

CONESTOGA VALLEY SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2016

CONESTOGA VALLEY SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2016

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Independent Auditors' Report

Board Officers and Members
Conestoga Valley School District
Lancaster County, Pennsylvania

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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 Conestoga Valley 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, schedules of pension information, the information about other postemployment benefits - schedule of funding progress and budgetary comparison information 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 Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Conestoga Valley School District's basic financial statements. The combining supplementary information on nonmajor funds is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying 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 financial statements.

The combining nonmajor fund schedules 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 basic financial statements. The 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 nonmajor fund financial 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 Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 3, 2016 on our consideration of Conestoga Valley School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Conestoga Valley School District's internal control over financial reporting and compliance.

Brown Schultz Steidman & Fritz

Lancaster, Pennsylvania
November 3, 2016

CONESTOGA VALLEY SCHOOL DISTRICT
LANCASTER, PENNSYLVANIA

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

The discussion and analysis of Conestoga Valley 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 basic financial statements and the notes to the financial statements to enhance their understanding of the District's financial performance.

The Management's 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. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

Financial highlights for the 2015-16 fiscal year were:

- During the 2014-2015 fiscal year, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. As a result of the implementation of this standard, the District reports an actuarial calculation of its proportionate share of the Pennsylvania State Employee Retirement System (PSERS) unfunded net pension liability. The District's portion of this liability was \$92,434,000 and \$84,583,000 as of June 30, 2016 and 2015, respectively, and this liability has been reported on the government-wide financial statements. The recognition of this liability causes the District's total liabilities and deferred inflows to exceed its total assets and deferred outflows and has generated a deficit of \$(31,016,247) as of June 30, 2016 and \$(30,378,093) as of June 30, 2015.
- Capital assets at June 30, 2016 totaled \$57,322,827, net of accumulated depreciation, and represented 60.5% of the total assets and deferred outflows of resources as of that date.
- Total debt outstanding at June 30, 2016 was \$20,775,005, a 17.7% decrease from the \$25,251,671 outstanding at June 30, 2015.

CONESTOGA VALLEY SCHOOL DISTRICT
LANCASTER, PENNSYLVANIA

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

- Total revenues for the year ended June 30, 2016 were \$63,639,704 compared to \$61,502,660 for the year ended June 30, 2015, an increase of 3.5%. General revenues accounted for \$50,533,206 in revenue or 79.4% of all revenue for the year ended June 30, 2016 and \$48,828,229 in revenue or 79.4% of all revenues for the year ended June 30, 2015. Program specific revenues in the form of charges for services, and operating grants and contributions accounted for \$13,106,498, or 20.6%, of all revenues for the year ended June 30, 2016 and \$12,674,431, or 20.6%, of all revenues for the year ended June 30, 2015.
- Total expenses for the year ended June 30, 2016 were \$64,277,858 compared to \$61,296,480 for the year ended June 30, 2015, an increase of 4.9%. Of those expenses, only \$13,106,498, or 20.4%, of these expenses were offset by program specific charges for services, grants or contributions for the year ended June 30, 2016 and \$12,674,431, or 20.7% for the year ended June 30, 2015.
- In 2015-2016, the results of operations for the general fund showed an excess of expenditures and other financing uses over revenues of \$562,052 with an ending general fund fund balance of \$13,255,415. This fund balance included the following commitments approved by the School Board of Directors: \$5,390,809 for future state pension benefit costs, \$1,037,214 for health savings account reserves, \$1,850,000 is assigned fund balance for assessment appeals and \$159,238 non-spendable prepaid expenditures. The unassigned fund balance as of June 30, 2016 was \$4,818,154.

Using this Generally Accepted Accounting Principles (GAAP) Report

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

The Statement of Net Position and Statement of Activities provide information about the activities of the whole District, presenting an aggregate view of the District's assets, deferred outflows and inflows and liabilities, regardless of whether they are relevant to the flows and balances of current financial resources. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for the future spending. The fund statements also look at the District's most significant funds with all other non-major funds presented in total in one column. In the case of Conestoga Valley School District, the General Fund is by far the most significant fund.

CONESTOGA VALLEY SCHOOL DISTRICT
LANCASTER, PENNSYLVANIA

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

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during the 2015-2016 fiscal year?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets, deferred outflows, liabilities and deferred inflows using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Position and the Statement of Activities, the District reports governmental activities. Governmental activities are the activities where most of the District's programs and services are reported including, but not limited to instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund statements focus on the District's most significant funds. The District's major governmental funds are the General Fund, The Capital Reserve Fund, the Athletic Stadium Fund and the Debt Service Fund. Non-major funds include the Athletic Facilities Improvement Fund and the Extra-Curricular Fund.

CONESTOGA VALLEY SCHOOL DISTRICT
LANCASTER, PENNSYLVANIA

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

Governmental Funds

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

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 on determining net income, financial position, changes in financial position and where a significant portion of funding is 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 and the Internal Service Fund are the District's proprietary funds.

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. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations.

CONESTOGA VALLEY SCHOOL DISTRICT
LANCASTER, PENNSYLVANIA

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

The School District as a Whole

Recall that the statement of position provides the perspective of the District as a whole.

This schedule provides a summary of the District's net position for the fiscal years ended June 30, 2016 and 2015.

	Fiscal Year Ended June 30					
	Net Position (Deficit)					
	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Current assets	\$ 25,986,615	\$ 27,350,995	\$ 932,344	\$ 549,046	\$ 26,918,959	\$ 27,900,041
Capital assets	57,168,291	58,413,116	154,536	162,918	57,322,827	58,576,034
Noncurrent assets	4,529	7,548			4,529	7,548
Deferred outflows	10,472,072	10,972,668			10,472,072	10,972,668
Total assets and deferred outflows of resources	\$ 93,631,507	\$ 96,744,327	\$ 1,086,880	\$ 711,964	\$ 94,718,387	\$ 97,456,291
Current liabilities	\$ 12,740,166	\$ 12,831,184	\$ 956,753	\$ 670,889	\$ 13,696,919	\$ 13,502,073
Long-term liabilities	111,367,715	108,285,311			111,367,715	108,285,311
Deferred inflows	670,000	6,047,000			670,000	6,047,000
Total liabilities and deferred inflows of resources	\$ 124,777,881	\$ 127,163,495	\$ 956,753	\$ 670,889	\$ 125,734,634	\$ 127,834,384
Net investment in capital assets	\$ 36,017,469	\$ 32,468,726	\$ 154,536	\$ 162,918	\$ 36,172,005	\$ 32,631,644
Unrestricted	(67,163,843)	(62,887,894)	(24,409)	(121,843)	(67,188,252)	(63,009,737)
Total net position (deficit)	\$ (31,146,374)	\$ (30,419,168)	\$ 130,127	\$ 41,075	\$ (31,016,247)	\$ (30,378,093)
Total liabilities, deferred inflows and net position (deficit)	\$ 93,631,507	\$ 96,744,327	\$ 1,086,880	\$ 711,964	\$ 94,718,387	\$ 97,456,291

It is important to note that total liabilities increased significantly due to the implementation of GASB 68 which went into effect for the 2014-2015 fiscal year thus making the total net position significantly lower than previous years. Please refer to the Financial Highlights for more information of this new reporting standard and the impact on the financial statements.

CONESTOGA VALLEY SCHOOL DISTRICT
LANCASTER, PENNSYLVANIA

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

This schedule shows the change in net position for the fiscal years 2016 and 2015.

	Fiscal Year Ended June 30					
	Changes in Net Position					
	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 390,342	\$ 432,723	\$ 731,758	\$ 749,599	\$ 1,122,100	\$ 1,182,322
Operating grants and contributions	10,798,096	10,380,701	1,186,302	1,111,408	11,984,398	11,492,109
General revenues:						
Property taxes	39,824,885	38,500,970			39,824,885	38,500,970
Other taxes	6,012,496	5,654,216			6,012,496	5,654,216
Grants and subsidies, unrestricted	4,272,389	3,908,621			4,272,389	3,908,621
Other	423,269	764,386	167	36	423,436	764,422
Total revenues	<u>61,721,477</u>	<u>59,641,617</u>	<u>1,918,227</u>	<u>1,861,043</u>	<u>63,639,704</u>	<u>61,502,660</u>
Expenses:						
Instructional services	44,350,670	40,609,024			44,350,670	40,609,024
Support services	15,802,872	16,082,463			15,802,872	16,082,463
Noninstructional services	2,295,141	2,652,811			2,295,141	2,652,811
Food service			1,829,175	1,952,182	1,829,175	1,952,182
Total expenses	<u>62,448,683</u>	<u>59,344,298</u>	<u>1,829,175</u>	<u>1,952,182</u>	<u>64,277,858</u>	<u>61,296,480</u>
Increase (decrease) in net position	<u>\$ (727,206)</u>	<u>\$ 297,319</u>	<u>\$ 89,052</u>	<u>\$ (91,139)</u>	<u>\$ (638,154)</u>	<u>\$ 206,180</u>

Total revenues for the year ended June 30, 2016 increased by \$2,137,044 or 3.5% from the year ended June 30, 2015. Revenues from property and other taxes increased by \$1,682,195 or 3.7% as compared to the previous year. Real estate tax revenues were higher in 2015-2016 as a result of an increase of 2.52% in the mills assessed on real property. The District has experienced various property assessment appeals in recent years resulting in an overall decrease of the taxable base by \$38,846,100.

Total expenses increased by \$2,981,378 or 4.9% for the year ended June 30, 2016 compared to the year ended June 30, 2015.

CONESTOGA VALLEY SCHOOL DISTRICT
LANCASTER, PENNSYLVANIA

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

Governmental Activities

The following presents the expenses of both the governmental activities and the business-type activities of the District as well as each program's net cost (total cost less revenues generated by the activities). The net costs are offset by the other unrestricted grants, subsidies and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

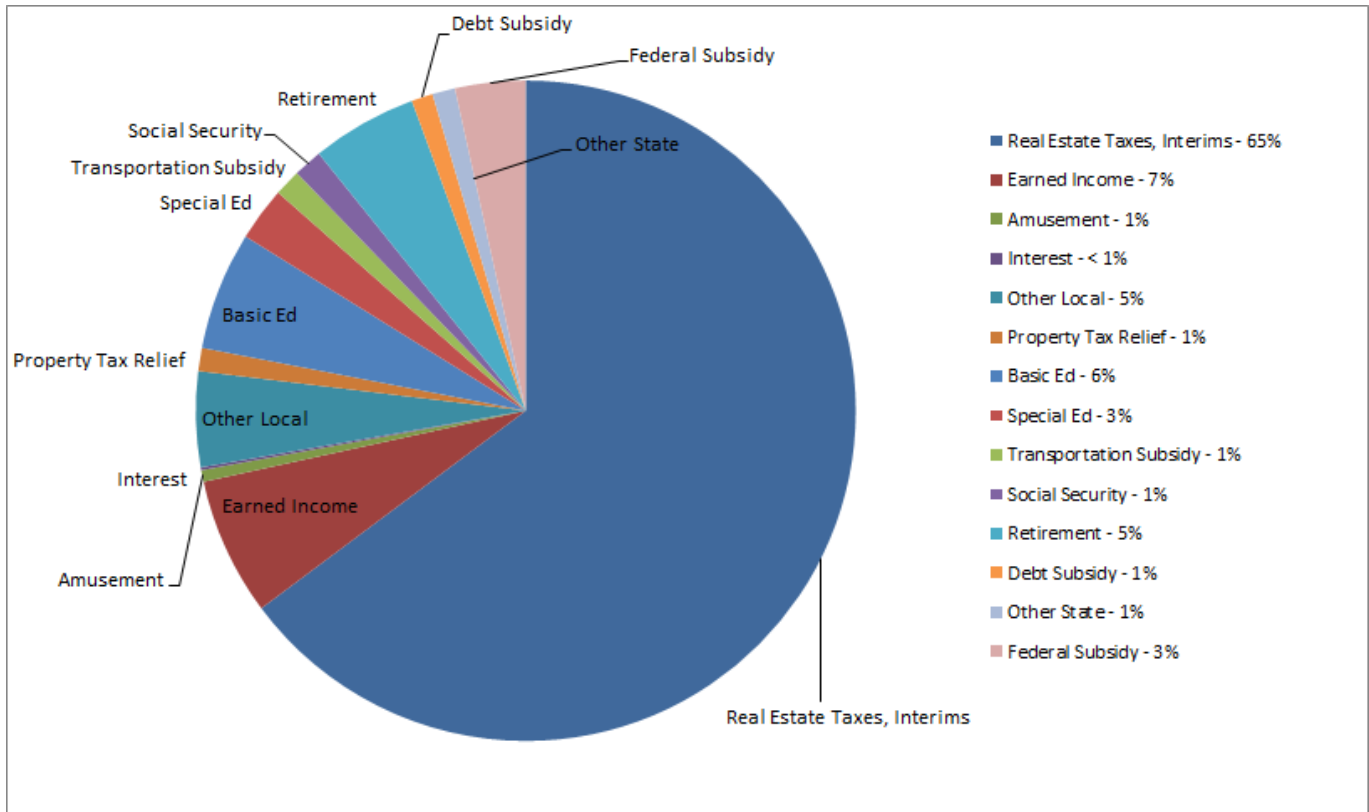
Function/Programs	Fiscal Year Ended June 30			
	Governmental Activities			
	Total cost of services		Net cost of services	
	2016	2015	2016	2015
Regular instruction	\$ 34,649,548	\$ 32,010,164	\$ 29,983,286	\$ 27,565,259
Special instruction	8,083,865	7,300,662	5,389,001	4,631,499
Vocational instruction	1,081,165	967,524	1,037,856	919,267
Other instructional programs	536,092	330,674	189,529	100,672
Pupil personnel	2,174,951	2,138,460	1,966,567	1,955,345
Instructional staff	2,298,957	2,205,780	1,749,172	1,775,281
Administration	2,642,981	2,627,211	2,404,863	2,361,447
Pupil health	537,623	638,788	386,435	486,332
Business services	600,018	691,431	553,560	647,295
Operation of plant and maintenance	4,017,740	4,324,751	3,984,200	4,132,267
Student transportation services	2,167,512	2,169,816	1,148,422	1,153,756
Central	1,320,026	1,242,557	1,205,045	1,166,481
Other support services	43,064	43,669	43,064	43,669
Student activities	1,118,369	1,129,126	724,324	734,803
Community services	95,920	186,096	61,625	165,583
Capital outlay	184,607	281,261	184,607	281,261
Debt service, interest	896,245	1,056,328	248,689	410,657
Total government activities	<u>\$ 62,448,683</u>	<u>\$ 59,344,298</u>	51,260,245	48,530,874
Less, unrestricted grants, subsidies			<u>4,272,389</u>	<u>3,908,621</u>
Total needs from local taxes and other revenues			<u>\$ 46,987,856</u>	<u>\$ 44,622,253</u>

CONESTOGA VALLEY SCHOOL DISTRICT
LANCASTER, PENNSYLVANIA

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

The educational programs shown in the above table are not fully supported by governmental or other grants or subsidies and, therefore, are dependent upon local taxes and other local revenues to fund the difference. The local need of \$46,987,856 for the year ended June 30, 2016 was 5.3% higher than the \$44,622,253 needed for the year ended June 30, 2015. Generally, this shortfall is resolved through increases in local real estate tax receipts.

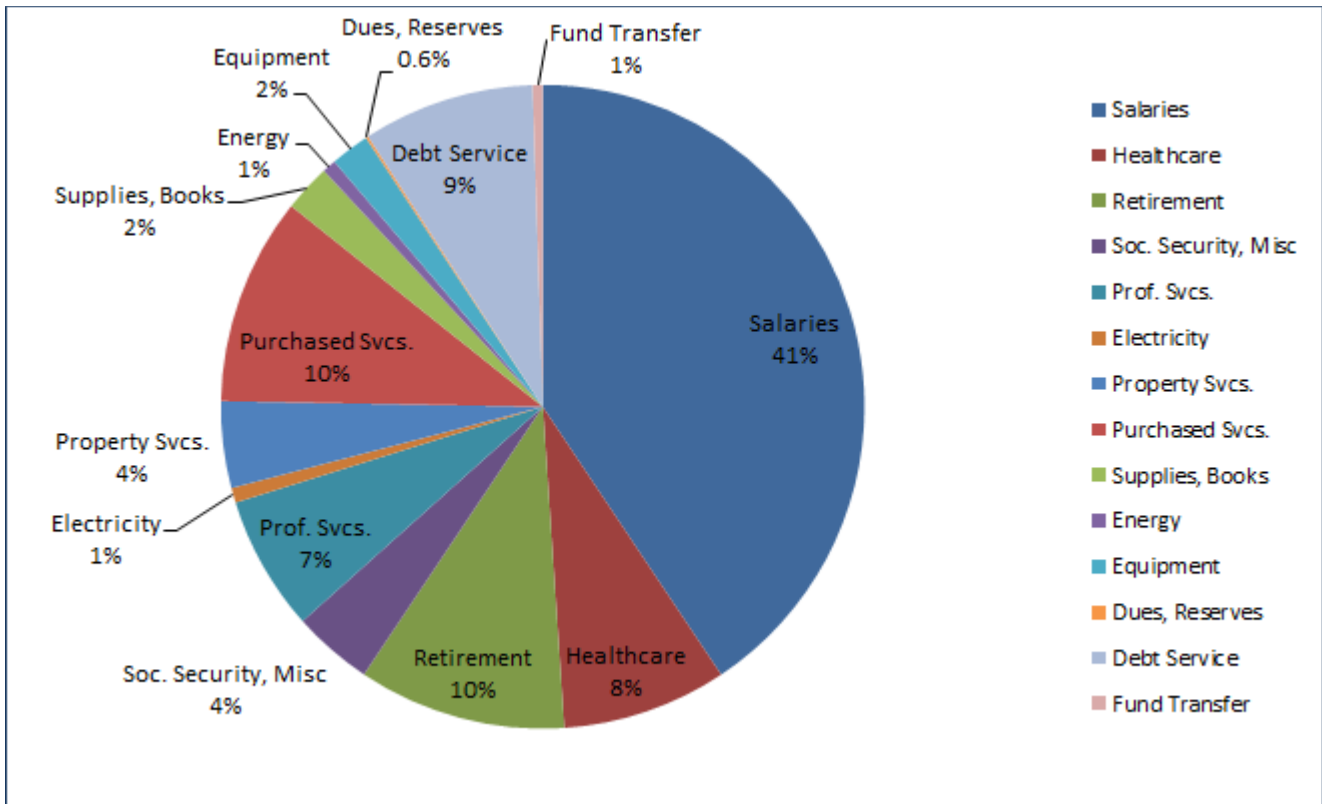
The sources of revenue distributed according to local, state and federal sources for the 2015-2016 fiscal year are shown in the following chart. Of the total revenues, 78% were from local sources, 19% from state sources and 3% from federal sources.



CONESTOGA VALLEY SCHOOL DISTRICT
LANCASTER, PENNSYLVANIA

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

The next chart shows the distribution of expenditures of the District for the year ended June 30, 2016. The most significant categories are salaries and benefits which represent 63% of the total general fund expenditures.



CONESTOGA VALLEY SCHOOL DISTRICT
LANCASTER, PENNSYLVANIA

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

The following reflects the activities of the food service program, the business-type activity of the District.

Function/Programs	Fiscal Year Ended June 30			
	Business-Type Activities			
	Total cost of services		Net cost of services	
	2016	2015	2016	2015
Food services	\$ 1,829,175	\$ 1,952,182	\$ (88,885)	\$ 91,175
Investment earnings			(167)	(36)
Total business-type activities			\$ (89,052)	\$ 91,139

The statement of revenues, expenses and changes in fund net position for the proprietary funds will further detail the actual results of operations.

The District Funds

Information shown in the District's fund statements is accounted for using the modified accrual basis of accounting. The District's general fund recognized total revenues of \$61,634,500 and expenditures and net other financing uses of \$62,196,552 during the fiscal year ended June 30, 2016. The unassigned fund balance in the general fund at June 30, 2016 was approximately \$4.818 million or 7.60% of budgeted expenditures for fiscal year 2015-2016. The Commonwealth of Pennsylvania restricts the amount of unreserved/undesignated fund balance that a school district may maintain relative to the total amount of its expenditures. This limit is effective for any district that is increasing its local property tax assessment rate. The District fund balance limit is 8.0% of total expenditures for the 2016-2017 budget year.

The Conestoga Valley School Board and the Conestoga Valley Education Association negotiated a four-year contract last year that began in 2015-2016 and runs through 2018-2019. The contract provides for salary increases of 2.95% for the first two years and 2.9% for the next two years. The contract also includes changes to the existing health insurance plan by offering a qualified high deductible plan with a health savings account in addition to a low and medium preferred provider plan.

CONESTOGA VALLEY SCHOOL DISTRICT
LANCASTER, PENNSYLVANIA

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

Full-time and many part-time employees of the School District are participants in the Pennsylvania School Employees Retirement System (PSERS). PSERS is a state-wide plan that offers a defined retirement benefit to its eligible members. Actuarial assumptions that have been in effect during the past several years have combined with weaker than expected investment performance of PSERS investments to create the need for a significant increase in employer contributions at a relatively high rate continuing until the 2019-2020 fiscal year, at which time the rate is expected to plateau. The District assigns a portion of its fund balance through its annual budget and expects to utilize these reserves in future periods to offset the anticipated significant increases in the rate that will be paid by employers of Pennsylvania school employees.

The District incurs significant tuition costs required to pay to cyber charter schools throughout the Commonwealth in which its resident students are enrolled. The District does not participate in the establishment or operation of these entities, but is mandated to make payments to them based upon enrollment of students domiciled in the District. The District hosts an alternative by offering the Conestoga Valley Cyber Academy.

General Fund Budget

The District prepares its annual budget in accordance with Pennsylvania law and is based on accounting for certain transactions on the modified cash basis for receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the fiscal year, the Board of School Directors (the School Board) authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the District. A schedule is included as part of this financial report that shows the District's original and final budget amounts compared with amounts actually paid and received during the year.

In 2016, the general fund budget revenue was \$62,056 or 0.10% above the final budget amount of \$61,564,723. Revenue variances included real estate and interim taxes, delinquent real estate taxes, transfer taxes and earned income taxes.

In 2015, the general fund budget revenue was \$499,556 or 0.85% above the final budget amount of \$58,965,761. Revenue variances included real estate and interim taxes, delinquent real estate taxes, transfer taxes, earned income taxes and state subsidies.

CONESTOGA VALLEY SCHOOL DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
June 30, 2016
(unaudited)

The final budget for expenditures and net financing sources in the 2015-2016 budget was planned to be \$63,424,767. Actual expenditures and financing sources were \$62,180,761 or 98.0% of the budgeted amounts. Expenditures were below budget in salaries and benefits while over budget in purchased services. This is a result of the change in paying for staffing through a contracted service provider instead of paying for staff through wages and salaries as was previously done. Supplies, books, energy electricity and equipment purchases were all under budget. Contracted special education services continue to increase and those costs were over budget as well. The District also implemented a qualified high deductible health plan and committed \$1,040,000 to fully fund the participating employees' health savings accounts during the first year of this plan. The District will continue to fund the health savings accounts at reduced amounts during the remaining three years of the CVEA contract.

Capital Projects Fund

The District maintains a capital projects fund that is utilized for unexpected and other capital projects. At June 30, 2016, the capital projects fund had a fund balance of \$2,720,141. The District recognized a transfer of \$175,078 into this fund from the general fund during 2015-2016 representing the savings due to the refinancing of the GOB Issue of 2003 in May 2012.

CONESTOGA VALLEY SCHOOL DISTRICT
LANCASTER, PENNSYLVANIA

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

Capital Asset And Debt Administration

Capital Assets

At June 30, 2016, the District's capital assets increased by \$1,005,138 to \$106,569,451. Capital assets include land, buildings and furniture and equipment and construction in progress. The following provides a breakdown of the capital assets and the accumulated depreciation as of June 30, 2016 and 2015.

Capital Assets

	2016	2015
Land	\$ 2,152,701	\$ 2,153,951
Site improvements	1,965,490	7,123,444
Building and improvements	94,020,809	88,030,559
Furniture and equipment	8,430,451	8,100,238
Construction in progress	-	156,121
	106,569,451	105,564,313
Accumulated depreciation	(49,246,624)	(46,988,279)
	\$ 57,322,827	\$ 58,576,034

CONESTOGA VALLEY SCHOOL DISTRICT
LANCASTER, PENNSYLVANIA

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

Debt Administration

As of July 1, 2015, the District had total outstanding bond principal of \$25,251,671. During the 2015-2016 year, the District made payments against principal of \$4,476,666. The ending outstanding debt as of June 30, 2016 is \$20,775,005.

The following schedule provides the outstanding balances of those bond issues as of June 30, 2016 and 2015.

Outstanding Debt

	2016	2015
Bonds, Series of 2004	\$ 1,120,000	\$ 2,920,000
Note, Series of 2008	500,005	566,671
Bonds, Series of 2012	15,560,000	18,165,000
Bonds, Series of 2014	3,595,000	3,600,000
	\$ 20,775,005	\$ 25,251,671

Other obligations include accrued compensated absences (vacation pay, sick leave, personal days) for specific employees of the District, pension and OPEB obligations. More detailed information about our liabilities is included in the notes to the financial statements.

Other Items Affecting The Financial Strength Of The District

Conestoga Valley School District considers its financial condition to be sound. The District believes its local community support to be very positive. Future financial condition may be challenged by significant increases in the cost of District contributions to its employees' state retirement plan (contributions are paid by the District on behalf of its participating employees) although the employer contribution rate levels off in 2016-17 and increases in that rate are not as significant.

CONESTOGA VALLEY SCHOOL DISTRICT
LANCASTER, PENNSYLVANIA

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

Real estate tax revenues will increase in 2016-2017 due to the increase in the property tax rate. Other local revenues are projected to be essentially level for 2016-2017 compared to 2015-2016. With the exception of the increase in the state retirement and basic education subsidy, support from the Commonwealth of Pennsylvania is budgeted at levels consistent with the previous year. A new basic education subsidy formula was enacted beginning with the 2016-2017 fiscal year. The purpose of this new formula is to distribute this subsidy in an equitable manner according to various student and district factors such as student enrollment, district poverty levels and provides for a local wealth adjustment and a local tax effort and capacity adjustment. Under Act 1 of 2006, the District is subject to a "cap" or index on the amount of the real estate property tax rate it can assess on its properties. That index for the 2016-2017 fiscal year is 2.4%, and the index for 2017-2018 will be 2.5%. The District may be eligible to apply for exceptions that would allow it to assess a real estate tax rate increase above this amount; however, these exceptions have been significantly reduced through legislation adopted during the 2011-2012 Commonwealth budget process.

The 2015-2016 fiscal year budget was prepared in accordance with the mandates of Act 1 of 2006 (Act 1). Act 1 is likely to continue to have an effect upon the financial activity of the District in future years. The Act places an (index) cap on the percent increase that the District may raise its real estate tax millage rate without requiring approval from voters in a back-end referendum. Certain exceptions may be approved by the Pennsylvania Department of Education for retirement or special education costs that would permit the District to exceed this index without requiring voter approval. The available exceptions have been reduced from ten exceptions that had been available to the District in previous years under Act 1 of 2006. In the event that the rate of increase would exceed this Act 1 index rate, including any permissible exceptions, the District would be required to place a referendum question on the primary election ballot asking the taxpayers to approve the higher millage rate increase. In order to facilitate this referendum process, the Act changes the budget timetable for school districts. Preliminary budget approval by the Board of School Directors is required 90 days prior to the primary election, and this proposed preliminary budget must be available for public inspection 20 days prior to approval by the School Board. School districts also have the option to adopt a resolution that the final budget will not exceed the (index) percent in the real estate tax rate to be assessed on properties located in the school district. This resolution must be passed by the board of school directors no less than 110 days prior to the primary election. The final date for availability for public inspection for the 2017-2018 preliminary budget or for adoption of a resolution not to exceed the index will be January 17, 2017. The (index) cap applicable to the District was 2.1% for the 2014-2015 fiscal year, 1.9% for the 2015-2016 fiscal year, 2.4% for the 2016-2017 fiscal year and will be 2.5% for the 2017-2018 budget year.

CONESTOGA VALLEY SCHOOL DISTRICT
LANCASTER, PENNSYLVANIA

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

In 2012, Moody's, one of America's top bond credit rating agencies, affirmed the existing Aa2 rating on the General Obligation Bonds, Series of 2012. Citing "healthy financial reserves", "track record of conservative budgeting", "large and economically diverse tax base" and "low debt burden", Moody's assigned the District its third-highest rating, meaning it considers the District's \$20.8 million in outstanding debt high quality and very low credit risk to investors. As challenges, the agency listed rising contractual salary and benefit costs, by which it means the state's burgeoning pension mandates, and only "average" demographics and wealth indices.

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 School Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Phyllis Heverly Flesher, Director of Administrative Services, or Adele Huntzinger, Assistant Director of Business Services, at Conestoga Valley School District, 2110 Horseshoe Road, Lancaster, PA 17601, (717) 397-2421.

CONESTOGA VALLEY SCHOOL DISTRICT

STATEMENT OF NET POSITION (DEFICIT)

JUNE 30, 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents	\$ 2,253,881	\$ 43	\$ 2,253,924
Investments	18,317,816	811,766	19,129,582
Restricted investments	177,172		177,172
Taxes receivable, net	1,586,489		1,586,489
Due from other governments	3,049,049	59,159	3,108,208
Other receivables, net	442,970	19,934	462,904
Inventories		41,442	41,442
Prepaid expenses	159,238		159,238
	<u>25,986,615</u>	<u>932,344</u>	<u>26,918,959</u>
Total current assets			
Noncurrent assets:			
Capital assets:			
Land	2,152,701		2,152,701
Site improvements	1,965,490		1,965,490
Buildings and building improvements	94,020,809		94,020,809
Furniture and equipment	7,363,199	1,067,252	8,430,451
Accumulated depreciation	<u>(48,333,908)</u>	<u>(912,716)</u>	<u>(49,246,624)</u>
Total capital assets	57,168,291	154,536	57,322,827
Bond insurance costs, net	<u>4,529</u>		<u>4,529</u>
Total noncurrent assets	<u>57,172,820</u>	<u>154,536</u>	<u>57,327,356</u>
Total assets	<u>83,159,435</u>	<u>1,086,880</u>	<u>84,246,315</u>
Deferred outflows of resources:			
Pensions	9,706,556		9,706,556
Deferred charge on refunding	<u>765,516</u>		<u>765,516</u>
Total deferred outflows of resources	<u>10,472,072</u>		<u>10,472,072</u>
Total assets and deferred outflows of resources	<u>\$ 93,631,507</u>	<u>\$ 1,086,880</u>	<u>\$ 94,718,387</u>

See notes to financial statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
Current liabilities:			
Internal balances	\$ (889,887)	\$ 889,887	\$ -
Accounts payable	2,379,810	15,242	2,395,052
Current portion of:			
Capital lease obligations	147,299		147,299
Bonds and notes payable	4,676,666		4,676,666
Accrued salaries and benefits	5,571,082	11,058	5,582,140
Payroll deductions and withholdings	307,761		307,761
Accrued interest	289,655		289,655
Unearned revenue	257,780	40,566	298,346
	<u>12,740,166</u>	<u>956,753</u>	<u>13,696,919</u>
Total current liabilities			
Noncurrent liabilities:			
Capital lease obligations	46,088		46,088
Bonds and notes payable	17,046,285		17,046,285
Early retirement incentive	53,569		53,569
Compensated absences	900,682		900,682
Net pension liability	92,434,000		92,434,000
Other postemployment benefits	887,091		887,091
	<u>111,367,715</u>		<u>111,367,715</u>
Total noncurrent liabilities			
Total liabilities	<u>124,107,881</u>	<u>956,753</u>	<u>125,064,634</u>
Deferred inflows of resources, pensions	<u>670,000</u>		<u>670,000</u>
Net position (deficit):			
Net investment in capital assets	36,017,469	154,536	36,172,005
Unrestricted	(67,163,843)	(24,409)	(67,188,252)
	<u>(31,146,374)</u>	<u>130,127</u>	<u>(31,016,247)</u>
Total net position (deficit)			
Total liabilities, deferred inflows of resources and net position (deficit)	<u>\$ 93,631,507</u>	<u>\$ 1,086,880</u>	<u>\$ 94,718,387</u>

CONESTOGA VALLEY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

	Program revenues		Net revenue (expense) and changes in net position			
	Expenses	Charges for services	Operating grants and contributions	Governmental activities	Business-type activities	Total
Governmental activities:						
Instructional services:						
Regular instruction	\$ 34,649,548	\$ 41,036	\$ 4,625,226	\$ (29,983,286)		\$ (29,983,286)
Special instruction	8,083,865		2,694,864	(5,389,001)		(5,389,001)
Vocational instruction	1,081,165		43,309	(1,037,856)		(1,037,856)
Other instructional programs	536,092		6,901	(529,191)		(529,191)
Nonpublic school program			15,533	15,533		15,533
Prekindergarten			324,129	324,129		324,129
Total instructional services	44,350,670	41,036	7,709,962	(36,599,672)		(36,599,672)
Support services:						
Pupil personnel	2,174,951		208,384	(1,966,567)		(1,966,567)
Instructional staff	2,298,957		549,785	(1,749,172)		(1,749,172)
Administration	2,642,981		238,118	(2,404,863)		(2,404,863)
Pupil health	537,623		151,188	(386,435)		(386,435)
Business services	600,018		46,458	(553,560)		(553,560)
Operation of plant and maintenance	4,017,740		33,540	(3,984,200)		(3,984,200)
Student transportation services	2,167,512	179,025	840,065	(1,148,422)		(1,148,422)
Central	1,320,026		114,981	(1,205,045)		(1,205,045)
Other support services	43,064			(43,064)		(43,064)
Total support services	15,802,872	179,025	2,182,519	(13,441,328)		(13,441,328)
Noninstructional services:						
Student activities	1,118,369	170,281	223,764	(724,324)		(724,324)
Community services	95,920		34,295	(61,625)		(61,625)
Capital outlay	184,607			(184,607)		(184,607)
Debt service:						
Lease rental payment	139,812			(139,812)		(139,812)
Interest	756,433		647,556	(108,877)		(108,877)
Total noninstructional services	2,295,141	170,281	905,615	(1,219,245)		(1,219,245)

(continued)

CONESTOGA VALLEY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES (CONTINUED)

YEAR ENDED JUNE 30, 2016

	Program revenues			Net revenue (expense) and changes in net position		
	Expenses	Charges for services	Operating grants and contributions	Governmental activities	Business-type activities	Total
Total government activities	\$ 62,448,683	\$ 390,342	\$ 10,798,096	\$ (51,260,245)		\$ (51,260,245)
Business-type activities, food service	1,829,175	731,758	1,186,302		\$ 88,885	88,885
Total primary government	<u>\$ 64,277,858</u>	<u>\$ 1,122,100</u>	<u>\$ 11,984,398</u>	<u>(51,260,245)</u>	<u>88,885</u>	<u>(51,171,360)</u>
General revenues:						
Taxes:						
Property, etc.				39,824,885		39,824,885
Other				6,012,496		6,012,496
Grants, subsidies, other nonrestricted				4,272,389		4,272,389
Interest				94,583	167	94,750
Loss on disposal of assets				(84,785)		(84,785)
Miscellaneous				413,471		413,471
Total general revenues and transfers				<u>50,533,039</u>	<u>167</u>	<u>50,533,206</u>
Change in net position				(727,206)	89,052	(638,154)
Net position (deficit):						
July 1, 2015				<u>(30,419,168)</u>	<u>41,075</u>	<u>(30,378,093)</u>
June 30, 2016				<u>\$ (31,146,374)</u>	<u>\$ 130,127</u>	<u>\$ (31,016,247)</u>

See notes to financial statements.

CONESTOGA VALLEY SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS – JUNE 30, 2016

	ASSETS					Total governmental funds
	Major funds					
	General fund	Capital project funds		Debt service fund	Nonmajor funds	
		Capital reserve fund	Athletic stadium fund			
Assets:						
Cash and cash equivalents	\$ 2,174,344	\$ 5,681			\$ 73,856	\$ 2,253,881
Investments	13,755,267	2,749,420				16,504,687
Restricted investments	177,172					177,172
Taxes receivable, net	1,586,489					1,586,489
Due from:						
Other funds	891,539			\$ 253,973	4,120	1,149,632
Other governments	3,049,049					3,049,049
Other receivables, net	232,025	111	\$ 4,031		2,199	238,366
Prepaid expenses	159,238					159,238
	<u>\$ 22,025,123</u>	<u>\$ 2,755,212</u>	<u>\$ 4,031</u>	<u>\$ 253,973</u>	<u>\$ 80,175</u>	<u>\$ 25,118,514</u>

(continued)

CONESTOGA VALLEY SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS (CONTINUED) – JUNE 30, 2016

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES

	Major funds				Nonmajor funds	Total governmental funds
	General fund	Capital project funds		Debt service fund		
		Capital reserve fund	Athletic stadium fund			
Liabilities:						
Due to other funds	\$ 477,492					\$ 477,492
Accounts payable	1,873,221	\$ 35,071	\$ 4,031		\$ 3,650	1,915,973
Accrued salaries and benefits	5,571,082					5,571,082
Payroll deductions and withholdings	307,761					307,761
Unearned revenue	257,780					257,780
Total liabilities	8,487,336	35,071	4,031		3,650	8,530,088
Deferred inflows of resources, unavailable revenue	282,372					282,372
Fund balances:						
Nonspendable	159,238					159,238
Restricted		2,720,141		\$ 253,973		2,974,114
Committed	6,428,023					6,428,023
Assigned	1,850,000				76,525	1,926,525
Unassigned	4,818,154					4,818,154
Total fund balances	13,255,415	2,720,141		253,973	76,525	16,306,054
Total liabilities, deferred inflows of resources and fund balances	\$ 22,025,123	\$ 2,755,212	\$ 4,031	\$ 253,973	\$ 80,175	\$ 25,118,514

See notes to financial statements.

CONESTOGA VALLEY SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION (DEFICIT)**

YEAR ENDED JUNE 30, 2016

Total fund balances, governmental funds	\$ 16,306,054
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 \$105,502,199, and the accumulated depreciation is \$48,333,908.	57,168,291
Internal service funds are used by management to charge the costs of certain activities to individual funds. Assets and liabilities of internal service funds are included in governmental activities in the statement of net position (deficit). This represents the internal service fund fund balance, net.	1,771,643
Property taxes receivable are not available soon enough to pay for the current period's expenditures and, therefore, are unavailable in the funds.	282,372
Some liabilities, including net pension obligations, are not due and payable in the current period, and therefore, are not reported in the funds.	
Net pension liability	(92,434,000)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	
Deferred outflow of resources, pensions	9,706,556
Deferred inflows of resources, pensions	(670,000)
Deferred charge on refunding is not reported as a deferred outflow of resources in the funds.	765,516
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 and bond insurance costs at year-end consist of:	
Bonds and note payable	\$ (20,775,005)
Capital lease obligations	(193,387)
Accrued interest on the bonds	(289,655)
Unamortized:	
Bonds insurance costs	4,529
Bond premium, net of discount	(947,946)
Compensated absences	(900,682)
Early retirement incentive	(53,569)
Other postemployment benefits	(887,091)
	<u>(24,042,806)</u>
Total net position (deficit) of governmental activities	<u>\$ (31,146,374)</u>

See notes to financial statements.

CONESTOGA VALLEY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2016

	Major funds				Nonmajor funds	Total governmental funds
	General fund	Capital reserve fund	Athletic stadium fund	Debt service fund		
Revenues and other financing sources:						
Revenues:						
Local sources:						
Real estate taxes and penalties	\$ 39,928,718					\$ 39,928,718
Other taxes and penalties	5,961,912					5,961,912
Investment income	88,770	\$ 3,329	\$ 5		\$ 139	92,243
Rent	73,047					73,047
Other revenues	1,358,528		147,443		81,637	1,587,608
Total local sources	47,410,975	3,329	147,448		81,776	47,643,528
State sources	12,097,091					12,097,091
Federal sources	2,126,434					2,126,434
Total revenues and other financing sources	61,634,500	3,329	147,448		81,776	61,867,053

(continued)

CONESTOGA VALLEY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
(CONTINUED)

YEAR ENDED JUNE 30, 2016

	Major funds				Nonmajor funds	Total governmental funds
	General fund	Capital project funds		Debt service fund		
		Capital reserve fund	Athletic stadium fund			
Expenditures and other financing uses:						
Expenditures:						
Current:						
Instruction	\$ 40,130,841					\$ 40,130,841
Support services	15,261,589					15,261,589
Operation of noninstructional services	1,230,248				\$ 12,263	1,242,511
Capital outlay		\$ 715,795	\$ 184,608		34,670	935,073
Debt service:						
Principal	139,812			\$ 4,476,666		4,616,478
Interest				842,318		842,318
Total expenditures	56,762,490	715,795	184,608	5,318,984	46,933	63,028,810
Other financing (sources) uses, interfund transfers	5,434,062	(175,078)	(57,200)	(5,258,984)	57,200	-
Total expenditures and other financing uses	62,196,552	540,717	127,408	60,000	104,133	63,028,810

(continued)

CONESTOGA VALLEY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
(CONTINUED)

YEAR ENDED JUNE 30, 2016

	Major funds					Total governmental funds
	General fund	Capital project funds		Debt service fund	Nonmajor funds	
Capital reserve fund		Athletic stadium fund				
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	\$ (562,052)	\$ (537,388)	\$ 20,040	\$ (60,000)	\$ (22,357)	\$ (1,161,757)
Fund balances:						
July 1, 2015	<u>13,817,467</u>	<u>3,257,529</u>	<u>(20,040)</u>	<u>313,973</u>	<u>98,882</u>	<u>17,467,811</u>
June 30, 2016	<u>\$ 13,255,415</u>	<u>\$ 2,720,141</u>	<u>\$ -</u>	<u>\$ 253,973</u>	<u>\$ 76,525</u>	<u>\$ 16,306,054</u>

See notes to financial statements.

CONESTOGA VALLEY SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2016

Total net change in fund balances, governmental funds	\$ (1,161,757)
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 capital outlays exceeds depreciation the year. Depreciation expense, \$3,113,346; capital outlays, \$1,953,306.	(1,160,040)
Loss on disposal of assets is not recorded in the governmental funds	(84,785)
Because property taxes will not be collected for several months after the District's fiscal year-end, they are not considered as "available" revenues in the governmental funds.	(74,603)
The internal service funds are used by mangement to charge the cost of certain activites to individual funds. The net loss of the internal service fund is reported as a component of the change in net position of governmental activities.	(34,218)

(continued)

CONESTOGA VALLEY SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES (CONTINUED)**

YEAR ENDED JUNE 30, 2016

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

In the statement of activities, certain operating expenses are measured by the amounts incurred during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. These amounts represent the difference between the amount incurred versus the amount used.

Early retirement incentive	\$ 52,699	
Compensated absences	(245,785)	
Post employment benefits	<u>(121,766)</u>	\$ (314,852)

Governmental funds report District pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned is reported as pension expense:

District pension contributions	6,307,304	
Cost of benefits earned	<u>(9,053,063)</u>	(2,745,759)

The issuance of long-term obligations (i.e., bonds, notes, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term obligations consumes the current financial resources of governmental funds. Also, governmental funds report the effect of insurance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effects of these transactions in the statement of activities is shown below:

Change in accrued interest	58,259	
Repayment of capital lease obligations	286,257	
Repayment of bonds and note, principal amounts	4,476,666	
Amortization of:		
Bond premium	284,895	
Bond discount	(25,413)	
Bond insurance costs	(3,019)	
Deferred charge on refunding	<u>(228,837)</u>	<u>4,848,808</u>

Change in net position (deficit) of governmental activities		<u><u>\$ (727,206)</u></u>
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See notes to financial statements.

CONESTOGA VALLEY SCHOOL DISTRICT

STATEMENT OF NET POSITION – PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2016

ASSETS

	Major funds	
	Food service	Internal service
Current assets:		
Cash and cash equivalents	\$ 43	
Investments	811,766	\$ 1,813,129
Due from other governments	59,159	
Due from other funds	1,652	217,747
Other receivables, net	19,934	204,604
Inventory	41,442	
Total current assets	<u>933,996</u>	<u>2,235,480</u>
Noncurrent assets:		
Machinery and equipment	1,067,252	
Accumulated depreciation	<u>(912,716)</u>	
Total noncurrent assets	<u>154,536</u>	
Total assets	<u>\$ 1,088,532</u>	<u>\$ 2,235,480</u>

See notes to financial statements.

LIABILITIES AND NET POSITION

	Major funds	
	Food service	Internal service
Current liabilities:		
Due to other funds	\$ 891,539	
Accounts payable	15,242	\$ 463,837
Accrued salaries and benefits	11,058	
Unearned revenue	40,566	
Total current liabilities	958,405	463,837
Net position:		
Net investment in capital assets	154,536	
Unrestricted	(24,409)	1,771,643
Total net position	130,127	1,771,643
Total liabilities and net position	\$ 1,088,532	\$ 2,235,480

CONESTOGA VALLEY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION –
PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2016

	Major funds	
	Food service	Internal service
Operating revenues:		
Food service revenue	\$ 679,089	
Charges for services		\$ 4,417,747
Other local sources	52,669	11,469
Total operating revenues	731,758	4,429,216
Operating expenses:		
Depreciation	12,883	
Employee benefits, medical insurance		4,063,686
Food supplies	959,391	
Miscellaneous expenses	2,012	
Administrative services	5,199	402,088
Professional services	714,545	
Personnel	135,145	
Total operating expenses	1,829,175	4,465,774
Operating loss	(1,097,417)	(36,558)
Nonoperating revenues:		
Earnings on investments	167	2,340
State subsidy revenue	62,162	
Federal subsidy revenue	1,108,624	
Social Security subsidy revenue	3,544	
Retirement subsidy revenue	11,972	
Total nonoperating revenues	1,186,469	2,340
Change in net position	89,052	(34,218)
Total net position:		
July 1, 2015	41,075	1,805,861
June 30, 2016	\$ 130,127	\$ 1,771,643

See notes to financial statements.

CONESTOGA VALLEY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2016

	Major funds	
	Food service	Internal service
Cash flows from operating activities:		
Cash received:		
Users	\$ 672,679	
Assessments made to other funds		\$ 4,225,121
Other operating revenue	52,669	
Cash payments:		
Employee benefits, medical insurance		(3,823,675)
Suppliers for goods and services	(485,959)	
Other operating expenses	(2,012)	(402,088)
Salaries	(914,103)	
Net cash used in operating activities	(676,726)	(642)
Cash flows from noncapital financing activities:		
State sources	79,401	
Federal sources	942,925	
Net cash provided by noncapital financing activities	1,022,326	
Cash flows used in capital and related financing activities, purchase of machinery and equipment	(4,501)	
Cash flows from investing activities:		
Earnings on investments	167	2,340
Withdrawals or redemptions from investment securities	1,407,117	4,827,218
Purchase of investment securities	(1,748,383)	(4,828,916)
Net cash provided by (used in) investing activities	(341,099)	642

(continued)

CONESTOGA VALLEY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)

YEAR ENDED JUNE 30, 2016

	Major funds	
	Food service	Internal service
Net change in cash and cash equivalents	\$ -	\$ -
Cash and cash equivalents:		
Beginning of year	43	-
End of year	\$ 43	\$ -
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (1,097,417)	\$ (36,558)
Adjustments:		
Depreciation	12,883	
Donated commodities	130,580	
(Increase) decrease in:		
Prepaid		16,216
Due from other funds	(350)	98,186
Other receivables	(6,410)	(204,095)
Inventories	(2,226)	
Increase (decrease) in:		
Accounts payable	9,797	125,609
Due to other funds	331,394	
Accrued benefits	(59,214)	
Unearned revenue	4,237	
Total adjustments	420,691	35,916
Net cash used in operating activities	\$ (676,726)	\$ (642)

See notes to financial statements.

CONESTOGA VALLEY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS

YEAR ENDED JUNE 30, 2016

	<u>Student activities</u>	<u>Private purpose trust</u>
Assets:		
Cash and cash equivalents	\$ 11,219	
Investments	<u>140,320</u>	<u>\$ 191,719</u>
Total assets	<u>\$ 151,539</u>	<u>\$ 191,719</u>
Liabilities:		
Accounts payable	\$ 8,293	
Due to student groups	<u>143,246</u>	
Total liabilities	151,539	
Net position, held in trust for scholarships	<u> </u>	<u>\$ 191,719</u>
Total liabilities and net position	<u>\$ 151,539</u>	<u>\$ 191,719</u>

See notes to financial statements.

CONESTOGA VALLEY SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – FIDUCIARY FUNDS

YEAR ENDED JUNE 30, 2016

	<u>Private purpose trust</u>
Additions:	
Gifts and contributions	\$ 41,983
Earnings and investments	<u>301</u>
Total additions	42,284
Deductions, scholarships awarded	<u>(12,800)</u>
Change in net position	29,484
Net position:	
July 1, 2015	<u>162,235</u>
June 30, 2016	<u><u>\$ 191,719</u></u>

See notes to financial statements.

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

1. Summary of significant accounting policies:

Conestoga Valley School District (School District or District), located in Lancaster County, Pennsylvania, provides a full range of educational services appropriate to grade levels kindergarten through 12 to students living in East Lampeter, Upper Leacock and West Earl Townships. These include regular, advanced academic and vocational education programs and special education programs for gifted and handicapped children. The governing body of the School District is a board of nine school directors who are each elected for a four-year term. The daily operation and management of the School District is carried out by the administrative staff of the School District, headed by the Superintendent of Schools who is appointed by the Board of School Directors. The School District is comprised of four elementary schools, one middle school and one high school serving approximately 4,300 students.

The financial statements of the Conestoga Valley School District have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the District's significant accounting policies.

Reporting entity:

The criteria used by the District to evaluate the possible inclusion of related entities (Authorities, Boards, Councils and so forth) within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given case, the District reviews the applicability of the following criteria:

The District is financially accountable for:

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

Impose its will - If the District can significantly influence the programs, projects or activities of or the level of services performed or provided by the organization.

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

1. Summary of significant accounting policies (continued):

Reporting entity (continued):

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

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

Based on the foregoing criteria, no additional entities are included in the accompanying financial statements.

Basis of presentation, fund accounting and measurement focus:

Basis of presentation

Government-wide statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the School District. As a general rule, the effect of interfund activity has been eliminated from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support.

The statement of activities demonstrates the degree to which the expenses of a given function are offset by program revenues. Expenses, which offset program revenues, are those that are clearly identifiable within a specific function. Program revenues include charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a given function. In addition, program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. 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.

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

1. Summary of significant accounting policies (continued):

Basis of presentation, fund accounting and measurement focus (continued):

Basis of presentation (continued)

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.

Fund accounting

The accounts of the 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 with a separate set of self-balancing accounts comprising each fund's assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures or expenses. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent.

Governmental funds

Governmental funds are used to account for the District's expendable financial resources and related liabilities (except those accounted for in proprietary funds). The measurement focus is upon determination of changes in financial position. The following are the District's governmental fund types:

General Fund - The General Fund is the principal operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund - This fund is used to account for the accumulation of resources for and payment of, interest and principal on debt.

Capital Project Funds - This fund is used to account for transfers from other funds and related investment earnings for capital outlays not accounted for in another fund. This fund type includes the Capital Reserve Fund and the Athletic Stadium Fund.

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

1. Summary of significant accounting policies (continued):

Basis of presentation, fund accounting and measurement focus (continued):

Governmental funds (continued)

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources that are reserved for expenditures for specified purposes. This fund type includes the Athletic Facilities Improvement Fund (Buckskin Consortium) and the Extra Curricular Fund (Market Street Sports), which are reported as part of nonmajor funds.

Proprietary funds

Proprietary funds are used to account for activities that are similar to those often found in the private sector. Following are the District's proprietary funds:

Enterprise Funds - Enterprise funds are used to account for the District's operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the cost of providing goods or services to the students on a continuing basis be financed or recovered primarily through user charges or cost reimbursement plans. The following fund is used to account for those financial activities:

Food Service Fund - This fund accounts for the revenues, food purchases and other costs and expenses of providing meals to students during the school year.

Internal Service Fund - This fund is used to account for hospitalization, dental and prescription costs that are services provided to the School District employees as benefits.

Fiduciary funds

These are the funds that account for the assets held by the School District as a trustee or agent for individuals, private organizations and/or governmental units and are, therefore, not available to support the District's own programs. The funds included in this category are:

Private Purpose Trust Funds - These funds are used to account for assets held by the School District in a trustee capacity. These funds account for various scholarship programs for students.

Student Activity Funds - These funds are used to account for assets authorized by Section 511 of the Public School Code of 1949, for school publications and organizations.

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

1. Summary of significant accounting policies (continued):

Basis of presentation, fund accounting and measurement focus (continued):

Measurement focus and basis of accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) are used as a practical measure of economic resources and the statement of activities 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. 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, compensated absences, pension and OPEB, are recognized when due or paid.

Revenues, exchange and nonexchange transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

1. Summary of significant accounting policies (continued):

Basis of presentation, fund accounting and measurement focus (continued):

Revenues, exchange and nonexchange transactions (continued)

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year in which the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from exchange and nonexchange transactions must also be available before it can be recognized.

Cash and cash equivalents:

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

Cash and cash equivalents include amounts in demand and interest-bearing bank deposits at cost which are fair value.

Investments:

Investments are stated at fair value. Fair value of the investment is equal to cost/principal amounts because those are the values at which the investments can be readily redeemed.

Restricted investments:

Certain investments of grant proceeds are classified as restricted investments because their use is restricted by applicable grant agreements. Investments are stated at fair value. Fair value of the investment is equal to cost/principal amounts because those are the values at which the investments can be readily redeemed.

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

1. Summary of significant accounting policies (continued):

Due from other funds/due to other funds:

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Inventories:

Inventories in the Food Service Fund consist of government donated commodities, which were valued at fair 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.

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 \$4,000 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 historical costs are not available for assets purchased or constructed. Donated capital assets are recorded at fair 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.

CONESTOGA VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 YEAR ENDED JUNE 30, 2016

1. Summary of significant accounting policies (continued):

Capital assets (continued):

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
Building improvements	20
Land improvements	15
Furniture	10
Vehicles	10
Equipment	5 to 10
Computer software	3
Textbooks	5
Library, workbooks	10

Deferred outflows of resources:

Deferred outflows of resources represent a consumption of net position that applies to future periods and thus, will not be recognized as an outflow of resources until then. The District has two items that meet the criteria for reporting in the category. Deferred outflows of resources related to pensions primarily results from changes in the total pension liability; and for contributions made to the plan between the measurement date of the net pension liability and the end of the District's fiscal year. The second item, deferred charge on refunding, results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. In the fund financial statements, governmental fund types recognize the deferred charge on refunding as an expense during the current period.

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

1. Summary of significant accounting policies (continued):

Deferred inflows of resources:

The District's government wide statement of net position and its governmental fund balance sheet report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. In the statement of net position, deferred inflows of resources related to pensions are reported for actual pension plan investment earnings in excess of the expected amount included in determining pension expense. This deferred inflow of resources is attributed to pension expense over a total of five years, including the current year. In the governmental funds, the deferred inflows of resources is for revenues that are not considered available. The District will not recognize the related revenues until they are available (collected no later than 60 days after the end of the District's fiscal year) under the modified accrual basis of accounting. Accordingly, the item unavailable revenue from property taxes is reported only in the governmental funds' balance sheet.

Long-term obligations:

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums, discounts and prepaid insurance costs are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium and discount. Bond insurance costs are reported as assets and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond insurance costs, as revenues or expenditures during the current period. Insurance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

1. Summary of significant accounting policies (continued):

Pension plan:

Substantially all full-time and part-time employees of the District participate in a cost-sharing multiple-employer defined benefit pension plan through Public School Employees' Retirement System (PSERS or the System). On the governmental fund financial statements, the District recognizes annual pension expenditures or expenses equal to its contractually required contributions. For the fiscal year ended June 30, 2016, the rate of employer contribution was 25.84%. The 25.84% rate is composed of a contribution rate of 25.00% for pension benefits and 0.84% for healthcare insurance premium assistance. The District is required to pay the entire employer contribution rate and is reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income aid ratio (as defined in Act 29 of 1994), which is at least one half of the total employer rate. Such payments are recorded in the general fund and proprietary funds as state source revenues. In the government-wide financial statements payments are allocated based on function. The District made all required contributions for the year ended June 30, 2016 and has recognized them as expenditures or expenses.

Compensated absences:

The School District allows employees to accumulate an unlimited amount of sick leave. Upon retirement or termination, the employee would be paid a certain amount, according to their contract, for these accumulated sick days. Earned vacation time is generally required to be used within one year of accrual.

Early retirement incentive:

The School District offered full-time employees the opportunity to participate in a one-time early retirement incentive program. Full-time employees were eligible for the program if they elected to retire by June 30, 2012, were at least age 55, had a minimum of 25 years of service in education as calculated by the Public School Employees Retirement System (PSERS) and incurred no additional eligible service under PSERS after retiring. The early retirement incentive program included the following benefits: paid monthly single coverage health insurance premiums for up to 60 consecutive months following the effective date of retirement, or until the end of the month in which the retired employee becomes eligible for alternative healthcare coverage and a one-time retirement bonus of \$10,000. During year ended June 30, 2012, 11 employees elected to retire and a total of \$110,000 was paid under the bonus program. At June 30, 2016, the District's obligation for single coverage health insurance under this program was \$53,569.

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

1. Summary of significant accounting policies (continued):

Use of estimates:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures or expenses during the reporting period. A significant assumption in these financial statements is the PSERS pension liabilities. Actual results could differ from those estimates.

Fund equity:

The District follows GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement defines fund balance categories to make the nature and extent of the constraints placed on a district's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance – amounts that cannot be spent because they are in a nonspendable form (i.e., inventory) or legally or contractually required to be maintained intact (i.e., principal of a permanent fund).

Restricted fund balance – amounts limited by external parties or legislations (i.e., grants or donations).

Committed fund balance – amounts limited to specific purposes by the District, using its highest level of decision-making authority (the Board of Directors). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest-level action to remove or change the constraint.

Assigned fund balance – amounts that are intended for a particular purpose, such as a rate stabilization fund or segregation of an amount intended to be used at some time in the future. Assigned amounts are reviewed and approved by the Board.

Unassigned fund balance – amounts available for consumption or not restricted in any manner.

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

2. Cash, cash equivalents and investments:

Custodial credit risk, deposits:

Custodial credit risk is the risk that, in the event of a counterparty failure, the School District's deposits may not be returned to it. The District's policy requires deposits in savings accounts or time deposits or share accounts of institutions to be insured or covered by approved collateral as provided by law. As of June 30, 2016 the District's book balance was \$2,265,143 and the bank balance of \$2,264,644 consisted of \$450,000 insured by the Federal Deposit Insurance Corporation (FDIC) and the remaining balance was collateralized under Act 72.

Financial statement amounts, deposits:

Government activities	\$ 2,253,881
Business-type activities	43
Fiduciary funds, student activities	<u>11,219</u>
	<u>\$ 2,265,143</u>

CONESTOGA VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

2. Cash, cash equivalents and investments (continued):

Investments:

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

<u>Investment</u>	<u>Maturity</u>	<u>Fair value</u>
PA Local Government Investment Trust		\$ 90,058
PA School District Liquid Asset Fund		6,988,735 *
Certificates of deposit:		
BB&T Bank	August 28, 2016	100,000 **
PA School District Liquid Asset Fund:		
	August 5, 2016	245,000 **
	September 16, 2016	245,000 **
	September 19, 2016	490,000 **
	October 11, 2016	1,000,000 **
	December 13, 2016	1,500,000 **
	December 31, 2016	2,000,000 **
	December 31, 2016	3,000,000 **
	December 31, 2016	2,000,000 **
	December 31, 2016	1,000,000 **
	March 7, 2017	490,000 **
	March 10, 2017	245,000 **
	June 12, 2017	<u>245,000 **</u>
Total		<u>\$ 19,638,793</u>

* Includes restricted investments of \$177,172

** Certificates of deposit totaling \$12,560,000 are insured by FDIC

Financial statement amounts:

Governmental activities, current assets	\$ 18,317,816
Governmental activities, restricted, current assets	177,172
Business-type activities	811,766
Fiduciary funds	<u>332,039</u>
	<u>\$ 19,638,793</u>

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

2. Cash, cash equivalents, investments (continued):

Interest rate risk and credit risk:

The District does have a formal investment policy in accordance with the Pennsylvania School Code; however, the policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates and does not limit its investment choices to certain credit ratings. As of June 30, 2016, the District's investments were rated as:

<u>Investment</u>	<u>Standard and Poor's ratings</u>
PA Local Government Investment Trust	AAAm
PA School District Liquid Asset Fund	AAAm
BB&T Bank	Not rated

3. Real estate taxes:

Based upon assessments provided by the County, the School District's tax collectors bill and collect property taxes. The School District tax rate for the year ended June 30, 2016 was 15.2064 (\$15.2064 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

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

4. Taxes receivable and related accounts, general fund:

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

	<u>Taxes receivable</u>	<u>Tax revenue recognized</u>	<u>Unearned revenue</u>	<u>Unavailable revenue</u>
Real estate	\$ 412,055	\$ 129,683		\$ 282,372
Earned income taxes	782,370	782,370		
Per capita and emergency management services tax	225,921	69,892	\$ 156,029	
Transfer tax	117,253	117,253		
Amusement tax	<u>49,147</u>	<u>49,147</u>		
	<u>\$ 1,586,746</u>	<u>\$ 1,148,345</u>	<u>\$ 156,029</u>	<u>\$ 282,372</u>

5. Due from/to other funds and transfers:

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

	<u>Due from other funds</u>	<u>Due to other funds</u>
General fund	\$ 889,887	\$ 475,840
Debt service	253,973	
Food service fund		889,887
Internal service fund	217,747	
Athletic facilities improvement fund	<u>4,120</u>	
Total	<u>\$ 1,365,727</u>	<u>\$ 1,365,727</u>

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

5. Due from/to other funds and transfers (continued):

The General Fund due to other funds pertains to the following: \$253,973 to the Debt Service Fund for principal and interest payments, \$217,747 to the Internal Service Fund for healthcare claims and \$4,120 to the Athletic Facilities Improvement Fund for rental fees. The Food Service Fund due to other funds of \$889,887 pertains to payroll and benefits paid by the General Fund.

Interfund transfers in the governmental funds for the year ended June 30, 2016 are as follows:

	<u>Transfers to other funds</u>	<u>Transfers from other funds</u>
General fund	\$ 5,434,062	
Capital reserve		\$ 175,078
Debt service fund		5,258,984
Extra curricular fund	57,200	
Stadium project fund		<u>57,200</u>
	<u>\$ 5,491,262</u>	<u>\$ 5,491,262</u>

Transfers include \$5,258,984 for debt service payments, \$175,078 transferred to the capital reserve fund for future capital improvements and \$57,200 transferred to the stadium project fund for the payment of invoices related to the stadium project.

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

6. 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>	<u>Food service fund</u>
Federal programs	\$ 280,048	\$ 57,307
State programs/grants:		
School lunch/school breakfast		1,852
Safe schools	18,382	
State subsidies:		
Social Security	247,526	
Retirement	1,257,468	
Pre-K counts	71,340	
Rental subsidy	647,556	
Transportation	15,800	
Local:		
IDEA, Part B	506,952	
Special Education	<u>3,977</u>	
	<u>\$ 3,049,049</u>	<u>\$ 59,159</u>

7. Unearned revenue:

Unearned revenue at June 30, 2016 consists of the following:

General fund, unearned revenue:	
Per capita and emergency management service tax, Note 4	\$ 156,029
Federal program monies	51,893
Other	<u>49,858</u>
	<u>\$ 257,780</u>
Food service fund, commodities inventory	<u>\$ 23,477</u>

CONESTOGA VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

8. Fund balances:

As of June 30, 2016, fund balances are composed of the following:

	General fund	Capital project funds		Debt service	Nonmajor governmental funds	Total governmental funds
		Capital reserve fund	Athletic stadium fund			
Nonspendable, prepaid amounts	\$ 159,238					\$ 159,238
Restricted:						
Debt service				\$ 253,973		253,973
Capital projects		\$ 2,720,141				2,720,141
Committed:						
Future pension obligation	5,390,809					5,390,809
Health savings account reserve	1,037,214					1,037,214
Assigned:						
Athletic facilities, Buckskin Consortium					\$ 73,576	73,576
Extra curricular, Market Street Sports					2,949	2,949
Assessment appeals	1,850,000					1,850,000
Unassigned	4,818,154					4,818,154
Total fund balances	<u>\$ 13,255,415</u>	<u>\$ 2,720,141</u>	<u>\$ -</u>	<u>\$ 253,973</u>	<u>\$ 76,525</u>	<u>\$ 16,306,054</u>

CONESTOGA VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

9. Capital assets:

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

	Beginning balance	Increases	Decreases	Transfers	Ending balance
Governmental activities:					
Capital assets not being depreciated, land	\$ 2,153,951			\$ (1,250)	\$ 2,152,701
Capital assets being depreciated:					
Site improvements	7,123,444			(5,157,954)	1,965,490
Buildings and building improvements	88,030,559	\$ 716,397		5,273,853	94,020,809
Furniture and equipment	7,030,480	1,236,909	\$ 946,871	42,681	7,363,199
Total assets being depreciated	102,184,483	1,953,306	946,871	158,580	103,349,498
Less accumulated depreciation for:					
Site improvements	2,626,263	40,466		(873,323)	1,793,406
Buildings and building improvements	39,268,182	2,077,454		1,212,220	42,557,856
Furniture and equipment	4,186,994	995,426	871,555	(328,219)	3,982,646
Total accumulated depreciation	46,081,439	3,113,346	871,555	10,678	48,333,908
Total capital assets being depreciated, net	56,103,044	(1,160,040)	75,316	147,902	55,015,590
Construction in progress	156,121		9,469	(146,652)	-
Governmental activities, capital assets, net	\$ 58,413,116	\$ (1,160,040)	\$ 84,785	\$ -	\$ 57,168,291

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

9. Capital assets (continued):

	Beginning balance	Increases	Decreases	Transfers	Ending balance
Business-type activities:					
Capital assets being depreciated, equipment	\$ 1,069,758	\$ 4,501	\$ 7,007		\$ 1,067,252
Less accumulated depreciation for equipment	906,840	12,883	7,007		912,716
Business-type activities, capital assets, net	<u>\$ 162,918</u>	<u>\$ (8,382)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 154,536</u>

For governmental activities, depreciation expense was charged to functions of the government as follows:

	Instruction	Support services	Total
Regular instruction	\$ 2,653,328		\$ 2,653,328
Special instruction	2,846		2,846
Other instruction	857		857
Pupil services		\$ 2,750	2,750
Instructional staff		34,434	34,434
General administration		2,383	2,383
School administration		1,640	1,640
Business services		1,227	1,227
Operation of plant and maintenance		310,817	310,817
Pupil transportation services		1,262	1,262
Central services		55,321	55,321
Other support services		210	210
Community activities		46,271	46,271
	<u>\$ 2,657,031</u>	<u>\$ 456,315</u>	<u>\$ 3,113,346</u>

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

10. Long-term debt:

Summary of general obligation bonds and note (secured by the full faith and credit of the District) as of June 30, 2016:

<u>Year</u>	<u>Amount</u>	<u>Interest rates</u>	<u>Maturity date</u>	<u>Annual principal installments ranging from</u>
2004 bonds	\$ 1,120,000	4.00%	2018	\$550,000 - \$570,000
2008 (General Obligation Note)	500,005	3.77% - 6.00%	2023	\$33,343 - \$66,666
2012 bonds	15,560,000	2.00% - 4.00%	2020	\$2,300,000 - \$5,015,000
2014 bonds	<u>3,595,000</u>	1.00% - 2.20%	2021	\$5,000 - \$2,400,000
	<u>\$ 20,775,005</u>			

CONESTOGA VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

10. Long-term debt (continued):

The following is a summary of debt transactions of the District for the year ended June 30, 2016:

Bonds and note payable at July 1, 2015	\$ 25,251,671
Principal paid:	
Series of 2004	(1,800,000)
Series of 2008 (Note)	(66,666)
Series of 2012	(2,605,000)
Series of 2014	(5,000)
	20,775,005
Bonds and note payable at June 30, 2016	20,775,005
Original issue premium, net of discount	947,946
	21,722,951
Total long-term debt	21,722,951
Less current portion	4,676,666
	\$ 17,046,285

The debt service requirements of the general obligation bonds and note are as follows:

Year ending June 30,	Principal	Interest	Total
2017	\$ 4,676,666	\$ 682,283	\$ 5,358,949
2018	4,831,666	520,968	5,352,634
2019	5,086,666	333,747	5,420,413
2020	4,766,666	154,652	4,921,318
2021	1,246,666	38,991	1,285,657
2021-2024	166,675	14,968	181,643
	\$ 20,775,005	\$ 1,745,609	\$ 22,520,614

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

10. Long-term debt (continued):

Expenditures for interest on long-term debt for the year ended June 30, 2016 were \$842,318 and were primarily provided from general fund transfers.

11. Letter of credit:

The School District has a letter of credit with a local bank which pertains to the athletic stadium project. The letter of credit is secured by property of the School District. The amount required to be held was reduced to \$65,910 in October 2016.

12. Capital leases:

In July 2012, the School District entered into a capital lease agreement to purchase computer equipment with a total purchase price of \$248,370. The principal balance will be amortized over a term of 48 months at an effective annual interest rate of 2.38%. Four annual payments of principal and interest of \$64,899 are payable during the month of November each year.

In July 2013, the School District entered into a capital lease agreement to purchase computer equipment with a total purchase price of \$395,160. The principal balance will be amortized over a term of 48 months at an effective annual interest rate of 5.03%. Four annual payments of principal and interest of \$106,342 are payable during the month of July each year.

In July 2013, the School District entered into a capital lease agreement to purchase computer equipment with a total purchase price of \$244,842. The principal balance will be amortized over a term of 36 months at an effective annual interest rate of 2.99%. Four annual payments of principal and interest of \$84,030 are payable during the month of July each year.

In July 2014, the School District entered into a capital lease agreement to purchase computer equipment with a total purchase price of \$193,452. The principal balance will be amortized over a term of 48 months at an effective annual interest rate of 2.35%. Four annual payments of principal and interest of \$48,363 are payable during the month of July each year.

The equipment is accounted for in the governmental activities capital assets and the related lease payable is recorded in the governmental activities long-term capital lease obligations.

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

12. Capital leases (continued):

The following is a schedule of future minimum lease payments under the capital lease arrangement:

<u>Fiscal year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 147,299	\$ 7,406	\$ 154,705
2017	46,088	1,121	47,209
	<u>\$ 193,387</u>	<u>\$ 8,527</u>	<u>\$ 201,914</u>

13. Defined benefit pension plan:

Plan description:

PSERS is a governmental cost-sharing multiple-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:

Benefits are provided by PSERS by statute; therefore, financial statement amounts are affected by PSERS activity. The District's reported amounts will vary over time depending on the pension results of PSERS.

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 services 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).

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

13. Defined benefit pension plan (continued):

Benefits provided (continued):

To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Retirement Code (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 members' right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

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

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

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 July 1, 2002.

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

13. Defined benefit pension plan (continued):

Member contributions (continued):

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 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 District's 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 \$6,307,304 for the year ended June 30, 2016.

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions:

For purposes of measuring the District's net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position 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.

At June 30, 2016, the District reported a net liability of \$92,434,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2014 to June 30, 2015. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2015, the District's proportion was .2134 percent, which was a decrease of .0003% from its proportion measured as of June 30, 2014.

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

13. Defined benefit 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 \$9,053,063. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Net difference between projected and actual earnings on pension plan investment		\$ 187,000
Difference between expected and actual experience		381,000
Changes in proportion	\$ 3,255,000	102,000
Difference between proportionate share of contributions and actual contributions	144,252	
District contributions subsequent to the measurement date	6,307,304	
	\$ 9,706,556	\$ 670,000

For the year ended June 30, 2016, \$6,307,304 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. Other amounts reported as deferred outflows of resources and deferred inflows of resource related to pensions will be recognized in pension expense as follows:

Year ended June 30,		
2017	\$	524,063
2018		524,063
2019		524,063
2020		1,157,063

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

13. Defined benefit pension plan (continued):

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions (continued):

Actuarial assumptions:

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

Actuarial cost method:	Entry age normal - level % of pay
Investment return:	7.5% includes inflation of 3.00%
Salary increases:	Effective average of 5.5% which reflects an allowance for inflation of 3.00%, real wage growth of 1% and merit or seniority increases of 1.50%
Mortality rates:	RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back three years for males and females. For disabled annuitants, the RP-2000 Combined Disabled Tables (male and female) with age set back seven years for males and three years for females.

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

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

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

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

13. Defined benefit pension plan (continued):

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions (continued):

The PSERS board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2015:

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return</u>
Public market 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. treasuries	3.0	1.4
Treasury inflation protected securities	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
Master limited partnerships/infrastructure	5.0	5.2
Commodities	8.0	3.1
Financing (LIBOR)	<u>(14.0)</u>	1.1
	<u>100.0 %</u>	

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 plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

13. Defined benefit pension plan (continued):

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions (continued):

Sensitivity of the District's proportionate share:

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

	1% Decrease 6.50%	Current discount rate 7.50%	1% Increase 8.50%
	<u> </u>	<u> </u>	<u> </u>
District's proportionate share of the net pension liability	\$ 113,935,000	\$ 92,434,000	\$ 74,364,000

Pension plan fiduciary net position:

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

14. Other postemployment benefits:

Plan description:

The District offers retirement dental and health insurance benefits to employees upon their retirement with the same plan provisions provided to active employees. Teachers and support staff with at least 25 years of PSERS service who are less than 65 years of age are eligible to participate. Insurance coverage is provided for the retiree, spouse and family until the retiree reaches the age of 65 or if the retiree becomes eligible for other coverage. The retiree is required to pay the full premium for coverage for himself or herself and for his or her spouse and family, if elected.

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

14. Other postemployment benefits (continued):

Plan description (continued):

Teachers and support staff who retired under the District's early retirement incentive program during year ended June 30, 2012, were eligible for the same plan provisions provided to active employees. Insurance coverage is provided for the retiree, spouse and family for up to five years or until the retiree reaches the age of 65. Teachers and support staff must pay \$100 per month for health insurance benefits and the cost differential for the spouse and/or family that are covered for up to five years or until the retiree reaches age 65. Teachers and support staff must pay 100% of the premium for dental coverage. After five years, unless the retiree reaches age 65, the retiree must pay 100% of the premium for health insurance benefits and dental coverage.

Administrators are eligible for retirement dental and health insurance benefits upon retirement with the same plan provisions provided to active employees. Administrators are eligible to participate if they have between 25 and 35 years of PSERS service and have at least 20 years of District service with at least ten years as an administrator. Insurance coverage is provided for the retiree, spouse and family until the retiree reaches the age of 65 or if the retiree becomes eligible for other coverage. The administrator must pay \$100 per month for health insurance benefits and must pay the full premium for his or her spouse and family. The administrator must pay 100% of the premium for dental coverage.

The plan does not issue a publicly available financial report. As of July 1, 2014, there were 415 active participants and 36 retired participants.

Funding policy:

The District currently follows a pay-as-you-go funding approach, paying an amount each year equal to the benefits claimed in that year.

CONESTOGA VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

14. Other postemployment benefits (continued):

Annual OPEB cost and net OPEB obligation:

The District's annual other postemployment benefits (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, 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 the 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 year, the amount contributed to the plan and changes in the District's OPEB obligation to the plan based on the most recent available actuarial valuation.

Normal cost as of July 1, 2015	\$ 176,645
Interest on net OPEB obligation	<u>7,949</u>
Total normal cost	184,594
30-year amortization of unfunded actuarial accrued liability	<u>180,881</u>
Annual required contribution	<u><u>\$ 365,475</u></u>
Annual OPEB cost	\$ 365,475
Interest on net obligation	34,440
Adjustment made to annual required contribution	(46,984)
Contributions made (projected)	(167,971)
Change in support staff	<u>(63,194)</u>
Increase in net OPEB obligation	121,766
Net OPEB liability:	
Beginning of year	<u>765,325</u>
End of year	<u><u>\$ 887,091</u></u>

CONESTOGA VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 YEAR ENDED JUNE 30, 2016

14. Other postemployment benefits (continued):

Trend information:

<u>Fiscal year ended</u>	<u>Annual OPEB cost</u>	<u>Employer contributions</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB obligation</u>
6/30/2015	\$ 365,475	\$ 168,008	45.97%	\$ 887,091
6/30/2014	302,499	221,753	73.31%	765,325
6/30/2013	317,391	232,303	73.19%	471,447

Funding status and funding progress:

The funded status of the plan was as follows:

Actuarial valuation date	<u>July 1, 2014</u>	<u>July 1, 2012</u>	<u>July 1, 2010</u>
Unfunded actuarial accrued liability	<u>\$ 2,946,357</u>	<u>\$ 2,352,795</u>	<u>\$ 2,298,730</u>
Funded ratio	0.00%	0.00%	0.00%
Covered payroll	\$ 23,643,418	\$ 23,226,433	\$ 22,690,915
Unfunded actuarial accrued liability as a percentage of covered payroll	12.46%	10.13%	10.13%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. 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 to 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 the valuation.

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

14. Other postemployment benefits (continued):

Actuarial methods and assumptions (continued):

The latest actuarial valuation was completed July 1, 2014, and the entry age normal cost method was used. An assumption for salary increases was used only for spreading contributions over future pay under this cost method. For this purpose, salary increases were composed of a 2.5% cost of living adjustment, 1% real wage growth and for teachers and administrators a merit increase which varied by age from 2.75% to .25%. Benefits are allocated on a level basis over the earnings of an individual between the date of hire and the assumed retirement age.

Claims costs for medical and prescription drugs are based on the expected portion of the group's overall cost attributed to individuals in the specified age and gender brackets. Dental costs are assumed to not vary with age or gender. Retiree contributions are assumed to increase at the same rate as the Health Care Cost Trend Rate, which was 6.0% in 2015, decreasing .5% per year to 5.5% in 2016.

Other actuarial assumptions include the following: a 4.5% discount rate, retirement rates based on PSERS plan experience and mortality rates as assumed in the PSERS defined benefit pension plan actuarial valuation.

15. Joint ventures:

Lancaster County Career and Technology Center (LCCTC):

The District is one of 16 member school districts of the Lancaster County Career and Technology Center (LCCTC). LCCTC provides vocational-technical training and education to participating students of the member districts. LCCTC is controlled and governed by the Career and Technology Board for Lancaster County that is composed of school board members of all the member districts. No member school district exercises specific control over the fiscal policies or operations of LCCTC. The LCCTC is not reported as part of the District's reporting entity. The District's share of annual operating costs for LCCTC fluctuates, based upon the percentage of enrollment of each member school district. The District's financial obligation to LCCTC for the year ended June 30, 2016 was \$996,059, which has been reported in the District's General Fund. Financial statements for LCCTC can be obtained from the Administrative Office at 1730 Hans Herr Drive, P.O. Box 527, Willow Street, PA 17584.

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

15. Joint ventures (continued):

Lancaster County Career and Technology Center (LCCTC) (continued):

The District entered into a lease agreement with the Lancaster County Career and Technology Center Authority (Authority) along with 15 other school districts. The Lancaster County Career and Technology Center Authority is an authority created under the Pennsylvania Municipality Authorities Act and is empowered to acquire, hold, construct, improve, maintain, operate and lease public school buildings and other school projects for public school purposes. By resolution, the member districts have requested the Authority to proceed with improvement of the school facilities of the Lancaster County Career Technology Center (LCCTC) to be funded by lease revenue bonds not to exceed the maximum aggregate principal amount of \$43,000,000. The bonds are designated Lancaster County Career and Technology Center Authority Guaranteed Lease Revenue Bonds. Each district will pay its proportionate share of the lease rentals in order to fund the debt.

On June 29, 2012, the Authority issued Guaranteed Lease Revenue Bonds Series of 2012 in the amount of \$9,995,000. Payments are required over the period February 2013 until February 2037 with interest payable semi-annually. The average bond yield is 3.50%. The balance of the District's share of this obligation at June 30, 2016 was \$942,998.

On September 20, 2013, the Authority completed issuance of Guaranteed Lease Revenue Bonds, Series of 2013, in the amount of \$9,995,000. Payments are required over the period February 2014 until February 2037 with interest payable semi-annually. The average bond yield is 4.55%. The balance of the District's share of this obligation at June 30, 2016 was \$1,170,951.

On July 9, 2014, the Authority completed issuance of Guaranteed Lease Revenue Bonds, Series of 2014, in the amount of \$3,900,000. Payments are required over the period February 2015 until February 2037 with interest payable semi-annually. The average bond yield is 3.88%. The balance of the District's share of this obligation was \$422,118.

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

15. Joint ventures (continued):

Lancaster County Career and Technology Center (LCCTC) (continued):

Minimum future rental payments under the operating leases for the District are as follows:

Fiscal year ending June 30,	Total
2017	\$ 109,279
2018	121,428
2019	121,289
2020	121,256
2021	121,436
2022-2026	606,965
2027-2031	606,326
2032-2036	606,878
2037	121,210
Total minimum future rental payments	<u>\$ 2,536,067</u>

Lancaster-Lebanon Joint Authority:

The District is a member in the Lancaster-Lebanon Joint Authority (Joint Authority). The Joint Authority was incorporated on February 14, 1980 under the Municipality Authorities Act of 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 purposes of acquiring, holding, constructing, improving, maintaining, operating, owning and/or leasing projects for public school purposes and for the purposes of the Lancaster-Lebanon Intermediate Unit No. 13. The School District did not have any financial transactions with the Joint Authority during the year ended June 30, 2016. Financial statements for the Joint Authority can be obtained from the Administrative Office at 1020 New Holland Avenue, Lancaster, PA 17601.

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

15. Joint ventures (continued):

Lancaster-Lebanon Intermediate Unit (LLIU):

The Lancaster-Lebanon Intermediate Unit (LLIU) Board of Directors consists of 20 members from the LLIU's constituent school districts. The LLIU Board members are school district board members who are elected by the public and are appointed to the LLIU Board by the member districts' Boards of Directors. Conestoga Valley School District is responsible for appointing one of these members. The LLIU Board has decision-making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. Conestoga Valley School District contracts with the LLIU for special education services for District students. The amount paid for these services in the year ended June 30, 2016 was approximately \$2,150,977. Complete financial information for LLIU can be obtained from the Administrative Office at 1020 New Holland Avenue, Lancaster, PA 17601.

Lancaster County Academy (Academy):

The Academy is an alternative public school organized by ten 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. The amount paid to the Academy in the year ended June 30, 2016 was \$39,736. Complete financial information for the Academy can be obtained from the Administrative Office at 1202 Park City Center, Lancaster, PA 17601.

Lancaster County Tax Collection Bureau (Bureau):

The School District participates with all Lancaster County school districts and associated municipalities as prescribed by Act 32 for the collection of earned income taxes and local service tax (LST). The joint operating committee is comprised of representatives from the 17 member school districts and 16 municipal representatives. The Bureau's operating expenditures are deducted from the distributions which are made quarterly. The School District's portion of the operating expenditures for the year ended June 30, 2016 was \$73,033. Financial information for the Bureau can be obtained from the Administrative Office at 1845 William Penn Way, Lancaster, PA 17601.

No member school district exercises specific control over the fiscal policies or operations of these joint ventures. As a result, these entities are not reported as part of the School District's reporting entity.

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

16. Risk management:

Property and liability:

The District joined together with other school districts in the area to form the Lancaster-Lebanon Public Schools Insurance Pool (the Pool), a public entity risk pool currently operating as a common risk management and insurance program for member school districts, the Lancaster-Lebanon Intermediate Unit, the Lancaster County Academy and the Lancaster County Career and Technology Center. The agreement of the Pool states that the District pays an annual premium to the Pool for the purpose of seeking the prevention or lessening of casualty losses to member properties and injuries to persons or property which might result in claims being made against members and pooling the insurance risks, reserves, claims and losses and providing self-insurance and reinsurance thereof. It is the intent of the members of the Pool that the Pool will utilize funds contributed by the members to provide self-insurance and reimbursement to the members for certain losses and to defend and protect each member of the Pool, in accordance with the agreement, against certain liabilities and losses.

Beginning July 1, 1999, the Pool purchased property and liability insurance to cover all claims of the member districts.

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

Hospitalization:

The District is considered to be a self-insured preferred provider organization. Health claims are administered by a third-party provider. For medical claims, the School District was limited in liability to \$150,000 per individual claim and \$4,929,548 in total. A liability for claims incurred prior to June 30, 2016 and paid subsequently is recorded in the amount of \$463,837 in accounts payable in the Internal Service Fund.

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

16. Risk management (continued):

Workers' compensation:

The School District is participating in the Lancaster-Lebanon Public Schools Workers' Compensation Fund (the Fund) which is a cooperative voluntary trust arrangement for 17 member school districts and the Lancaster-Lebanon Intermediate Unit. This agreement 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 pooling workers' compensation and occupational disease insurance risks, reserves, claims and losses and providing self-insurance and reinsurance thereof. It is the intent of the members of the Fund that the Fund will utilize funds contributed by the members, which shall be held in trust by the Fund, to provide self-insurance and reimbursement to the members for their obligations to pay compensation as required under the Worker's Compensation Act and the Pennsylvania Occupational Disease Act and to purchase excess and aggregate insurance.

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

Unemployment:

The School District has elected to self-insure for unemployment compensation rather than contribute to the state fund. Transactions relating to this plan are reflected in the general fund.

As of June 30, 2016, the District is not aware of any unemployment compensation claims.

17. Commitments:

Effective July 1, 2015, the District entered into an agreement with Brightbill Transportation, Inc. (Brightbill) for the transportation of students residing within the District. The District will pay Brightbill a determined amount per bus as outlined in the contract through June 30, 2019. Effective during 2019 - 2020, the cost per bus will be calculated according to the state formula calculation. This agreement expires on June 30, 2025. Current year expenditures amounted to approximately \$1,832,000.

Also effective July 1, 2015, the District entered into an agreement with the SOS Group of Lancaster LLC (SOSL) to provide certain educational and non-educational support services. The District will pay SOSL a determined amount per position as outlined in the contract through June 30, 2018. Current year expenditures amounted to approximately \$3,800,000.

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

18. Subsequent events:

In July 2016, the District entered into a new capital lease for computer equipment with a total purchase price of \$344,400. The principal balance will be amortized over a term of 48 months at an effective annual interest rate of 2.53%. Four annual payments of principal and interest of \$89,349 are payable during the month of July each year.

The District has evaluated subsequent events through November 3, 2016, the date which the financial statements were available to be issued.

CONESTOGA VALLEY SCHOOL DISTRICT

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE PENSION LIABILITY
(Required Supplementary Information)
(unaudited)

YEAR ENDED JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.2134 %	0.2137 %
District's proportionate share of the net pension liability	\$ 92,434,000	\$ 84,583,000
District's covered-employee payroll	\$ 27,455,288	\$ 27,267,835
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	336.67 %	310.19 %
Plan fiduciary net position as a percentage of the total pension liability	54.36 %	57.24 %

CONESTOGA VALLEY SCHOOL DISTRICT

SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS
(Required Supplementary Information)
(unaudited)

YEAR ENDED JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 6,307,304	\$ 5,631,824
Contributions in relation to the contractually required contribution	<u>(6,307,304)</u>	<u>(5,631,824)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 25,028,598	\$ 27,759,724
Contributions as a percentage of covered employee payroll	25.20%	20.29%

CONESTOGA VALLEY SCHOOL DISTRICT

OTHER POSTEMPLOYMENT BENEFITS, SCHEDULE OF FUNDING PROGRESS
(Required supplementary information)
(unaudited)

YEAR ENDED JUNE 30, 2016

	Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) - entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/ c)
Teachers	7/1/2014	\$ -	\$ 2,042,438	\$ 2,042,438	0.00%	\$ 18,602,867	10.98%
Support staff	7/1/2014	-	270,052	270,052	0.00%	2,712,265	9.96%
Administration	7/1/2014	-	<u>633,867</u>	<u>633,867</u>	<u>0.00%</u>	<u>2,328,286</u>	<u>27.22%</u>
Total	7/1/2014	-	<u>\$ 2,946,357</u>	<u>\$ 2,946,357</u>	<u>0.00%</u>	<u>\$ 23,643,418</u>	<u>12.46%</u>
Teachers	7/1/2012	\$ -	\$ 1,620,598	\$ 1,620,598	0.00%	\$ 18,030,182	8.99%
Support staff	7/1/2012	-	229,577	229,577	0.00%	2,918,200	7.87%
Administration	7/1/2012	-	<u>502,620</u>	<u>502,620</u>	<u>0.00%</u>	<u>2,278,051</u>	<u>22.06%</u>
Total	7/1/2012	-	<u>\$ 2,352,795</u>	<u>\$ 2,352,795</u>	<u>0.00%</u>	<u>\$ 23,226,433</u>	<u>10.13%</u>
Teachers	7/1/2010	\$ -	\$ 1,548,523	\$ 1,548,523	0.00%	\$ 17,510,812	8.84%
Support staff	7/1/2010	-	228,755	228,755	0.00%	2,826,734	8.09%
Administration	7/1/2010	-	<u>521,452</u>	<u>521,452</u>	<u>0.00%</u>	<u>2,353,369</u>	<u>22.16%</u>
Total	7/1/2010	-	<u>\$ 2,298,730</u>	<u>\$ 2,298,730</u>	<u>0.00%</u>	<u>\$ 22,690,915</u>	<u>10.13%</u>

CONESTOGA VALLEY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
 BUDGET AND ACTUAL – GENERAL FUND
 (Required supplementary information)
 (unaudited)

YEAR ENDED JUNE 30, 2016

	Budgeted amounts		Actual budgetary activities	Variance with final budget positive (negative)
	Original	Final		
Revenues:				
Local sources:				
Real estate taxes and penalties	\$ 40,006,171	\$ 40,006,171	\$ 39,928,718	\$ (77,453)
Other taxes and penalties	5,488,173	5,488,173	5,961,912	473,739
Investment income	125,000	125,000	88,749	(36,251)
Rent	81,000	81,000	73,047	(7,953)
Revenues from intermediate sources	705,446	705,446	726,713	21,267
Tuition	39,500	39,500	41,036	1,536
Other revenue	387,750	387,750	505,904	118,154
Revenues from student activities	80,000	80,000	77,175	(2,825)
Total local sources	46,913,040	46,913,040	47,403,254	490,214
State sources	12,457,884	12,457,884	12,097,091	(360,793)
Federal sources	2,193,799	2,193,799	2,126,434	(67,365)
Total revenues	61,564,723	61,564,723	61,626,779	62,056
Expenditures:				
Instruction:				
Regular programs	31,452,906	31,091,612	30,790,404	301,208
Special programs	7,221,405	8,092,044	7,801,881	290,163
Vocational programs	1,152,717	1,097,717	1,081,165	16,552
Other instructional programs	487,269	510,269	457,391	52,878
	40,314,297	40,791,642	40,130,841	660,801

(continued)

CONESTOGA VALLEY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
 BUDGET AND ACTUAL – GENERAL FUND (CONTINUED)
 (Required supplementary information)
 (unaudited)

YEAR ENDED JUNE 30, 2016

	Budgeted amounts		Actual budgetary activities	Variance with final budget positive (negative)
	Original	Final		
Expenditures (continued):				
Support services:				
Pupil personnel services	\$ 2,109,608	\$ 2,200,344	\$ 2,101,769	\$ 98,575
Instructional staff services	2,243,719	2,406,301	2,313,168	93,133
Administrative services	2,660,224	2,710,609	2,605,902	104,707
Pupil health	500,786	544,186	504,770	39,416
Business services	575,815	602,440	587,207	15,233
Operation and maintenance of plant services	4,498,346	3,820,746	3,725,584	95,162
Student transportation services	2,314,012	2,291,287	2,236,731	54,556
Central and other support services	1,204,547	1,240,111	1,186,458	53,653
	<u>16,107,057</u>	<u>15,816,024</u>	<u>15,261,589</u>	<u>554,435</u>
Operation of noninstructional services:				
Student activities	1,016,245	1,060,833	1,044,663	16,170
Community services	29,600	43,600	32,850	10,750
	<u>1,045,845</u>	<u>1,104,433</u>	<u>1,077,513</u>	<u>26,920</u>
Debt service	<u>161,487</u>	<u>141,587</u>	<u>139,812</u>	<u>1,775</u>
Total expenditures	<u>57,628,686</u>	<u>57,853,686</u>	<u>56,609,755</u>	<u>1,243,931</u>
Excess of revenues over expenditures	<u>3,936,037</u>	<u>3,711,037</u>	<u>5,017,024</u>	<u>1,305,987</u>

(continued)

CONESTOGA VALLEY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
 BUDGET AND ACTUAL – GENERAL FUND (CONTINUED)
 (Required supplementary information)
 (unaudited)

YEAR ENDED JUNE 30, 2016

	Budgeted amounts		Actual budgetary activities	Variance with final budget positive (negative)
	Original	Final		
Other financing uses:				
Interfund operating transfers	\$ 5,571,081	\$ 5,571,081	\$ 5,571,006	\$ 75
Budgetary reserve	225,000			-
	<u>5,796,081</u>	<u>5,571,081</u>	<u>5,571,006</u>	<u>75</u>
Total other financing uses				
	<u>5,796,081</u>	<u>5,571,081</u>	<u>5,571,006</u>	<u>75</u>
Net change in fund balances	<u>\$ (1,860,044)</u>	<u>\$ (1,860,044)</u>	(553,982)	<u>\$ 1,306,062</u>
Fund balances:				
July 1, 2015			<u>13,819,457</u>	
June 30, 2016			<u>\$ 13,265,475</u>	

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (unaudited)

YEAR ENDED JUNE 30, 2016

Conestoga Valley School District follows the following procedures in establishing the budgetary data:

1. Prior to May 31, management submits to the School Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the General Fund.
2. A community forum is conducted to obtain taxpayer comments.
3. Prior to June 30, the Pennsylvania School Code requires the budget to be legally enacted.
4. Legal budgetary control is maintained by the School Board at the departmental level. Transfers between departments, whether between funds or within a fund or revisions that alters the total revenues and expenditures of any fund, must be approved by the Board. Budgetary information is presented at or below the legal level of budgetary control. It also includes the effects of approved budget amendments.
5. Budgetary data is included in the District's management information system and is employed as a management control device during the year.
6. Unused appropriations lapse at the end of each fiscal year; however, the District increases the subsequent year's appropriation by an amount equal to outstanding encumbrances and reserves a portion of the fund balance in a like amount. There were no outstanding encumbrances at June 30, 2016.
7. The budget for the General Fund is adopted on the modified accrual basis of accounting, except that a budgetary reserve is provided.

(continued)

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
(unaudited)

YEAR ENDED JUNE 30, 2016

Explanation of General Fund differences between generally accepted accounting principles basis and budgetary basis:

	<u>General fund</u>
Revenues:	
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedule	\$ 61,626,779
Reclassifications, athletic fund revenue not included in general fund budgetary approval	<u>7,721</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - general fund	<u>\$ 61,634,500</u>
Expenditures:	
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedule	\$ 56,609,755
Reclassifications, athletic fund expenditures not included in general fund budgetary approval	<u>152,735</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - general fund	<u>\$ 56,762,490</u>
Eliminations in the financial statement presentation include a \$136,944 transfer from the general fund to the athletic fund.	

CONESTOGA VALLEY SCHOOL DISTRICT

COMBINING BALANCE SHEET – ALL NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2016

	Special revenue funds		
	Athletic facilities improvement	Extra- curricular fund	Total nonmajor funds
ASSETS			
Assets:			
Cash and cash equivalents	\$ 70,907	\$ 2,949	\$ 73,856
Due from other funds	4,120		4,120
Other receivables, net	2,199		2,199
Total assets	\$ 77,226	\$ 2,949	\$ 80,175
LIABILITIES AND FUND BALANCES			
Liability, accounts payable	\$ 3,650		\$ 3,650
Fund balance, assigned	73,576	\$ 2,949	76,525
Total liabilities and fund balances	\$ 77,226	\$ 2,949	\$ 80,175

CONESTOGA VALLEY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – ALL NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2016

	<u>Special revenue funds</u>		
	<u>Athletic facilities improvement</u>	<u>Extra- curricular fund</u>	<u>Total nonmajor funds</u>
Revenues and other financing sources:			
Revenues, local sources	\$ 60,945	\$ 20,692	\$ 81,637
Investment income	78	61	139
	<u>61,023</u>	<u>20,753</u>	<u>81,776</u>
Total revenues and other financing sources			
Expenditures:			
Operation of noninstructional services	12,263		12,263
Capital outlay	34,670		34,670
Other financing uses, interfund transfers		57,200	57,200
	<u>46,933</u>	<u>57,200</u>	<u>104,133</u>
Total expenditures			
Net changes in fund balances	14,090	(36,447)	(22,357)
Fund balances:			
July 1, 2015	<u>59,486</u>	<u>39,396</u>	<u>98,882</u>
June 30, 2016	<u>\$ 73,576</u>	<u>\$ 2,949</u>	<u>\$ 76,525</u>

CONESTOGA VALLEY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2016

Federal grantor/ pass-through grantor/program title	Source code	Federal CFDA number	Pass-through grantor's number	Grant period beginning/ ending date	Program or award amount	Total received for the year	Accrued (unearned) revenue at June 30, 2015	Revenue recognized	Expenditures	Accrued (unearned) revenue at June 30, 2016	Amounts paid to subrecipients
U.S. Department of Agriculture:											
Passed through the Pennsylvania Department of Education:											
Child Nutrition Cluster											
National School Lunch Program:											
	I/F	10.555	N/A	07/01/15-6/30/16	N/A	\$ 729,864		\$ 787,171	\$ 787,171	\$ 57,307	\$ -
	I/F	10.555	N/A	07/01/14-6/30/15	N/A	18,338	\$ 18,338			-	
School Breakfast Program:											
	I/F	10.553	N/A	07/01/15-6/30/16	N/A	190,873		190,873	190,873		-
	I/F	10.553	N/A	07/01/14-6/30/15	N/A	3,850	3,850				
Total passed through the Pennsylvania Department of Education						942,925	22,188	978,044	978,044	57,307	-
Passed through the Pennsylvania Department of Agriculture:											
National School Lunch Program											
	I/F	10.555	N/A	07/01/15-6/30/16	N/A	133,191 (b)	(20,866) (a)	130,580 (c)	130,580	(23,477) (d)	-
Total U.S. Department of Agriculture						1,076,116	1,322	1,108,624	1,108,624	33,830	-
U.S. Department of Education:											
Passed through the Pennsylvania Department of Education:											
Title I Grants to Local Educational Agencies:											
	I/F	84.010	013-160096	08/17/15-06/30/16	1,130,779	730,039		971,773	971,773	241,734	-
	I/F	84.010	013-150096	07/01/14-09/30/16	1,078,474	280,962	165,641	77,207	77,207	(38,114)	-
Title II, Improving Teacher Quality State grants:											
	I/F	84.367	020-160096	08/17/15-06/30/16	173,747	149,035		173,747	173,747	24,712	-
Title III, English Language Acquisition State grants:											
	I/F	84.365	010-160096	08/17/15-09/30/16	46,135	32,954		28,945	28,945	(4,009)	-
	I/F	84.365	010-150096	07/01/14-09/30/16	83,199	16,890	(785)	28,518	28,518	10,843	-

(continued)

CONESTOGA VALLEY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2016

Federal grantor/ pass-through grantor/program title	Source code	Federal CFDA number	Pass-through grantor's number	Grant period beginning/ ending date	Program or award amount	Total received for the year	Accrued (unearned) revenue at June 30, 2015	Revenue recognized	Expenditures	Accrued (unearned) revenue at June 30, 2016	Amounts paid to subrecipients
<u>U.S. Department of Education (continued):</u>											
Passed through the Pennsylvania Department of Education (continued): Striving Readers Comprehensive Literacy Grant Program:											
	I/F	84.371c	143-150096	10/01/15-09/30/16	\$ 838,957	\$ 699,131		\$ 689,361	\$ 689,361	\$ (9,770)	\$ -
	I/F	84.371c	143-140096	10/01/14-09/30/15	802,675	<u>133,779</u>	<u>\$ 41,142</u>	<u>92,637</u>	<u>92,637</u>	-	-
Total passed through the Pennsylvania Department of Education						<u>2,042,790</u>	<u>205,998</u>	<u>2,062,188</u>	<u>2,062,188</u>	<u>225,396</u>	<u>-</u>
Passed through the Lancaster-Lebanon Intermediate Unit: Special Education - Grants to States: IDEA, Part B:											
	I/F	84.027	062-16-0-013	07/01/15-09/30/16	667,771	160,819		667,771	667,771	506,952	\$ -
	I/F	84.027	062-15-0-013	07/01/14-09/30/15	670,057	517,174	517,174			-	-
IDEA-Preschool (619):								3,977	3,977	3,977	-
	I/F	84.173	131-16-0-013	07/01/15-06/30/16	3,977			3,977	3,977	-	-
	I/F	84.173	131-15-0-013	07/01/14-06/30/15	6,389	<u>6,389</u>	<u>6,389</u>			-	-
Total passed through the Lancaster-Lebanon Intermediate Unit						<u>684,382</u>	<u>523,563</u>	<u>671,748</u>	<u>671,748</u>	<u>510,929</u>	<u>-</u>
Total U.S. Department of Education						<u>2,727,172</u>	<u>729,561</u>	<u>2,733,936</u>	<u>2,733,936</u>	<u>736,325</u>	<u>-</u>
<u>U.S. Department of Health and Human Services:</u>											
Passed through the Pennsylvania Department of Welfare, Medical Assistance Program:											
	I/F	93.778	N/A	07/01/15-06/30/16		<u>3,416</u>		<u>6,175</u>	<u>6,175</u>	<u>2,759</u>	<u>-</u>
Total U.S. Department of Health and Human Services						<u>3,416</u>	<u>-</u>	<u>6,175</u>	<u>6,175</u>	<u>2,759</u>	<u>-</u>
Total expenditures of federal awards						<u>\$ 3,806,704</u>	<u>\$ 730,883</u>	<u>\$ 3,848,735</u>	<u>\$ 3,848,735</u>	<u>\$ 772,914</u>	<u>\$ -</u>

(continued)

CONESTOGA VALLEY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2016

Source codes:

I = Indirect funding

F = Federal share

CFDA = Catalog of Federal Domestic Assistance

Calculation of 20% rule (20% for low-risk auditee):

Total expenditures per above

\$ 3,848,735

(a) Beginning inventory at July 1

(b) Total amount of commodities received from the Department of Agriculture

(c) Total amount of commodities used

(d) Ending inventory at June 30

Child nutrition cluster:

10.553 School Breakfast program

\$ 190,873

10.555 National School Lunch program

917,751

\$ 1,108,624

\$ 3,848,735 = 28.8% Meets the 20% requirement

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1 Significant accounting policies

The accompanying Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

The District has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Note 2 Reconciliation of Accrued/Deferred Revenue As of June 30, 2015

Passed through the Pennsylvania Department of Education:

Accrued (unearned) revenue at June 30, 2015

Child Nutrition cluster \$ 23,038

Amounts determined to be uncollectible (850)

Adjusted US Department of Education, passed through the

Pennsylvania Department of Education, Child Nutrition cluster \$ 22,188

Note 3 Reconciliation of Accrued/Deferred Revenue as of June 30, 2015

US Department of Education:

Beginning Balance prior to adjustment \$ 204,428

Change in grant allocation for Title IIA (163)

Change in grant allocation for Keystone to Opportunities 1,733

Adjusted US Department of Education Cluster \$ 205,998



Independent Auditors' 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 Officers and Members
Conestoga Valley School District
Lancaster County, 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 Conestoga Valley 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, and have issued our report thereon dated November 3, 2016.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Brown Schultz Steidman & Fritz

Lancaster, Pennsylvania
November 3, 2016



Independent Auditors' Report on Compliance for each Major Program
and on Internal Control Over Compliance Required by
the Uniform Guidance

Board Officers and Members
Conestoga Valley School District
Lancaster County, Pennsylvania

Report on Compliance for the Major Federal Program

We have audited Conestoga Valley 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 Conestoga Valley School District's major federal programs for the year ended June 30, 2016. Conestoga Valley School District's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Conestoga Valley 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 standards 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 Conestoga Valley School District's compliance with those requirements and performing such other procedures as we considered necessary in 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 Conestoga Valley School District's compliance.

Opinion on the Major Federal Programs

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

Report on Internal Control Over Compliance

Management of Conestoga Valley School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Conestoga Valley School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each of its major federal programs and to test and report on internal control over compliance in accordance with 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 Conestoga Valley 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.

Purpose of this Report

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Brown Schultz Steidman & Fritz

Lancaster, Pennsylvania
November 3, 2016

CONESTOGA VALLEY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

I. SUMMARY OF AUDITORS' RESULTS:

Financial statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified that are not
considered to be material weakness(es)? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal awards

Internal control over major programs:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified that are not
considered to be material weakness(es)? yes X none reported

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

Any audit findings disclosed that are required to be reported
in accordance with 2 CFR section 200.516(a)? yes X no

(continued)

CONESTOGA VALLEY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

I. SUMMARY OF AUDITORS' RESULTS (CONTINUED):

Identification of major programs:

CFDA numbers

Name of federal program or cluster

10.553 and 10.555

Child Nutrition Cluster

Dollar threshold used to distinguish between
type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

X yes no

II. FINANCIAL STATEMENT FINDINGS:

None

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:

None

CONESTOGA VALLEY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2016

There were no prior year audit findings.