Earnings on Investments	73	1,833
Redemption of Investments	<u>--</u>	<u>800,000</u>
Net Cash Provided by Investing Activities	<u>73</u>	<u>801,833</u>
Net Increase (Decrease) in Cash and Cash Equivalents	96,703	(104,639)
Cash and Cash Equivalents - Beginning of Year	<u>121,821</u>	<u>304,976</u>
Cash and Cash Equivalents - End of Year	<u>\$ 218,524</u>	<u>\$ 200,337</u>
Reconciliation of Operating Income to Net Cash (Used for) Operating Activities		
Operating Income (Loss)	<u>\$ (593,677)</u>	<u>\$ (666,935)</u>
Adjustments to Reconcile Operating Income (Loss) to Net Cash (Used for) Operating Activities		
Depreciation	901	--
USDA Donated Commodities	90,614	--
Change in Deferred Outflows – Pension	(16,534)	--
Change in Deferred Inflows – Pension	(90,498)	--
Change in Net Pension Liability	578	
(Increase) in Accounts Receivable	(10)	(23,971)
Decrease in Inventories	5,520	--
Increase (Decrease) in Accounts Payable	(772)	387,726
(Decrease) in Accrued Salaries and Benefits	(4,343)	--
Increase (Decrease) in Unearned Revenue	2,029	(464)
(Increase) in Due from Other Funds	(1,050)	(131,159)
Increase (Decrease) in Due to Other Funds	142,642	(9,259)
(Increase) Decrease in Prepaid Expenses	<u>9,453</u>	<u>(462,410)</u>
Total Adjustments	<u>138,530</u>	<u>(239,537)</u>
Net Cash (Used for) Operating Activities	<u>\$ (455,147)</u>	<u>\$ (906,472)</u>
Noncash Investing, Capital and Financing Activities		
USDA Donated Commodities Received	<u>\$ 86,944</u>	<u>\$ --</u>

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

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016**

	<u>Student Activities</u>	<u>Private Purpose Trust</u>
ASSETS		
Cash and Cash Equivalents	\$ 99,793	\$ 202,653
Investments	<u>--</u>	<u>246,966</u>
TOTAL ASSETS	<u><u>\$ 99,793</u></u>	<u><u>\$ 449,619</u></u>
LIABILITIES		
Due to Other Funds	\$ 7,841	\$ --
Accounts Payable	5,528	8,000
Due to Student Groups	<u>86,424</u>	<u>--</u>
TOTAL LIABILITIES	<u>99,793</u>	<u>8,000</u>
NET POSITION		
Held in Trust for Scholarships	--	122,388
Held in Trust for Health Programs	--	379
Endowments	<u>--</u>	<u>318,852</u>
TOTAL NET POSITION	<u>--</u>	<u>441,619</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 99,793</u></u>	<u><u>\$ 449,619</u></u>

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

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2016**

	<u>Private Purpose Trust</u>
ADDITIONS	
Earnings on Investments	\$ 2,129
Donations	<u>6,072</u>
 TOTAL ADDITIONS	<u>8,201</u>
DEDUCTIONS	
Scholarships Awarded	11,775
Bank Fees	<u>51</u>
 TOTAL DEDUCTIONS	<u>11,826</u>
 Changes in Net Position	(3,625)
Net Position – July 1, 2015	<u>445,244</u>
Net Position – June 30, 2016	<u>\$ 441,619</u>

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

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Elizabethtown Area School District operates four elementary schools, one intermediate school, one middle school and one high school in Lancaster County, Pennsylvania. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provision of the School Laws of Pennsylvania. The District operates under a locally elected nine-member Board form of government.

The financial statements of Elizabethtown Area School District (the District) have been prepared in accordance with generally accepted accounting principles (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

In evaluating the school as a reporting entity, management has addressed all potential component units, which may or may not fall within the school's financial accountability. The criteria used to evaluate component units for possible inclusion as part of the school's reporting entity are financial accountability and the nature and significance of the relationship. The school district is not a component unit of another reporting entity, nor does it have any component units.

The following joint ventures are not component units of Elizabethtown Area School District, and are not included in this report.

Lancaster County Career and Technology Center (LCCTC) - is a separate legal entity. It was organized by the sixteen public school districts in Lancaster County to provide services in the county. Each of the public school districts appoints one member to serve on the joint operating committee, and each has an ongoing financial responsibility to fund the LCCTC.

Lancaster County Career and Technology Center Authority (LCCTC Authority) - is a separate legal entity. The district is also a member of the LCCTC Authority. In 1968, the LCCTC Authority entered into an agreement with the member school districts and the LCCTC Board to acquire land and construct buildings to provide facilities for the operation of the LCCTC.

Lancaster-Lebanon Intermediate Unit #13 (LLIU) - is a separate legal entity. It was organized by the constituent school districts in Lancaster and Lebanon counties to provide services to the school districts. Each member school district appoints one member to serve on the Board of Directors of the LLIU. The district contracts with the LLIU for special education services for district students.

Lancaster County Academy (Academy) - is a separate legal entity. It is organized by eleven public school districts in Lancaster County to provide services in the county. Each of the public school districts appoints one member to serve on the joint operating committee. As a member district the school district has an ongoing financial responsibility to fund the operations of the Academy.

Lancaster County Tax Collection Bureau (the Bureau) - is a separate legal entity. The district participates with fifteen other school districts and eighty-three municipalities for the collection of earned income taxes. Each public school district appoints one member to serve on the joint operating committee with one member from the municipalities represented by each of the sixteen school districts. The Bureau's operating expenditures are deducted from the distributions which are made monthly. The local municipalities also share the expenditures on the same basis as the school districts.

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Lancaster-Lebanon Joint Authority (Joint Authority) - is a separate legal entity. The Joint Authority was incorporated on February 14, 1980 under the Municipality Authorities Act of May 2, 1945, P.L. 382, as amended by the Boards of School Directors of the 22 school districts located in Lancaster and Lebanon counties. The school districts established the Joint Authority for the purpose of acquiring, holding, constructing, improving, maintaining, operating, owning, and/or leasing projects for public school purposes and for purposes of the LLIU. The district did not have any financial transactions with the Joint Authority during the year ended June 30, 2016.

Complete financial statements for each of the entities described above can be obtained from each respective administrative office.

B. Fund Accounting

The accounts of the school district are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent.

C. Basis of Presentation

Government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the governmental funds and the internal service fund of the district while the business-type activities include the district's enterprise fund. Fiduciary funds are excluded from the government-wide financial statements. Interfund accounts receivable, accounts payable and transfers are eliminated in the government-wide financial statements. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately in the government-wide financial statements from business-type activities, which rely, to a significant extent on fees and charges for support.

The statement of activities presents a comparison between direct expenses and program revenues for business-type activities and for each function of the District's governmental activities. Direct expenses are those that are clearly identifiable within a specific function or segment. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment. In addition, program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the school district's enterprise fund are food service charges. Operating expenses for the school district's enterprise fund include food production costs, supplies, administrative costs, and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation (Continued)

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 in another fund.

The capital projects fund accounts for the financial resources used in the acquisition and construction of major capital facilities and other capital outlays.

The debt service fund accounts for accumulation of resources for, and the payment of long-term debt principal, interest and related costs.

The District operates one enterprise fund, the food service fund. This fund accounts for the activities of the District's food service program.

The District accounts for assets held by the District in a trustee capacity in private-purpose trust funds. These funds account for activities in the various scholarship accounts and to provide materials for health related programs. Annual scholarships are provided to particular students as prescribed by donor stipulations.

The District accounts for assets held as an agent for various student activities in an agency fund.

The internal service fund accounts for health insurance premiums and claims of the District.

D. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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 revenue as soon as all eligibility requirements imposed by the provider have been met. Net position (total assets and deferred outflows less total liabilities and deferred inflows) is used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased net position. Depreciation is charged as expense against current operations and accumulated depreciation is reported on the statement of net position.

The governmental fund financial statements 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 tax revenue to be available if collected within 60 days of the end of the fiscal period. For 2015-2016, the period was extended to 90 days due to delays in collections. Revenue from federal, state and other grants designated for payment of specific school district expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recorded as unearned revenue until earned. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

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

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgets and Budgetary Accounting

An operating budget is adopted prior to the beginning of each year for the general fund on a 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 adoption of the school district's budget and reporting of its financial statements, specifically:

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

The school district is required to publish notice by advertisement, at least once in two newspapers of general circulation in the municipality in which it 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 school 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 effect of approved budget amendments. The Board of School Directors made several supplemental budgetary appropriations throughout the year which resulted in an increase in the general fund budget in the amount of \$520,228. The entire supplemental budgetary appropriation was a result of an increase in program budgets prescribed by federal and state agencies.

In order to preserve a portion of an appropriation for which an expenditure has been committed by a purchase order, contract or other form of commitment, an encumbrance is recorded. Encumbrances outstanding at year end are reported in the fund financial statements as assigned fund balance.

Included in the general fund budget are program budgets as prescribed by the federal and state agencies funding the program. These budgets are approved on a program by program basis by the federal and state funding agencies.

F. Encumbrances

Encumbrances at year end are reported in the fund financial statements as assigned fund balance since they do not constitute expenditures or liabilities, but serve as authorization for expenditures in the subsequent year. As of June 30, 2016, the district had encumbrances in the amount of \$-0-.

G. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable financial resources.

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Inventories

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

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

I. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid expenses are recorded as expenses when consumed on the government-wide financial statements. Prepaid expenditures are recorded as expenditures on the fund financial statements if they will be consumed within three years. All other long-term prepaid expenditures are recorded as expenditures when purchased.

J. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the school district as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. In addition, capital assets purchased with long-term debt may be capitalized regardless of the thresholds established. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

All reported capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50 to 100
Building Improvements	15 to 30
Land Improvements	50
Furniture	10 to 25
Vehicles	3 to 15
Equipment	5 to 25

Proprietary fund equipment purchases are capitalized in the proprietary fund at cost and depreciated on a straight-line basis over 5 to 20 years.

K. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activities columns in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Long-Term Obligations (Continued)

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

L. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

M. Cash, Cash Equivalents and Investments

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

All investments are stated at cost including accrued interest, which approximates fair value.

N. Fund Balance Policy

The District implemented *GASB 54, Fund Balance Reporting and Governmental Fund Type Definitions*, to address issues related to how fund balance was being reported. GASB 54 requires the fund balance amounts to be properly reported within one of the following fund balance categories:

Nonspendable – amounts that are not in spendable form (such as inventory) or required to be legally or contractually maintained intact,

Restricted – amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation,

Committed – amounts that can be used only for the specific purposes determined by a resolution of the District Board of Directors (the District's highest level of decision making authority). The Board of Directors is required to also adopt a resolution to modify or rescind the commitment,

Assigned – amounts intended to be used by the District for specific purposes that are neither restricted nor committed. Assignments can be made by the governing body itself or by its designee,

Unassigned – residual classification for the District's general fund and includes all spendable amounts not contained in the other classifications. Negative unassigned fund balance may be reported in other governmental funds if expenditures incurred for specific purposes exceeded the amounts restricted, committed or assigned to those purposes.

Committed Fund Balance Policy

The District's committed fund balance are amounts required to be reported by the School Board, either because of School Board Policy or because of motions that passed at School Board meetings.

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Fund Balance Policy (Continued)

Assigned Fund Balance Policy

The District's assigned fund balances are amounts the District intends to use for a specific purpose as expressed by the business manager. The District adopted Policy Number 620.2, Fund Balance authorizing the business manager or finance committee to assign fund balance.

Order of Fund Balance Spending Policy

The District's policy is to first apply restricted fund balance, then committed, assigned, and unassigned, respectively when an expenditure is incurred for purposes for which amounts in any of these classifications could be used.

Minimum Fund Balance Policy

The District has adopted a formal minimum fund balance policy. The District will strive to maintain an unassigned general fund balance of not less than 5 percent (5%) and not more than 8 percent (8%) of the budgeted expenditures for that year. The total fund balance, consisting of several portions including, committed, assigned and unassigned, may exceed 8 percent (8%).

O. Compensated Absences

Vacation – The school district administrators and support staff are granted vacation in varying amounts, based on individual contracts and on length of service. Administrators may accrue 5 days of vacation per year and unused vacation in excess of 5 days to a maximum of an additional 5 days will be deposited into the Administrators 403(b) account at their current daily rate. Administrators may accumulate up to 45 vacation days; however administrators will be paid for a maximum of 25 days at their current daily rate upon termination or retirement. Support staff may accumulate an unlimited amount of vacation days and are paid at their current daily rate upon termination or retirement.

Sick Leave – The school district allows all full-time employees to accumulate their unused sick leave as specified in negotiated labor contracts and other agreements with the District. Support staff may accumulate an unlimited number of days and will be paid \$30 per day upon retirement from the District. Teachers and Administrators may accumulate a maximum of 250 days and will be paid \$50 per day upon retirement of the District.

Accumulated compensated absences are estimated by management based on the following assumptions:

- Persons with 10 or more years of service with the District are 83% likely to become retirees of the District
- Persons with 5 - 10 years of service with the District are 50% likely to be become retirees of the District
- Persons with less than 5 years of service with the District are 22% likely to become retirees of the District

Service Stipend – Upon retirement, teachers and administrators receive a service stipend of \$100 multiplied by the number of years of employment in the district in addition to their accumulated sick leave.

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources until that time.

Q. Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources. It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

R. 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.

S. Changes in Accounting Standards

During the year ended June 30, 2016, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application. The objective of this statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements.

During the year ended June 30, 2016, the District also adopted GASB Statement No. 79, Certain External Investment Pools and Pool Participants. The objective of this statement is to establish criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This statement also establishes additional note disclosure requirements.

T. Date of Management's Review

Management has evaluated subsequent events through November 22, 2016, the date the financial statements were available to be issued.

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

**NOTE 2 - EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS
AND DISTRICT-WIDE STATEMENTS**

Due to the differences in the measurement focus and basis of accounting used on the government fund statements and government-wide statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items.

Explanation of Differences between Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities

Capital related differences include non-facility related capital asset purchases are recorded as an expenditure in the functional categories listed under current expenditures in the government fund statements and capitalization and recording of depreciation expense in the statement of activities.

NOTE 3 - DEPOSITS AND INVESTMENTS

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

Obligations of (1) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (2) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (3) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

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

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

The District holds investments in the Pennsylvania School District Liquid Asset Fund (PSDLAF). In accordance with the Government Accounting Standards Board, PSDLAF funds are valued at amortized cost. The amortized cost method involves valuing a security at its cost on the date of purchase and recording a constant amortization or accretion to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of the investment. Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF acts like a money market mutual fund in that its objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized statistical rating organization, and is subject to an independent annual audit. PSDLAF does not have any limitations or restrictions on withdrawals from the fund.

Cash

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2016, \$9,204,458 of the District's bank balance of \$9,454,458 was exposed to custodial credit risk as:

Uninsured and uncollateralized	\$ --
Collateralized with securities held by the pledging financial institution	--
Uninsured and collateral held by the pledging bank's trust department not in the District's name	<u>9,204,458</u>
	<u>\$ 9,204,458</u>

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Cash (Continued)

Custodial Credit Risk – Deposits (Continued)

Reconciliation to Financial Statements

Uninsured amount above	\$ 9,204,458
Plus: Insured Amount	250,000
Less: Outstanding Checks	<u>(266,488)</u>
Carrying Amount – Bank Balances	9,187,970
Plus: Petty Cash	905
Pooled Cash Equivalents – PSDLAF	249,623
Less: Outstanding Checks on Pooled Cash Equivalents	<u>(138,118)</u>
Total Cash per Financial Statements	<u>\$ 9,300,380</u>

Investments

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

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Certificate of Deposit – PA School District Liquid Asset Fund (PSDLAF)	12 months	246,966
CD Investment Pool – PSDLAF		1,000,000
Investment Pool - PSDLAF		<u>1,753,757</u>
		<u>\$ 3,000,723</u>

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Management does monitor rates of returns for investments on a monthly basis.

Credit Risk

The District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2016, the District's investments in PA School District Liquid Assets Fund Certificates of Deposit were not rated.

Custodial Credit Risk – Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. As of June 30, 2016, \$2,753,757 of the District's investments of \$3,000,723 was exposed to custodial credit risk as:

Insured or Registered	\$ 246,966
Uninsured or unregistered with securities held by counterparty's trust department	--
Uninsured and collateral held by the counterparty or by its trust department not in the District's name	<u>2,753,757</u>
	<u>\$ 3,000,723</u>

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk – Investments (Continued)

Beginning January 1, 2013, all interest and noninterest bearing demand accounts are aggregated in total by financial institutions and are fully insured up to \$250,000. Time and savings accounts have FDIC insurance coverage up to \$250,000.

Concentration of Credit Risk – Deposits and Investments

More than 5% of the District's deposits and investments are held at BB&T. The District's total deposits and investments as of June 30, 2016 was \$12,702,838, of which \$9,454,458 was invested in BB&T. This represents 74% of the District's total deposits and investments. The District has \$3,248,380 invested in Pennsylvania School District Liquid Asset Fund (PSDLAF), which represents 26% of the District's total deposits and investments.

NOTE 4 - REAL ESTATE TAXES AND UNAVAILABLE REVENUE

Based upon assessments provided by the County, the school district bills and collects its own property taxes. The school district tax rate for the year ended June 30, 2016 was 19.1048 mills (\$19.10 per \$1,000 of assessed valuation) as levied by the Board of School Directors. The schedule for real estate taxes levied for each fiscal year is as follows:

July 1	- Levy Date
July 1 - August 31	- 2% Discount Period
September 1 - October 31	- Face Payment Period
November 1 – December 31	- 10% Penalty Period
January 1	- Lien Date

The school district, in accordance with GAAP, recognized the delinquent and unpaid taxes receivable as determined by the administration. A portion of the net amount estimated to be collectible which was measurable and available within 60 days was recognized as revenue and the balance shown as a deferred inflow in the fund financial statements. For the 2015-2016 year, the period was extended 90 days for real estate taxes. The balances at June 30, 2016 are as follows:

	<u>Gross Taxes Receivable</u>	<u>Allowance for Uncollectible Taxes</u>	<u>Net Estimated to be Collectible</u>	<u>Tax Revenue Recognized</u>	<u>Unavailable Revenue - Taxes</u>
Real Estate	\$ 707,382	\$ --	\$ 707,382	\$ 209,952	\$ 497,430
Interims	<u>30,467</u>	<u>--</u>	<u>30,467</u>	<u>12,361</u>	<u>18,106</u>
	<u>\$ 737,849</u>	<u>\$ --</u>	<u>\$ 737,849</u>	<u>\$ 222,313</u>	<u>\$ 515,536</u>

NOTE 5 - DUE FROM OTHER GOVERNMENTS

Amounts due from other governments represent receivables for revenues earned by the school district. At June 30, 2016, the following amounts are due from other governmental units:

	<u>General Fund</u>
Federal (through the state)	\$ 310,619
State	2,089,745
Local	<u>956,578</u>
	<u>\$ 3,356,942</u>

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 - CHANGES IN CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 1,095,713	\$ --	\$ --	\$ 1,095,713
Construction in Progress	<u>635,485</u>	<u>99,721</u>	<u>635,485</u>	<u>99,721</u>
Total Capital Assets Not Being Depreciated	<u>1,731,198</u>	<u>99,721</u>	<u>635,485</u>	<u>1,195,434</u>
Capital Assets Being Depreciated				
Land Improvements	7,842,820	264,310	210,000	7,897,130
Buildings and Structures	82,880,495	1,206,711	169,936	83,917,270
Machinery and Equipment	4,925,414	113,420	10,875	5,027,959
Licensed Vehicles	<u>328,981</u>	<u>--</u>	<u>--</u>	<u>328,981</u>
Total Assets Being Depreciated	<u>95,977,710</u>	<u>1,584,441</u>	<u>390,811</u>	<u>97,171,340</u>
Less Accumulated Depreciation for:				
Land Improvements	2,864,958	363,323	210,000	3,018,281
Buildings and Structures	20,616,104	1,426,544	169,936	21,872,712
Machinery and Equipment	2,511,414	284,169	10,875	2,784,708
Licensed Vehicles	<u>275,661</u>	<u>17,947</u>	<u>--</u>	<u>293,608</u>
Total Accumulated Depreciation	<u>26,268,137</u>	<u>2,091,983</u>	<u>390,811</u>	<u>27,969,309</u>
Total Capital Assets, Being Depreciated, Net	<u>69,709,573</u>	<u>(507,542)</u>	<u>--</u>	<u>69,202,031</u>
Governmental Activities, Capital Assets, Net	<u>\$ 71,440,771</u>	<u>\$ (407,821)</u>	<u>\$ 635,485</u>	<u>\$ 70,397,465</u>
Business-Type Activities				
Capital Assets Being Depreciated Equipment	\$ 108,747	\$ --	\$ --	\$ 108,747
Total Capital Assets, Being Depreciated	<u>108,747</u>	<u>--</u>	<u>--</u>	<u>108,747</u>
Less Accumulated Depreciation for:				
Equipment	<u>104,783</u>	<u>901</u>	<u>--</u>	<u>105,684</u>
Total Accumulated Depreciation	<u>104,783</u>	<u>901</u>	<u>--</u>	<u>105,684</u>
Total Capital Assets Being Depreciated, Net	<u>3,964</u>	<u>(901)</u>	<u>--</u>	<u>3,063</u>
Business-Type Activities Capital Assets, Net	<u>\$ 3,964</u>	<u>\$ (901)</u>	<u>\$ --</u>	<u>\$ 3,063</u>

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 - CHANGES IN CAPITAL ASSETS (Continued)

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

Governmental Activities

Instruction	
Regular	\$ 1,028,422
Special	271,665
Vocational Education	94,790
Other Instructional	10,282
Support Services	
Student Services	77,556
Instructional Staff	21,248
Administration	144,527
Pupil Health	27,391
Business	37,323
Operation and Maintenance of Plant	178,573
Transportation	100,031
Central	54,422
Other Support Services	1,036
Operation of Non-Instructional Services	
Student Activities	40,726
Community Services	<u>3,991</u>
Total Depreciation Expense – Governmental Activities	<u>\$ 2,091,983</u>

Business-Type Activities

Cafeteria	<u>\$ 901</u>
Total Depreciation expense – Business-Type Activities	<u>\$ 901</u>

NOTE 7 - LONG-TERM DEBT

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

	Bonds/Notes Payable	Compensated Absences	Total Long-Term Debt
Beginning of Year	\$ 43,240,000	\$ 1,089,302	\$ 44,329,302
Additional Borrowing	8,930,000	--	8,930,000
Principal Retirement	(10,400,000)	--	(10,400,000)
Increase in Compensated Absences	--	112,675	112,675
Pay-Outs of Compensated Absences	<u>--</u>	<u>(46,988)</u>	<u>(46,988)</u>
End of Year	<u>\$ 41,770,000</u>	<u>\$ 1,154,989</u>	<u>\$ 42,924,989</u>
Current Portion	1,915,000	57,749	1,972,749

The payments of long-term debt are to be funded by the general fund, capital projects fund and debt service fund. The school district does not currently have any long-term liabilities for business-type activities. Payments for compensated absences are funded by the general fund.

Bonds and Notes Payable, Net as of June 30, 2016 was as follows:

Bonds and Notes Payable, Net of Current Portion	\$ 39,855,000
Bond Discount/Premium, Net of Accumulated Amortization	<u>(241,200)</u>
Bonds and Notes Payable, Net	<u>\$ 39,613,800</u>

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 - LONG-TERM DEBT (Continued)

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

Year Ended June 30,	General Obligation Bonds		
	Interest	Principal	Total
2017	\$ 1,117,779	\$ 1,915,000	\$ 3,032,779
2018	1,086,148	2,040,000	3,126,148
2019	1,048,363	2,115,000	3,163,363
2020	1,006,079	2,155,000	3,161,079
2021	962,472	2,210,000	3,172,472
2022-2026	3,951,160	12,105,000	16,056,160
2027-2031	1,988,068	14,570,000	16,558,068
2032-2033	<u>173,294</u>	<u>4,660,000</u>	<u>4,833,294</u>
	<u>\$ 11,333,363</u>	<u>\$ 41,770,000</u>	<u>\$ 53,103,363</u>

General Obligation Bonds, Series A of 2015

On August 18, 2015, the District issued general obligation bonds in the amount of \$8,930,000. The purpose of the bonds was to (1) refund the General Obligation Bonds, Series A of 2010, (2) refund the General Obligation Bonds, Series of 2010, (3) finance various capital projects for existing school facilities, (4) and to pay the costs of issuing the bonds. The bonds bear interest rates ranging from .29% to 3.00% with principal maturities from \$65,000 to \$1,295,000. This current refunding resulted in an economic gain of \$505,146. The balance outstanding at June 30, 2016 was \$8,780,000.

General Obligation Bonds, Series of 2015

On June 23, 2015, the District issued general obligation bonds in the amount of \$8,865,000. The purpose of the bonds was to refund a portion of the General Obligation Bonds, Series of 2010 and to pay the costs of issuing the bonds. The bonds bear interest rates ranging from .3% to 3.00% with principal maturities from \$85,000 to \$1,460,000. This advance refunding resulted in an economic gain of \$499,444. The balance outstanding at June 30, 2016 was \$8,780,000.

General Obligation Bonds, Series of 2013

On October 30, 2013, the District issued general obligation bonds in the amount of \$9,450,000. The purpose of the bonds was to refund a portion of the General Obligation Bonds, Series A of 2009 and to pay the costs of issuing the bonds. The bonds bear interest rates ranging from .29% to 3.10% with principal maturities from \$75,000 to \$2,400,000. This current refunding resulted in an economic gain of \$683,176. The balance outstanding at June 30, 2016 was \$9,120,000.

General Obligation Bonds, Series of 2012

On March 26, 2012, the District issued general obligation bonds in the amount of \$9,995,000. The purpose of the bonds was to refund a portion of the General Obligation Bonds, Series of 2007 and to pay the costs of issuing the bonds. The bonds bear interest rates ranging from 1.67% to 3.52% with principal maturities from \$5,000 to \$1,215,000. The balance outstanding at June 30, 2016 was \$9,855,000.

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 - LONG-TERM DEBT (Continued)

General Obligation Bond, Series of 2011

On November 22, 2011, the District issued general obligation bonds in the amount of \$5,250,000. The purpose of the bonds is to finance renovations, additions, and alterations to existing school facilities and to pay the costs of issuing the bonds. The bonds bear interest rates ranging from 1.75% to 3.75% with principal maturities from \$5,000 through \$2,330,000. The balance outstanding at June 30, 2016 was \$5,235,000.

General Obligation Bond, Series of 2010

On August 24, 2010, the District issued general obligation bonds in the amount of \$15,000,000. The purpose of the bonds is to (1) construct an intermediate school, (2) finance renovations, additions, and alterations to existing school facilities, (3) pay the costs of issuing the bonds. On June 23, 2015, the District refunded \$7,995,000 of the General Obligation Bonds, Series of 2010. The remaining bonds bear interest rates ranging from 2.5% to 4% with principal maturities from \$5,000 through \$1,105,000. The balance outstanding at June 30, 2016 was \$-0-.

General Obligation Bonds, Series A of 2009

On April 15, 2009, the District issued general obligation bonds in the amount of \$9,995,000. The purpose of the bonds is to (1) construct an intermediate school, (2) finance renovations, additions, and alterations to existing school facilities, (3) pay the costs of issuing the bonds. On October 30, 2013, the District refunded \$8,915,000 of the General Obligation Bonds, Series A of 2009. The remaining bonds bear interest rates ranging from 3.4% to 3.55% with principal maturities from \$500,000 through \$565,000. The balance outstanding at June 30, 2016 was \$-0-.

General Obligation Bonds, Series of 2009

On March 15, 2009, the District issued general obligation bonds in the amount of \$9,710,000. The purpose of the bonds was to refund a portion of the General Obligation Bonds, Series of 2003 and to pay the costs of issuing the bonds. The bonds bear interest rates ranging from 2.0% to 2.75% with principal maturities from \$20,000 to \$1,985,000. The balance outstanding at June 30, 2016 was \$-0-.

Compensated Absences

The estimate for compensated absences at June 30, 2016 is as follows:

Accrued Retirement Benefits	\$ 998,275
Accumulated Vacation	<u>156,714</u>
Compensated Absences	<u>\$ 1,154,989</u>

NOTE 8 - BOND REFINANCING CHARGES

In the event that advance refunding of debt results in a defeasance, full accrual basis of accounting requires that the amounts deposited in escrow in excess of the debt principal are to be amortized over the life of the old debt or the life of the new debt, whichever is shorter. The amortization of this charge will be recognized as a component of interest expense. The district is amortizing the bond refinancing charges, utilizing the straight line method, with the amortization period through 2031. Under the modified accrual basis of accounting, the amounts are recognized as debt service expenditures when paid to the escrow account and the debt is defeased. For the year ended June 30, 2016, the District amortized \$10,372 as a component of interest expense.

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 9 - SELF INSURANCE – HEALTH BENEFITS

The School District maintains self-funded health insurance to provide for medical care for eligible employees and their dependents with Highmark. Highmark, which administers the plan, invoices the District weekly for paid claims. The District maintains a separate account for health claims and makes deposits to that account monthly based on estimated annual claims to be incurred as prepared by Arthur J. Gallagher & Co., Inc. The school district was limited in liability to \$175,000 per individual claim, plus \$50,000 aggregating specific loss fund amount. The school district purchased specific stop loss insurance to protect claims liability in excess of the \$175,000 per individual claim up to an unlimited lifetime maximum and aggregate stop loss insurance in excess of the annual aggregate deductible per year up to a \$1,000,000. The District has recorded a liability for claims incurred prior to June 30, 2016 and paid subsequently in the amount of \$594,846. The claim liability is reflected in accounts payable in the health insurance fund.

CHANGE IN AGGREGATE CLAIM LIABILITIES – HEALTH BENEFITS

Year Ended June 30,	<u>2016</u>	<u>2015</u>
Claim Liability – Beginning of Year	\$ 207,120	\$ 352,827
Current Year Claims and Changes in Estimates	6,456,275	6,103,114
Claim Payments by School District	<u>(6,068,549)</u>	<u>(6,248,821)</u>
Claim Liability – End of Year	<u>\$ 594,846</u>	<u>\$ 207,120</u>

NOTE 10 - PENSION PLAN

Plan Description

PSERS is a government 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 retirements 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 year 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.

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 10 - PENSION PLAN (Continued)

Benefits Provided (Continued)

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

Contributions

Member Contributions:

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

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

Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after 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 school districts' contractually required contribution rate for fiscal year ended June 30, 2016 was 25.00% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$6,271,943 for the year ended June 30, 2016.

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

At June 30, 2016, the District reported a liability of \$80,090,261 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2014 to June 30, 2015. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2015, the District's proportion was .1849 percent, which was an increase of .0016 percent from its proportion measured as of June 30, 2014.

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 10 - PENSION PLAN (Continued)

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

For the year ended June 30, 2016, the District recognized pension expense of \$7,667,990. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ --	\$ 330,509
Net difference between projected and actual investment earnings	--	162,102
Changes in proportions	2,345,636	--
Differences between employer contributions and proportionate share of contributions	--	29,534
Contributions subsequent to the measurement date	<u>6,271,943</u>	<u>--</u>
	<u>\$ 8,617,579</u>	<u>\$ 522,145</u>

\$6,271,943 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:

2017	\$ 250,497
2018	250,497
2019	250,498
2020	1,071,999

Actuarial Assumptions

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

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

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

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 10 - PENSION PLAN (Continued)

Actuarial Assumptions (Continued)

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

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

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

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

Discount Rate

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

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 10 - 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 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:

	<u>1% Decrease</u> <u>6.50%</u>	<u>Current</u> <u>Discount</u> <u>Rate</u> <u>7.50%</u>	<u>1%</u> <u>Increase</u> <u>8.50%</u>
District's proportionate share of the net pension liability	\$ 98,719,000	\$ 80,090,261	\$ 64,433,000

Pension Plan Fiduciary Net Position

Detailed information about PSER's 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.

NOTE 11 - POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description

The District has implemented Governmental Accounting Standards Board Statement No. 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions," for certain post-employment healthcare benefits and life insurance benefits provided by the District.

The District's post-employment healthcare plan is a single-employer defined benefit healthcare plan. The plan provides medical insurance benefits to eligible retirees and their spouses. The Board of School Directors has the authority to establish and amend benefit provisions through the collective bargaining process with members of the professional staff, an agreement with administrative employees, and individual employment contracts with certain employees. The plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

Funding Policy

The contribution requirements of plan members are established and may be amended by the Board of School Directors. The required contribution is based on projected pay-as-you-go financing requirements.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's OPEB cost for the years ended June 30, 2016, 2015 and 2014, the estimated amount contributed to the plan and changes in the District's net OPEB obligation to the plan.

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 11 - POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual Required Contribution	\$ 202,545	\$ 202,545	\$ 152,604
Interest on Net OPEB Obligation	25,212	21,445	18,294
Adjustment to Annual Required Contribution	<u>(34,396)</u>	<u>(29,257)</u>	<u>(24,958)</u>
Annual OPEB Cost (Expense)	193,361	194,733	145,940
Contributions Made (Estimated)	<u>(115,150)</u>	<u>(111,029)</u>	<u>(75,917)</u>
Increase in Net OPEB Obligation	78,211	83,704	70,023
Net OPEB Obligation – Beginning of Year	<u>560,265</u>	<u>476,561</u>	<u>406,538</u>
Net OPEB Obligation – End of Year	<u>\$ 638,476</u>	<u>\$ 560,265</u>	<u>\$ 476,561</u>

The District contributed 59.6%, 57.0%, and 52.0% of the annual post-employment benefit cost for years ended June 30, 2016, 2015 and 2014, respectively. Payments for other post-employment benefits will be funded by the general fund.

Funded Status and Funding Progress

Historical trend information required to be disclosed, beginning as of July 1, 2008 is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability Entry Age	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Payroll
7-1-08	\$ --	\$ 1,918,254	\$ 1,918,254	0.00%	\$ 18,938,879	10.13%
7-1-10	\$ --	\$ 1,677,139	\$ 1,677,139	0.00%	\$ 20,860,910	8.04%
7-1-12	\$ --	\$ 1,195,880	\$ 1,195,880	0.00%	\$ 21,733,751	5.50%
7-1-14	\$ --	\$ 1,592,129	\$ 1,592,129	0.00%	\$ 22,485,876	7.08%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. 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.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of 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 the effects of short-term volatility in actuarial liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 11 - POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

Actuarial Methods and Assumptions (Continued)

An actuarial study as of July 1, 2014 was completed by Conrad M. Siegel, Inc. for purposes of GASB Statement No. 45 reporting. The actuarial cost method used was the entry age normal cost method. The following significant assumptions were used in the actuarial valuations as of July 1, 2014; (1) a 4.5% rate of return; (2) salary increases are composed of a 2.5% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.75% to .25%; (3) rates of turnover ranging from 2.0% at age 25 to 5.5% at age 60; (4) mortality life expectancies are assumed separate rates for preretirement and postretirement using the rates in the PSERS defined benefit pension plan actuarial valuation; (5) no disability was assumed (6) retirement rates are based on PSERS plan experience and vary by age, gender and service; (7) 45% of employees are assumed to elect coverage on retiring; (8) 20% percent of employees married at retirement and have a spouse covered by the plan at retirement; (9) wives are assumed to be two years younger than their husbands; (10) per capita claims cost used; (11) retirees contributions are assumed to increase at the same rate as the health care cost trend rate; and (12) health care cost 6.5% in 2014, decreasing .5% per year to a rate of 5.5% in 2016, and rates gradually decrease from 5.3% in 2017 to 4.2% in 2089 and later. The unfunded actuarial accrued liability (UAAL) is being amortized based on level dollar, 30-year open period.

NOTE 12 - CONTINGENT LIABILITIES

Grant Programs

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

NOTE 13 - PARTICIPATION IN RISK SHARING POOL

The District has elected to become a member of a self-insurance pool for worker's compensation insurance with the Lancaster-Lebanon Intermediate Unit No. 13, Lancaster County Academy and eighteen other school districts. The district entered into an agreement which states that the district pays an annual premium to the fund for the purpose of seeking prevention or lessening of claims due to injuries of employees of the members and to pool worker's compensation and occupational disease insurance risks, reserves, claims and losses and to provide self-insurance and re-insurance thereof. Each member is assessed an amount based on their covered payroll and prior experience of worker's compensation claims. All claims are then paid from the pool with reinsurance being purchased by the pool for claims in excess of \$450,000 per occurrence. Claims are paid on an aggregate basis, and separate accounts for each member are not maintained. If there is a deficiency in the pooled funds, each member is assessed an amount equal to their proportional share as described above.

As of June 30, 2016, the District is not aware of any additional assessments relating to the fund.

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 14 - DUE TO/FROM OTHER FUNDS AND TRANSFERS

Interfund receivable and payable balances as of June 30, 2016 are as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 7,841	\$ 325,740
Enterprise Fund	120,751	257,436
Internal Service Fund	269,045	--
Capital Projects Fund	193,380	--
Student Activity	<u>--</u>	<u>7,841</u>
	<u>\$ 591,017</u>	<u>\$ 591,017</u>

The amount due from the general fund to the enterprise fund represents the state share of social security and retirement for 2015-2016 and student uncollectible account balances less reimbursable expenses. The general fund also owes the capital projects fund for procurement card rebates and a transfer. The enterprise fund and general fund owe the internal service fund for health insurance costs paid by the internal service fund. The student activity fund owes the general fund for procurement card purchases.

Interfund Transfers:

	<u>Transfer to Other Funds</u>	<u>Transfer from Other Funds</u>
General Fund	\$ 4,084,561	\$ 501,071
Capital Projects Fund	--	676,071
Debt Service Fund	<u>501,071</u>	<u>3,408,490</u>
	<u>\$ 4,585,632</u>	<u>\$ 4,585,632</u>

The District typically pays a majority of its debt service out of the debt service fund; therefore, the general fund transfers enough dollars each year to pay the annual debt service. The District also typically transfers funds to the capital projects fund to set money aside for capital purchases. The District transferred funds to capital projects, through the general fund, from the debt service fund from a bond refinancing.

NOTE 15 - FUND BALANCE

Nonspendable Fund Balance

The District's nonspendable fund balance consists of consumable inventory and prepaid expenditures. As of June 30, 2016, the District's nonspendable fund balance was \$220,922.

Restricted Fund Balance

The District's restricted fund balance of \$2,695,524 consisted of \$1,454,235 held in bond construction funds to be used for purposes set forth in the original bond issuance and \$1,241,289 set aside for future capital projects.

Committed Fund Balance

As of June 30, 2016, the District's committed fund balance consisted of amounts set aside for retirement costs in the amount of \$1,000,000.

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 15 - FUND BALANCE (Continued)

Assigned Fund Balance

As of June 30, 2016, the District's assigned fund balance consisted of \$2,354,600 set aside for 2016-2017 budget deficit.

Encumbrances

Encumbrances are included in assigned fund balance in the general fund. Encumbrances as of June 30, 2016 were \$-0-.

Stabilization Arrangements

The District set aside amounts in a stabilization arrangement for use to offset the anticipated increase in PSERS retirement contribution rates. These amounts may only be expended for these specific circumstances unless the commitment is rescinded by the School Board. The Stabilization balance as of June 30, 2016 was \$1,000,000.

NOTE 16 - RISK MANAGEMENT

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

NOTE 17 - OPERATING LEASES

In March 2016, the District entered into operating lease agreements for copiers throughout the District. During 2015-2016, the District paid \$166,990 as a result of these agreements. The future minimum payments are as follows:

2016-17	\$ 139,886
2017-18	137,412
2018-19	137,412
2019-20	137,412
2020-21	<u>103,059</u>
	<u>\$ 655,181</u>

On June 29, 2012, each of the sixteen public school districts in the county signed lease rental agreements with the Lancaster County Career and Technology Center Authority (the "Authority"). The Authority issued \$9,995,000 of lease revenue bonds for the purpose of renovations and additions to all the campuses of the Lancaster County Career and Technology Center (LCCTC) and to pay the costs of issuing and insuring the bonds. On September 20, 2013, the Authority issued additional lease revenue bonds in the amount of \$9,995,000 for the purpose of renovations and additions to the Mount Joy and Willow Street campuses of the LCCTC, and for various other ongoing and future proposed capital projects of the LCCTC and to pay the costs of issuing and insuring the Bonds. On July 9, 2014, the Authority issued additional lease revenue bonds in the amount of \$3,900,000 for the purpose of renovations and additions to the Mount Joy campus of the LCCTC, and for various other ongoing and future proposed capital projects and to pay the cost of issuing and insuring the Bonds. Each district agreed to make payments of their pro-rated share of the Authority's debt service. Each district's prorated shares are calculated annually based on assessed market value. During the year ended June 30, 2016, the District paid \$65,240 in operating lease payments for its pro-rated share of the Authority's debt service.

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 17 - OPERATING LEASES (Continued)

The future annual lease payments for the District's pro-rated share are as follows:

<u>Year Ended June 30,</u>	
2017	\$ 65,201
2018	72,368
2019	72,263
2020	72,211
2021	72,281
2022-2026	360,907
2027-2031	359,664
2032-2036	358,995
2037	<u>71,595</u>
	<u>\$ 1,505,485</u>

NOTE 18 - COMMITMENT

On June 30, 2016, the District had the following commitments:

	<u>Contract Amount</u>	<u>Amount Paid-to-Date</u>	<u>Commitments Outstanding</u>
Roof Projects	<u>\$ 182,704</u>	<u>\$ 158,415</u>	<u>\$ 24,289</u>
	<u>\$ 182,704</u>	<u>\$ 158,415</u>	<u>\$ 24,289</u>

NOTE 19 - SUBSEQUENT EVENT

In September 2016, the District adopted a resolution authorizing the incurrence of general obligation debt for the purpose of refunding all or a portion of the General Obligation Bonds, Series of 2011, paying the costs of certain capital projects, and paying the costs of issuing the debt, in the maximum amount of \$13,000,000.

REQUIRED SUPPLEMENTARY INFORMATION

OF

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

JUNE 30, 2016

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Revenues				
Real Estate Taxes and Penalties	\$ 30,976,009	\$ 30,976,009	\$ 30,729,564	\$ (246,445)
Other Taxes	4,239,446	4,239,446	4,596,705	357,259
Interest	25,250	25,250	18,427	(6,823)
Revenue from District Activities	122,000	122,000	137,691	15,691
Revenues from Intermediate Sources	688,000	688,000	706,198	18,198
Tuition	477,500	477,500	440,954	(36,546)
Other Revenue	200,200	200,200	282,045	81,845
Refund of Prior Year's Expenditures	4,775	4,775	23,754	18,979
Total Local Sources	36,733,180	36,733,180	36,935,338	202,158
State Sources	17,114,475	17,587,472	17,603,544	16,072
Federal Sources	491,908	539,139	659,235	120,096
TOTAL REVENUES	<u>54,339,563</u>	<u>54,859,791</u>	<u>55,198,117</u>	<u>338,326</u>
EXPENDITURES				
Instruction				
Regular Programs	25,668,921	25,641,625	24,846,294	795,331
Special Programs	6,682,906	6,682,906	6,563,334	119,572
Vocational Education	2,514,581	2,561,674	2,290,104	271,570
Other Instructional Programs	238,432	321,485	248,408	73,077
Nonpublic School Programs	--	5,026	4,900	126
Refund of Prior Year's Receipts	5,000	5,000	--	5,000
Support Services				
Student Services	1,924,966	1,924,966	1,873,735	51,231
Instructional Staff Services	578,671	578,504	513,333	65,171
Administrative Services	3,648,380	3,648,380	3,491,734	156,646
Pupil Health	689,900	689,900	661,748	28,152
Business Services	1,242,700	1,242,700	901,708	340,992
Operation and Maintenance of Plant Services	4,739,523	4,524,123	4,314,255	209,868
Student Transportation Services	2,333,226	2,418,626	2,416,726	1,900
Central and Other Support Services	1,212,424	1,372,524	1,339,852	32,672
Operation of Non-Instructional Services				
Student Activities	1,001,669	1,001,669	983,922	17,747
Community Services	98,311	98,730	96,431	2,299
TOTAL EXPENDITURES	<u>52,579,610</u>	<u>52,717,838</u>	<u>50,546,484</u>	<u>2,171,354</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>1,759,953</u>	<u>2,141,953</u>	<u>4,651,633</u>	<u>2,509,680</u>

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
OTHER FINANCING SOURCES (USES)				
Transfer In	--	--	501,071	501,071
Transfers Out	(3,722,065)	(4,104,065)	(4,084,561)	19,504
Sale/Compensation for Capital Assets	1,000	1,000	125	(875)
Budgetary Reserve	<u>(200,000)</u>	<u>(200,000)</u>	<u>--</u>	<u>200,000</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(3,921,065)</u>	<u>(4,303,065)</u>	<u>(3,583,365)</u>	<u>719,700</u>
Changes in Fund Balances	(2,161,112)	(2,161,112)	1,068,268	3,229,380
Fund Balances – July 1, 2015	5,564,185	5,564,185	5,564,185	--
Change in Inventory	<u>--</u>	<u>--</u>	<u>33,328</u>	<u>33,328</u>
Fund Balances – June 30, 2016	<u>\$ 3,403,073</u>	<u>\$ 3,403,073</u>	<u>\$ 6,665,781</u>	<u>\$ 3,262,708</u>

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (PSERS)**

	<u>06/30/16</u>	<u>06/30/15</u>
District's proportion of net pension liability (asset)	0.1849%	0.1833%
District's proportionate share of the net pension liability (asset)	<u>\$ 80,090,261</u>	<u>\$ 72,551,711</u>
District's covered-employee payroll	\$ 23,787,038	\$ 23,392,576
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	336.70%	310.15%
Plan fiduciary net position as a percentage of the total pension liability	54.36%	57.24%

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**SCHEDULE OF DISTRICT CONTRIBUTIONS
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (PSERS)**

	<u>Contractually Required Contribution</u>	<u>Contributions from Employer</u>	<u>Contribution Deficiency</u>	<u>Covered Employee Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
2007	\$ 1,069,955	\$ 1,069,955	\$ --	\$ 18,705,507	5.72%
2008	\$ 1,265,185	\$ 1,265,185	\$ --	\$ 19,645,738	6.44%
2009	\$ 812,918	\$ 812,918	\$ --	\$ 20,322,940	4.00%
2010	\$ 854,302	\$ 854,302	\$ --	\$ 21,357,556	4.00%
2011	\$ 1,111,803	\$ 1,111,803	\$ --	\$ 22,236,068	5.00%
2012	\$ 1,713,123	\$ 1,713,123	\$ --	\$ 21,414,031	8.00%
2013	\$ 2,599,517	\$ 2,599,517	\$ --	\$ 22,601,376	11.50%
2014	\$ 3,743,461	\$ 3,743,461	\$ --	\$ 23,392,576	16.00%
2015	\$ 4,876,343	\$ 4,876,343	\$ --	\$ 23,787,038	20.50%
2016	\$ 6,271,943	\$ 6,271,943	\$ --	\$ 25,087,772	25.00%

SUPPLEMENTARY INFORMATION
OF
ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA
JUNE 30, 2016

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**COMBINING BALANCE SHEET - CAPITAL PROJECTS FUND
JUNE 30, 2016**

	Capital Projects Fund	Capital Reserve Fund	Totals
ASSETS			
Cash and Cash Equivalents	\$ 1,612,610	\$ 47,949	\$ 1,660,559
Investments	--	1,000,000	1,000,000
Due from Other Funds	<u>40</u>	<u>193,340</u>	<u>193,380</u>
TOTAL ASSETS	<u><u>\$ 1,612,650</u></u>	<u><u>\$ 1,241,289</u></u>	<u><u>\$ 2,853,939</u></u>
LIABILITIES			
Accounts Payable	<u>\$ 158,415</u>	<u>\$ --</u>	<u>\$ 158,415</u>
TOTAL LIABILITIES	<u>158,415</u>	<u>--</u>	<u>158,415</u>
FUND BALANCES			
Restricted	<u>1,454,235</u>	<u>1,241,289</u>	<u>2,695,524</u>
TOTAL FUND BALANCES	<u>1,454,235</u>	<u>1,241,289</u>	<u>2,695,524</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 1,612,650</u></u>	<u><u>\$ 1,241,289</u></u>	<u><u>\$ 2,853,939</u></u>

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2016**

	<u>Capital Projects Fund</u>	<u>Capital Reserve Fund</u>	<u>Totals</u>
REVENUES			
Local Sources			
Interest	\$ 1,628	\$ 1,829	\$ 3,457
Other Revenue	<u>40</u>	<u>20,259</u>	<u>20,299</u>
Total Local Sources	<u>1,668</u>	<u>22,088</u>	<u>23,756</u>
TOTAL REVENUES	<u>1,668</u>	<u>22,088</u>	<u>23,756</u>
EXPENDITURES			
Current			
Support Services	<u>4,195</u>	<u>6,531</u>	<u>10,726</u>
Total Current	<u>4,195</u>	<u>6,531</u>	<u>10,726</u>
Capital Outlay			
Facilities Acquisition, Construction and Improvement Services	<u>265,551</u>	<u>776,595</u>	<u>1,042,146</u>
Total Capital Outlay	<u>265,551</u>	<u>776,595</u>	<u>1,042,146</u>
TOTAL EXPENDITURES	<u>269,746</u>	<u>783,126</u>	<u>1,052,872</u>
(DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(268,078)</u>	<u>(761,038)</u>	<u>(1,029,116)</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	<u>--</u>	<u>676,071</u>	<u>676,071</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>--</u>	<u>676,071</u>	<u>676,071</u>
Changes in Fund Balances	(268,078)	(84,967)	(353,045)
Fund Balances – July 1, 2015	<u>1,722,313</u>	<u>1,326,256</u>	<u>3,048,569</u>
Fund Balances – June 30, 2016	<u>\$ 1,454,235</u>	<u>\$ 1,241,289</u>	<u>\$ 2,695,524</u>

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**COMBINING STATEMENT OF FIDUCIARY NET POSITION
PRIVATE-PURPOSE TRUST FUND
JUNE 30, 2016**

	<u>Scholarship Fund</u>	<u>Health Fund</u>	<u>H. K. Alwine Fund</u>	<u>Northwest Lancaster County Medical Association Educational Fund</u>	<u>Total Private- Purpose Trust Fund</u>
ASSETS					
Cash and Cash Equivalents	\$ 96,973	\$ 379	\$ 18,956	\$ 86,345	\$ 202,653
Investments	<u>246,966</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>246,966</u>
TOTAL ASSETS	<u>\$ 343,939</u>	<u>\$ 379</u>	<u>\$ 18,956</u>	<u>\$ 86,345</u>	<u>\$ 449,619</u>
LIABILITIES					
Accounts Payable	\$ 7,000	\$ --	\$ --	\$ 1,000	\$ 8,000
TOTAL LIABILITIES	<u>7,000</u>	<u>--</u>	<u>--</u>	<u>1,000</u>	<u>8,000</u>
NET POSITION					
Held in Trust for					
Scholarships	111,939	--	104	10,345	122,388
Health Programs	--	379	--	--	379
Endowments	<u>225,000</u>	<u>--</u>	<u>18,852</u>	<u>75,000</u>	<u>318,852</u>
TOTAL NET POSITION	<u>336,939</u>	<u>379</u>	<u>18,956</u>	<u>85,345</u>	<u>441,619</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 343,939</u>	<u>\$ 379</u>	<u>\$ 18,956</u>	<u>\$ 86,345</u>	<u>\$ 449,619</u>

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -
PRIVATE-PURPOSE TRUST FUND
YEAR ENDED JUNE 30, 2016**

	<u>Scholarship Fund</u>	<u>Health Fund</u>	<u>H. K. Alwine Fund</u>	<u>Northwest Lancaster County Medical Association Educational Fund</u>	<u>Total Private- Purpose Trust Fund</u>
ADDITIONS					
Earnings on Investments	\$ 2,049	\$ --	\$ 9	\$ 71	\$ 2,129
Donations	<u>6,072</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>6,072</u>
TOTAL ADDITIONS	<u>8,121</u>	<u>--</u>	<u>9</u>	<u>71</u>	<u>8,201</u>
DEDUCTIONS					
Scholarships Awarded	10,775	--	--	1,000	11,775
Bank Fees	<u>--</u>	<u>--</u>	<u>--</u>	<u>51</u>	<u>51</u>
TOTAL DEDUCTIONS	<u>10,775</u>	<u>--</u>	<u>--</u>	<u>1,051</u>	<u>11,826</u>
Changes in Net Position	(2,654)	--	9	(980)	(3,625)
Net Position – July 1, 2015	<u>339,593</u>	<u>379</u>	<u>18,947</u>	<u>86,325</u>	<u>445,244</u>
Net Position – June 30, 2016	<u>\$ 336,939</u>	<u>\$ 379</u>	<u>\$ 18,956</u>	<u>\$ 85,345</u>	<u>\$ 441,619</u>

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES – AGENCY FUND
JUNE 30, 2016**

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2016</u>
ASSETS				
Cash and Cash Equivalents	\$ 94,796	\$ 172,412	\$ 167,415	\$ 99,793
Due from Other Funds	<u>560</u>	<u>--</u>	<u>560</u>	<u>--</u>
TOTAL ASSETS	<u>\$ 95,356</u>	<u>\$ 172,412</u>	<u>\$ 167,975</u>	<u>\$ 99,793</u>
LIABILITIES				
Due to Other Funds	\$ --	\$ 7,841	\$ --	\$ 7,841
Accounts Payable	3,928	5,528	3,928	5,528
Due to Student Groups	<u>91,428</u>	<u>171,852</u>	<u>176,856</u>	<u>86,424</u>
TOTAL LIABILITIES	<u>\$ 95,356</u>	<u>\$ 185,221</u>	<u>\$ 180,784</u>	<u>\$ 99,793</u>

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**STATEMENTS OF CHANGES IN FUND BALANCES –
GENERAL, CAPITAL RESERVE AND CAPITAL PROJECTS FUNDS**

YEARS ENDED JUNE 30, 2012, 2013, 2014, 2015 AND 2016

	Year Ended June 30,				
	2012	2013	2014	2015	2016
GENERAL FUND					
Beginning Fund Balance	\$ 4,949,886	\$ 6,349,467	\$ 5,812,612	\$ 5,526,037	\$ 5,564,185
Revenue and Other Financing Sources	47,381,744	50,314,135	51,393,698	53,413,207	55,699,313
Expenditures and Other Financing Uses	(45,987,209)	(50,807,417)	(51,681,238)	(53,329,469)	(54,631,045)
Change in Reserve for Inventory	5,046	(43,573)	965	(45,590)	33,328
ENDING FUND BALANCE	<u>\$ 6,349,467</u>	<u>\$ 5,812,612</u>	<u>\$ 5,526,037</u>	<u>\$ 5,564,185</u>	<u>\$ 6,665,781</u>
CAPITAL RESERVE FUND					
Beginning Fund Balance	\$ 2,948,457	\$ 2,840,589	\$ 4,527,046	\$ 2,319,347	\$ 1,326,256
Revenues and Other Financing Sources	209,468	3,207,066	1,222,682	961,144	698,159
Expenditures and Other Financing Uses	(317,336)	(1,520,609)	(3,430,381)	(1,954,235)	(783,126)
ENDING FUND BALANCE	<u>\$ 2,840,589</u>	<u>\$ 4,527,046</u>	<u>\$ 2,319,347</u>	<u>\$ 1,326,256</u>	<u>\$ 1,241,289</u>
CAPITAL PROJECTS FUND					
Beginning Fund Balance	\$ 4,596,270	\$ 2,272,103	\$ 1,772,858	\$ 1,730,622	\$ 1,722,313
Revenues and Other Financing Sources	5,308,961	12,137	2,784	44,301	1,668
Expenditures and Other Financing Uses	(7,633,128)	(511,382)	(45,020)	(52,610)	(269,746)
ENDING FUND BALANCE	<u>\$ 2,272,103</u>	<u>\$ 1,772,858</u>	<u>\$ 1,730,622</u>	<u>\$ 1,722,313</u>	<u>\$ 1,454,235</u>

SINGLE AUDIT INFORMATION
OF
ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA
JUNE 30, 2016

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016**

<u>Federal Grantor/Pass through Grantor/Program Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantor's Number</u>	<u>Grant Period Beginning/ Ending Date</u>	<u>Program or Award Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Unearned) Revenue at July 1, 2015</u>	<u>Expenditures</u>	<u>Accrued or (Unearned) Revenue at June 30, 2016</u>	<u>Amount Provided to Subrecipients</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>										
Passed through the Pennsylvania										
Department of Education:										
Title I - Improving Basic Programs	I	84.010	013-15-0135	9/26/14-9/30/15	\$ 371,557	\$ 80,695	\$ 39,150	\$ 41,545	\$ --	\$ --
Title I - Improving Basic Programs	I	84.010	013-16-0135	7/16/15-9/30/16	354,183	236,035	--	354,183	118,148	--
Title I - Academic Achievement	I	84.010	077-15-0135	3/17/15-9/30/15	49,998	<u>28,570</u>	<u>22,847</u>	<u>5,723</u>	<u>--</u>	<u>--</u>
Total Title I						<u>345,300</u>	<u>61,997</u>	<u>401,451</u>	<u>118,148</u>	<u>--</u>
Title II - Improving Teacher Quality	I	84.367	020-15-0135	9/26/14-9/30/15	88,439	27,139	27,139	--	--	--
Title II - Improving Teacher Quality	I	84.367	020-16-0135	7/16/15-9/30/16	87,689	<u>58,571</u>	<u>--</u>	<u>87,689</u>	<u>29,118</u>	<u>--</u>
Total Title II						<u>85,710</u>	<u>27,139</u>	<u>87,689</u>	<u>29,118</u>	<u>--</u>
Passed Through Lancaster/Lebanon										
Intermediate Unit 13										
IDEA, Part B	I	84.027	062-15-0013	7/1/14-9/30/15	609,467	470,409	470,409	--	--	--
IDEA, Part B	I	84.027	062-16-0013	7/1/15-9/30/16	618,219	608,886	--	615,887 *	7,001	--
IDEA - Preschool	I	84.173	131-15-0013	7/1/15-6/30/16	3,380	<u>--</u>	<u>--</u>	<u>3,380</u> *	<u>3,380</u>	<u>--</u>
Total IDEA Cluster						<u>1,079,295</u>	<u>470,409</u>	<u>619,267</u>	<u>10,381</u>	<u>--</u>
TOTAL U.S. DEPARTMENT OF EDUCATION						<u>1,510,305</u>	<u>559,545</u>	<u>1,108,407</u>	<u>157,647</u>	<u>--</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>										
Passed through the Pennsylvania										
Department of Public Welfare										
Medical Assistance Program – Administration	I	93.778	N/A	7/1/15-6/30/16	N/A	6,743	--	14,369	7,626	--
Medical Assistance Program – Administration	I	93.778	N/A	7/1/14-6/30/15	N/A	<u>2,867</u>	<u>2,867</u>	<u>--</u>	<u>--</u>	<u>--</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						<u>9,610</u>	<u>2,867</u>	<u>14,369</u>	<u>7,626</u>	<u>--</u>

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016**

<u>Federal Grantor/Pass through Grantor/Program Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantor's Number</u>	<u>Grant Period Beginning/ Ending Date</u>	<u>Program or Award Amount</u>	<u>Total Received for the Year</u>	<u>Accrued or (Unearned) Revenue at July 1, 2015</u>	<u>Expenditures</u>	<u>Accrued or (Unearned) Revenue at June 30, 2016</u>	<u>Amount Provided to Subrecipients</u>
<u>U. S. DEPARTMENT OF AGRICULTURE</u>										
Passed through the Pennsylvania Department of Education:										
National School Lunch Program (NSLP)	I	10.555	N/A	7/1/15-6/30/16	N/A	445,393	--	461,083	15,690	--
School Breakfast Program	I	10.553	N/A	7/1/15-6/30/16	N/A	67,001	--	70,182	3,181	--
Passed through the Pennsylvania Department of Agriculture:										
NSLP - Value of USDA Donated Commodities	I	10.555	N/A	7/1/15-6/30/16	N/A	a) <u>86,944</u>	b) <u>(25,537)</u>	c) <u>90,614</u>	d) <u>(21,867)</u>	<u>--</u>
Total Child Nutrition Cluster						<u>599,338</u>	<u>(25,537)</u>	<u>621,879</u>	<u>(2,996)</u>	<u>--</u>
TOTAL U. S. DEPARTMENT OF AGRICULTURE						<u>599,338</u>	<u>(25,537)</u>	<u>621,879</u>	<u>(2,996)</u>	<u>--</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS						<u>\$2,119,253</u>	<u>\$ 536,875</u>	<u>\$1,744,655</u>	<u>\$ 162,277</u>	<u>\$ --</u>
<u>Test of 20% Rule: (Low Risk Entity)</u>										
* Programs Selected for Testing:										
IDEA Cluster		<u>619,267</u>								
Total Federal Expenditures		1,744,655								= 35.5%

D - Direct Funding
I - Indirect Funding

See accompanying independent auditor's report.

**ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2016**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. The District has elected not to use the 10% de minimus indirect cost rate as allowed under the Uniform Guidance.

NOTE 2 – VALUE OF USDA DONATED COMMODITIES LEGEND

- a) Total commodities received from the Pennsylvania Department of Agriculture valued at fair market value.
- b) Beginning inventory at July 1, 2015.
- c) Total amount of commodities used.
- d) Ending inventory at June 30, 2016.

NOTE 3 – ACCESS PROGRAM

The ACCESS Program is a medical assistance program that reimburses local educational agencies for direct, eligible health-related services provided to enrolled special needs students. Reimbursements are federal money but are classified as fee-for-service revenues and are not considered federal financial assistance. Because only federal financial assistance is included on the Schedule of Expenditures of Federal Awards, ACCESS reimbursements are not included on the Schedule. The amount of ACCESS funding received for the year ended June 30, 2016 was \$155,727. The District received \$73,757 of ACCESS funding passed through the Lancaster-Lebanon Intermediate Unit. The District also received \$4,658 in ACCESS Transportation from Lancaster-Lebanon Intermediate Unit.

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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
Elizabethtown Area School District
Elizabethtown, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Elizabethtown Area School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Elizabethtown Area School District's basic financial statements, and have issued our report thereon dated November 22, 2016.

Internal Control Over Financial Reporting

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

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

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

Sager, Swisher and Company, LLP

Columbia, Pennsylvania
November 22, 2016

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

Board of School Directors
Elizabethtown Area School District
Elizabethtown, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Elizabethtown Area School District's compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of Elizabethtown Area School District's major federal programs for the year ended June 30, 2016. Elizabethtown Area School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Elizabethtown Area School District complied, in all material respects, with the types compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

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

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

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

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

Sager, Swisher and Company, LLP

Columbia, Pennsylvania
November 22, 2016

ELIZABETHTOWN AREA SCHOOL DISTRICT
ELIZABETHTOWN, PENNSYLVANIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? _____ Yes X No
- Significant deficiencies identified? _____ Yes X None Reported
- Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

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

Type of auditor's report issued on compliance for major programs: Unmodified

- Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ Yes X No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.027/84.173	IDEA Cluster

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

Auditee qualified as low-risk auditee? X Yes _____ No

Section II – Financial Statement Findings

There were no current year findings.

Section III – Federal Award Findings and Questioned Costs

There were no current year findings and questioned costs.