

CONESTOGA VALLEY SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2015

CONESTOGA VALLEY SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2015

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CONESTOGA VALLEY SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2015

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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, 2015 and the related notes to the financial statements which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, 2015 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.

Adoption of New Accounting Principles

As discussed in Note 18 to the financial statements, effective July 1, 2014 the District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinions are not modified with respect to this matter.

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 the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*, and is also not a required part of the financial statements.

The combining 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 December 7, 2015 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 Steidan & Fritz

Lancaster, Pennsylvania
December 7, 2015

CONESTOGA VALLEY SCHOOL DISTRICT
LANCASTER, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
June 30, 2015
(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, 2015. 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 2014-15 fiscal year were:

- The District adopted new standards for recognizing pension expense during the fiscal year. As a result, the District is required to record its share of the Pennsylvania State Employee Retirement System (PERS) unfunded net pension liability. The District's portion of this liability totals \$84,583,000 at June 30, 2015 and has been reported on its 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 as of June 30, 2015, generating a net deficit of \$(30,378,093).
- Capital assets at June 30, 2015 totaled \$58,576,034, net of accumulated depreciation and represented 60.1% of the total assets and deferred outflows of resources as of that date.
- Total debt outstanding at June 30, 2015 was \$25,251,671, a 15% decrease from the \$29,691,724 outstanding at June 30, 2014.
- Total revenues for the year ended June 30, 2015 were \$61,502,660 compared to \$59,467,225 for the year ended June 30, 2014, an increase of 3.4%.
- Total expenditures during the 2014-2015 fiscal year were \$61,296,480, an increase of 9.9% compared to \$55,760,169 for the year ended June 30, 2014.

CONESTOGA VALLEY SCHOOL DISTRICT
LANCASTER, PENNSYLVANIA

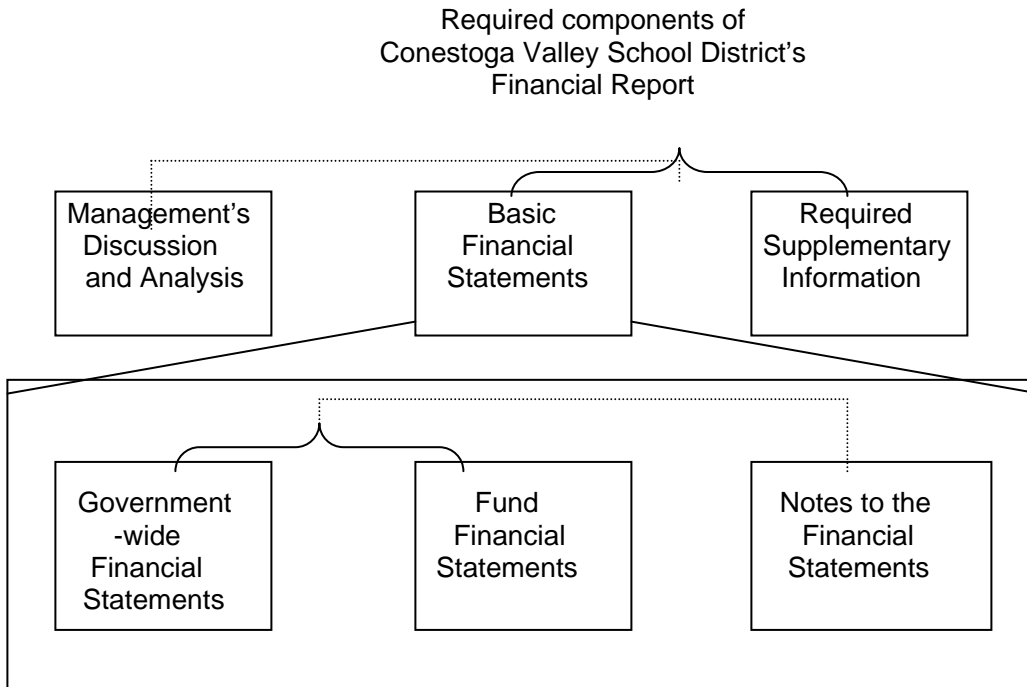
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
June 30, 2015
(unaudited)

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide both long-term and short-term information about the District's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the District's operations in more detail than the government-wide statements. The governmental funds' statements indicate how general District services were financed in the short term as well as what remains for future spending. Proprietary fund statements offer short- and long-term financial information about the activities that the District operates like a business. For this District, this is our Food Service Fund and Internal Service Fund. Fiduciary fund statements provide information about financial relationships where the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

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

The following diagram shows how the required parts of the financial report are arranged and relate to one another:



CONESTOGA VALLEY SCHOOL DISTRICT
LANCASTER, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
June 30, 2015
(unaudited)

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

Major Features of Conestoga Valley School District's
Government-wide and Fund Financial Statements

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

CONESTOGA VALLEY SCHOOL DISTRICT
LANCASTER, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
June 30, 2015
(unaudited)

OVERVIEW OF FINANCIAL STATEMENTS

Government-wide Statements

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

The statement of net position and the statement of activities report information about the District as a whole and about the activities. These statements include all assets and deferred outflows and liabilities and deferred inflows using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in net position. The causes of this change may be the result of many factors. Please refer to Note 18 pertaining to a new reporting in the PSERS defined benefit pension plan as this change is reflected in the statement of net position. To assess the overall health of the District, you need to consider additional non-financial factors, such as changes in the District's property tax base and the performance of the students.

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

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

CONESTOGA VALLEY SCHOOL DISTRICT
LANCASTER, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
June 30, 2015
(unaudited)

Fund Financial Statements

The District's fund financial statements provide detailed information about the most significant funds – not the District as a whole. Some funds are required by state law.

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

Proprietary funds – These funds are used to account for the District activities that are similar to business operations in the private-sector; or where the reporting is on determining net income, financial position, changes in financial position and a significant portion of funding through user charges. When the District charges customers for services it provides – whether to outside customers or to other units in the District – these services are generally reported in proprietary funds. The Food Service Fund 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.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

In total, the net position is lower by \$77,695,820 from 2014. The large difference in the net position is due to the introduction of new standards for reporting pension benefits for the District that were not included in the fiscal numbers for June 30, 2014. Refer to Note 18 for how the adoption was recorded.

CONESTOGA VALLEY SCHOOL DISTRICT
LANCASTER, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
June 30, 2015
(unaudited)

The District's total net position was \$(30,378,093) and \$47,317,727 at June 30, 2015 and 2014, respectively, per the following schedule:

	Fiscal Year Ended June 30					
	Governmental activities		Business-type activities		Total	
	2015	2014	2015	2014	2015	2014
Current assets	\$ 27,350,995	\$ 29,573,027	\$ 549,046	\$ 448,311	\$ 27,900,041	\$ 30,021,338
Capital assets	58,413,116	56,400,800	162,918	190,730	58,576,034	56,591,530
Noncurrent assets	7,548	10,567			7,548	10,567
Deferred outflows	10,972,668	1,223,190			10,972,668	1,223,190
Total assets and deferred outflows of resources	\$ 96,744,327	\$ 87,207,584	\$ 711,964	\$ 639,041	\$ 97,456,291	\$ 87,846,625
Current liabilities	\$ 12,831,184	\$ 11,566,795	\$ 670,889	\$ 506,827	\$ 13,502,073	\$ 12,073,622
Long-term liabilities	108,285,311	28,455,276			108,285,311	28,455,276
Deferred inflows	6,047,000				6,047,000	
Total liabilities and deferred inflows of resources	\$ 127,163,495	\$ 40,022,071	\$ 670,889	\$ 506,827	\$ 127,834,384	\$ 40,528,898
Net investment in capital assets	\$ 32,468,726	\$ 25,831,497	\$ 162,918	\$ 190,730	\$ 32,631,644	\$ 26,022,227
Unrestricted	(62,887,894)	21,354,016	(121,843)	(58,516)	(63,009,737)	21,295,500
Total net position (deficit)	\$ (30,419,168)	\$ 47,185,513	\$ 41,075	\$ 132,214	\$ (30,378,093)	\$ 47,317,727

The most significant category of assets is capital assets of \$58,576,034, net of accumulated depreciation, at June 30, 2015. The District's statement of net position included \$25,251,671 of bonds payable at June 30, 2015 that support those capital assets. The results of activities for the District provided a net addition of \$206,180 to net position during the 2014-2015 fiscal year.

CONESTOGA VALLEY SCHOOL DISTRICT
LANCASTER, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
June 30, 2015
(unaudited)

The following takes the information from that statement and rearranges it slightly, so you can see our total revenues for the year.

	Fiscal Year Ended June 30					
	Changes in Net Position					
	Governmental activities		Business-type activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 432,723	\$ 480,955	\$ 749,599	\$ 795,632	\$ 1,182,322	\$ 1,276,587
Operating grants and contributions	10,380,701	9,716,184	1,111,408	1,017,817	11,492,109	10,734,001
General revenues:						
Property taxes	38,500,970	38,138,490			38,500,970	38,138,490
Other taxes	5,654,216	5,401,148			5,654,216	5,401,148
Grants and subsidies, unrestricted	3,908,621	3,906,365			3,908,621	3,906,365
Other	764,386	(8,626)	36	19,260	764,422	10,634
Total revenues	<u>59,641,617</u>	<u>57,634,516</u>	<u>1,861,043</u>	<u>1,832,709</u>	<u>61,502,660</u>	<u>59,467,225</u>
Expenditures:						
Instructional services	40,609,024	36,455,286			40,609,024	36,455,286
Support services	16,082,463	15,009,209			16,082,463	15,009,209
Noninstructional services	2,652,811	2,412,581			2,652,811	2,412,581
Food service			1,952,182	1,883,093	1,952,182	1,883,093
Total expenditures	<u>59,344,298</u>	<u>53,877,076</u>	<u>1,952,182</u>	<u>1,883,093</u>	<u>61,296,480</u>	<u>55,760,169</u>
Increase (decrease) in net position	<u>\$ 297,319</u>	<u>\$ 3,757,440</u>	<u>\$ (91,139)</u>	<u>\$ (50,384)</u>	<u>\$ 206,180</u>	<u>\$ 3,707,056</u>

Total revenues for the year ended June 30, 2015 increased by \$2,035,435 or 3.4% from the year ended June 30, 2014. Revenues from property and other taxes increased by \$615,500 or 1.4% as compared to the previous year. Real estate tax revenues were higher in 2014-2015 as a result of an increase of 2.1% in the mills assessed on real property. The taxable assessed value of the properties decreased by \$10,062,900 from the previous year due to various assessment appeals that were concluded.

Total expenditures increased by \$5,536,311 or 9.9% for the year ended June 30, 2015 compared to the year ended June 30, 2014.

CONESTOGA VALLEY SCHOOL DISTRICT
LANCASTER, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
June 30, 2015
(unaudited)

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.

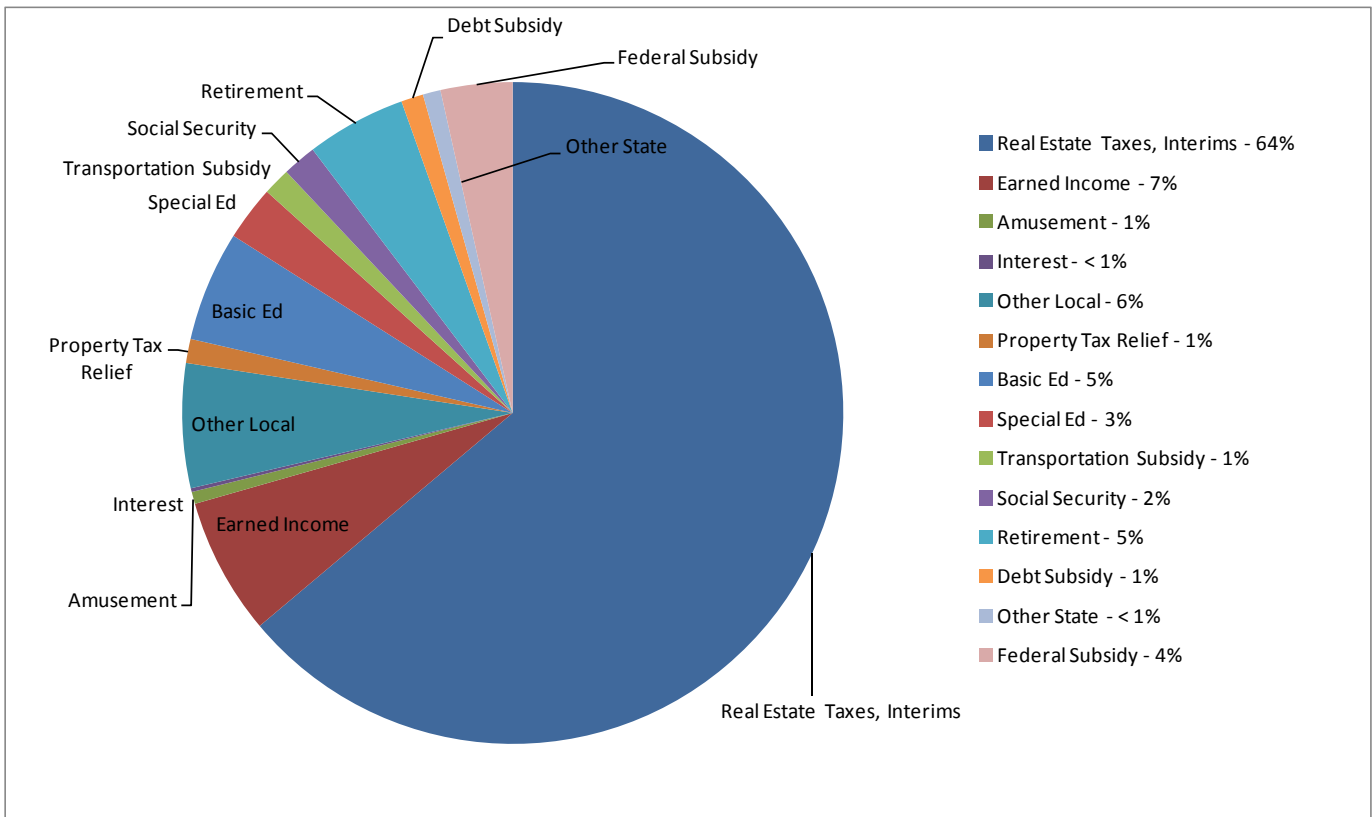
Function/Programs	Fiscal Year Ended June 30			
	Governmental Activities			
	Total cost of services		Net cost of services	
	2015	2014	2015	2014
Regular instruction	\$ 32,010,164	\$ 28,933,446	\$ 27,565,259	\$ 24,730,851
Special instruction	7,300,662	6,381,708	4,631,499	3,882,695
Vocational instruction	967,524	884,562	919,267	855,310
Other instructional programs	330,674	255,570	100,672	86,766
Pupil personnel	2,138,460	1,921,636	1,955,345	1,766,774
Instructional staff	2,205,780	2,005,094	1,775,281	1,644,767
Administration	2,627,211	2,596,028	2,361,447	2,380,148
Pupil health	638,788	467,927	486,332	327,201
Business services	691,431	545,147	647,295	508,099
Operation of plant and maintenance	4,324,751	4,215,010	4,132,267	4,055,192
Student transportation services	2,169,816	2,173,241	1,153,756	999,274
Central	1,242,557	1,041,306	1,166,481	978,543
Other support services	43,669	43,820	43,669	43,820
Student activities	1,129,126	1,241,276	734,803	917,415
Community services	186,096	20,989	165,583	(385)
Capital outlay	281,261	25,976	281,261	25,976
Refund of prior years' revenue and miscellaneous		12,059		12,059
Debt service, interest	1,056,328	1,112,281	410,657	465,432
Total government activities	\$ 59,344,298	\$ 53,877,076	48,530,874	43,679,937
Less, unrestricted grants, subsidies			3,908,621	3,906,365
Total needs from local taxes and other revenues			\$ 44,622,253	\$ 39,773,572

CONESTOGA VALLEY SCHOOL DISTRICT
LANCASTER, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
June 30, 2015
(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 \$44,622,253 for the year ended June 30, 2015 was 12.2% higher than the \$39,773,572 needed for the year ended June 30, 2014. Generally, this shortfall is resolved through increases in local real estate tax receipts.

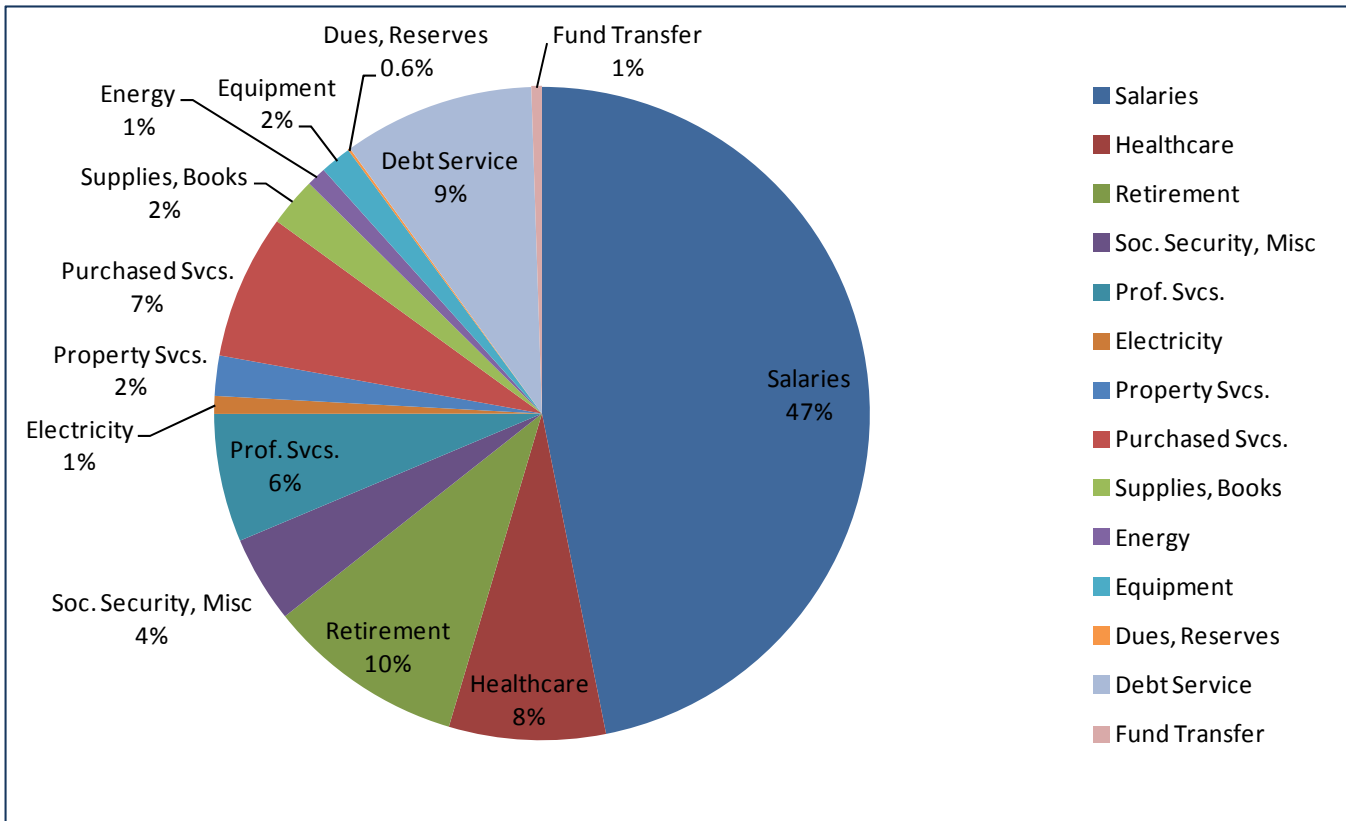
The sources of revenue distributed according to local, state and federal sources for the 2014-2015 fiscal year are shown in the following chart. Of the total revenues, 77% were from local sources, 19% from state sources and 4% from federal sources.



CONESTOGA VALLEY SCHOOL DISTRICT
LANCASTER, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
June 30, 2015
(unaudited)

The next chart shows the distribution of expenditures of the District for the year ended June 30, 2015. The most significant categories are salaries and benefits which represent 68.7% 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, 2015
(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	
	2015	2014	2015	2014
Food services	\$ 1,952,182	\$ 1,883,093	\$ 91,175	\$ 69,644
Investment earnings			(36)	(44)
Loss on disposal of assets			-	784
Transfers in			-	(20,000)
Total business-type activities			\$ 91,139	\$ 50,384

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 \$59,473,956 and expenditures and net other financing uses of \$59,563,644 during the fiscal year ended June 30, 2015. The unassigned fund balance in the general fund at June 30, 2015 was approximately \$4.4 million or 7.2% of budgeted expenditures for fiscal year 2014-2015. 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 2015-2016 budget year.

The Conestoga Valley School Board and the Conestoga Valley Education Association negotiated a new four-year contract 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, 2015
(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 has experienced significant increases in tuition it is 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 now hosts an alternative by offering the Conestoga Valley Cyber Academy.

Total revenues, excluding an increase in the property tax rate and increase in state retirement subsidy, are projected to be essentially level for 2015-2016 compared to 2014-2015 as support from the Commonwealth of Pennsylvania is budgeted at levels consistent with the previous year with the exception of the increase in state retirement subsidy. 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 2015-2016 fiscal year is 1.9%, and the index for 2016-2017 will be 2.4%. 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.

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 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
LANCASTER, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
June 30, 2015
(unaudited)

In 2014, the general fund budget revenue was \$1,267,777 or 2.2% above the final budget amount of \$56,558,491. Revenue variances included real estate and interim taxes, delinquent real estate taxes, transfer taxes, earned income taxes, refund of prior years' expenditures and state subsidies.

The final budget for expenditures and net financing sources in the 2014-2015 budget was planned to be \$61,108,960. Actual expenditures and financing sources were \$59,512,871 or 97.4% of the budgeted amounts. Expenditures were below budget in benefits, purchased property and repair services, books and supplies and were over budget in tuition and contracted special education services. As of June 30, 2015, a cumulative amount of \$6,903,271 had been committed from the District's fund balance to offset the future retirement cost increases for its employees and \$510,043 for health savings account reserve.

Capital Projects Fund

The District maintains a capital projects fund that is utilized for unexpected and other capital projects. At June 30, 2015, the capital projects fund had a fund balance of \$3,257,529. The District recognized a transfer of \$174,970 into this fund from the general fund during 2014-2015 representing the savings due to the refinancing of the GOB Issue of 2003 in May 2012.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, the District's capital assets increased by \$4,020,074 to \$105,564,313. 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, 2015 and 2014.

Capital Assets

	2015	2014
Land	\$ 2,153,951	\$ 2,153,951
Site improvements	7,123,444	2,525,564
Building and improvements	88,030,559	88,030,559
Furniture and equipment	8,100,238	8,243,883
Construction in progress	156,121	590,282
	105,564,313	101,544,239
Accumulated depreciation	(46,988,279)	(44,952,709)
	\$ 58,576,034	\$ 56,591,530

CONESTOGA VALLEY SCHOOL DISTRICT
LANCASTER, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
June 30, 2015
(unaudited)

Debt Administration

As of July 1, 2014, the District had total outstanding bond principal of \$29,691,724. During the 2014-15 year, the District made payments against principal of \$4,440,053. The ending outstanding debt as of June 30, 2015 is \$25,251,671.

The following schedule provides the outstanding balances of those bond issues as of June 30, 2015 and 2014.

Outstanding Debt

	2015	2014
Bonds, Series of 2004	\$ 2,920,000	\$ 4,645,000
Note, Series of 2004		123,387
Note, Series of 2008	566,671	633,337
Bonds, Series of 2012	18,165,000	20,685,000
Bonds, Series of 2014	3,600,000	3,605,000
	\$ 25,251,671	\$ 29,691,724

Other obligations include accrued compensated absences (vacation pay, sick leave, personal days) for specific employees of the District. More detailed information about our long-term liabilities is included in Note 10 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. Revenue sources are anticipated to remain flat in the next fiscal year.

CONESTOGA VALLEY SCHOOL DISTRICT
LANCASTER, PENNSYLVANIA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
Required Supplementary Information (RSI)
June 30, 2015
(unaudited)

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 for the 2015-2016 fiscal year budget 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 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 2015-2016 preliminary budget or for adoption of a resolution not to exceed the index will be December 14, 2015. The (index) cap applicable to the District was 1.7% for the 2013-2014 fiscal year, 2.1% for the 2014-2015 fiscal year, 1.9% for the 2015-2016 fiscal year and will be 2.4% for the 2016-2017 budget year.

Moody's, one of America's top bond credit rating agencies, affirmed the existing Aa2 rating to the General Obligation Bonds, Series of 2014. 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 \$25.3 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 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, 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents	\$ 2,419,919	\$ 43	\$ 2,419,962
Investments	19,878,587	470,500	20,349,087
Restricted investments	118,768		118,768
Taxes receivable, net	1,667,366		1,667,366
Due from other governments	2,580,471	25,763	2,606,234
Other receivables, net	512,100	13,524	525,624
Inventories		39,216	39,216
Prepaid expenses	173,784		173,784
	<hr/>	<hr/>	<hr/>
Total current assets	27,350,995	549,046	27,900,041
Noncurrent assets:			
Capital assets:			
Construction in progress	156,121		156,121
Land	2,153,951		2,153,951
Site improvements	7,123,444		7,123,444
Buildings and building improvements	88,030,559		88,030,559
Furniture and equipment	7,030,480	1,069,758	8,100,238
Accumulated depreciation	(46,081,439)	(906,840)	(46,988,279)
	<hr/>	<hr/>	<hr/>
Total capital assets	58,413,116	162,918	58,576,034
Bond insurance costs, net	7,548		7,548
	<hr/>	<hr/>	<hr/>
Total noncurrent assets	58,420,664	162,918	58,583,582
	<hr/>	<hr/>	<hr/>
Total assets	85,771,659	711,964	86,483,623
Deferred outflows of resources:			
Pensions	9,978,315		9,978,315
Deferred charge on refunding	994,353		994,353
	<hr/>	<hr/>	<hr/>
Total deferred outflows of resources	10,972,668		10,972,668
	<hr/>	<hr/>	<hr/>
Total assets and deferred outflows of resources	\$ 96,744,327	\$ 711,964	\$ 97,456,291
	<hr/>	<hr/>	<hr/>

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	\$ (558,843)	\$ 558,843	\$ -
Accounts payable	2,369,947	5,445	2,375,392
Current portion of:			
Capital lease obligations	286,256		286,256
Bonds and notes payable	4,476,666		4,476,666
Accrued salaries and benefits	5,420,847	70,272	5,491,119
Payroll deductions and withholdings	299,741		299,741
Accrued interest	347,914		347,914
Unearned revenue	188,656	36,329	224,985
	<u>12,831,184</u>	<u>670,889</u>	<u>13,502,073</u>
Total current liabilities			
Noncurrent liabilities:			
Capital lease obligations	193,388		193,388
Bonds and notes payable	21,982,433		21,982,433
Early retirement incentive	106,268		106,268
Compensated absences	654,897		654,897
Net pension liability	84,583,000		84,583,000
Other postemployment benefits	765,325		765,325
	<u>108,285,311</u>		<u>108,285,311</u>
Total noncurrent liabilities			
Total liabilities	<u>121,116,495</u>	<u>670,889</u>	<u>121,787,384</u>
Deferred inflows of resources, pensions	<u>6,047,000</u>		<u>6,047,000</u>
Net position (deficit):			
Net investment in capital assets	32,468,726	162,918	32,631,644
Unrestricted	(62,887,894)	(121,843)	(63,009,737)
	<u>(30,419,168)</u>	<u>41,075</u>	<u>(30,378,093)</u>
Total net position (deficit)			
Total liabilities, deferred inflows of resources and net position (deficit)	<u>\$ 96,744,327</u>	<u>\$ 711,964</u>	<u>\$ 97,456,291</u>

CONESTOGA VALLEY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

	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	\$ 32,010,164	\$ 45,994	\$ 4,398,911	\$ (27,565,259)		\$ (27,565,259)
Special instruction	7,300,662		2,669,163	(4,631,499)		(4,631,499)
Vocational instruction	967,524		48,257	(919,267)		(919,267)
Other instructional programs	330,674		230,002	(100,672)		(100,672)
Total instructional services	<u>40,609,024</u>	<u>45,994</u>	<u>7,346,333</u>	<u>(33,216,697)</u>		<u>(33,216,697)</u>
Support services:						
Pupil personnel	2,138,460		183,115	(1,955,345)		(1,955,345)
Instructional staff	2,205,780		430,499	(1,775,281)		(1,775,281)
Administration	2,627,211		265,764	(2,361,447)		(2,361,447)
Pupil health	638,788		152,456	(486,332)		(486,332)
Business services	691,431		44,136	(647,295)		(647,295)
Operation of plant and maintenance	4,324,751		192,484	(4,132,267)		(4,132,267)
Student transportation services	2,169,816	207,925	808,135	(1,153,756)		(1,153,756)
Central	1,242,557		76,076	(1,166,481)		(1,166,481)
Other support services	43,669			(43,669)		(43,669)
Total support services	<u>16,082,463</u>	<u>207,925</u>	<u>2,152,665</u>	<u>(13,721,873)</u>		<u>(13,721,873)</u>
Noninstructional services:						
Student activities	1,129,126	178,804	215,519	(734,803)		(734,803)
Community services	186,096		20,513	(165,583)		(165,583)
Capital outlay	281,261			(281,261)		(281,261)
Debt service:						
Lease rental payment	143,222			(143,222)		(143,222)
Interest	913,106		645,671	(267,435)		(267,435)
Total noninstructional services	<u>2,652,811</u>	<u>178,804</u>	<u>881,703</u>	<u>(1,592,304)</u>		<u>(1,592,304)</u>

(continued)

CONESTOGA VALLEY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES (CONTINUED)

YEAR ENDED JUNE 30, 2015

	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	\$ 59,344,298	\$ 432,723	\$ 10,380,701	\$ (48,530,874)		\$ (48,530,874)
Business-type activities, food service	1,952,182	749,599	1,111,408		\$ (91,175)	(91,175)
Total primary government	<u>\$ 61,296,480</u>	<u>\$ 1,182,322</u>	<u>\$ 11,492,109</u>	(48,530,874)	(91,175)	(48,622,049)
General revenues:						
Taxes:						
Property, etc.				38,500,970		38,500,970
Other				5,654,216		5,654,216
Grants, subsidies, other nonrestricted				3,908,621		3,908,621
Interest				113,572	36	113,608
Loss on disposal of assets				(45,296)		(45,296)
Miscellaneous				696,110		696,110
Total general revenues and transfers				<u>48,828,193</u>	<u>36</u>	<u>48,828,229</u>
Change in net position				297,319	(91,139)	206,180
Net position (deficit):						
July 1, 2014, restated				<u>(30,716,487)</u>	<u>132,214</u>	<u>(30,584,273)</u>
June 30, 2015				<u>\$ (30,419,168)</u>	<u>\$ 41,075</u>	<u>\$ (30,378,093)</u>

See notes to financial statements.

CONESTOGA VALLEY SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS – JUNE 30, 2015

	ASSETS					Total governmental funds
	Major funds				Nonmajor funds	
	General fund	Capital project funds		Debt service fund		
Capital reserve fund		Athletic stadium fund				
Assets:						
Cash and cash equivalents	\$ 2,328,900	\$ 5,669	\$ 4,350		\$ 81,000	\$ 2,419,919
Investments	14,448,069	3,619,088				18,067,157
Restricted investments	118,768					118,768
Taxes receivable, net	1,667,366					1,667,366
Due from:						
Other funds	560,620			\$ 313,973	17,620	892,213
Other governments	2,580,471					2,580,471
Other receivables, net	417,248		93,606		737	511,591
Prepaid expenses	157,567					157,567
Total assets	\$ 22,279,009	\$ 3,624,757	\$ 97,956	\$ 313,973	\$ 99,357	\$ 26,415,052

(continued)

CONESTOGA VALLEY SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS (CONTINUED) – JUNE 30, 2015

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES

	Major funds					Total governmental funds
	General fund	Capital project funds		Debt service fund	Nonmajor funds	
		Capital reserve fund	Athletic stadium fund			
Liabilities:						
Due to other funds	\$ 648,828				\$ 475	\$ 649,303
Accounts payable	1,546,495	\$ 367,228	\$ 117,996			2,031,719
Accrued salaries and benefits	5,420,847					5,420,847
Payroll deductions and withholdings	299,741					299,741
Unearned revenue	188,656					188,656
Total liabilities	8,104,567	367,228	117,996		475	8,590,266
Deferred inflows of resources, unavailable revenue	356,975					356,975
Fund balances:						
Nonspendable	157,567					157,567
Restricted		3,257,529		\$ 313,973		3,571,502
Committed	7,413,314					7,413,314
Assigned	1,850,000				98,882	1,948,882
Unassigned	4,396,586		(20,040)			4,376,546
Total fund balances	13,817,467	3,257,529	(20,040)	313,973	98,882	17,467,811
Total liabilities, deferred inflows of resources and fund balances	\$ 22,279,009	\$ 3,624,757	\$ 97,956	\$ 313,973	\$ 99,357	\$ 26,415,052

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, 2015

Total fund balances, governmental funds		\$ 17,467,811
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 \$104,494,555, and the accumulated depreciation is \$46,081,439.		58,413,116
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.		1,805,861
Property taxes receivable are not available soon enough to pay for the current period's expenditures and, therefore, are unavailable in the funds.		356,976
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		(84,583,000)
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		9,978,314
Deferred inflows of resources, pensions		(6,047,000)
Deferred charge on refunding is not reported as a deferred outflow of resources in the funds.		994,353
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:		
Note payable	\$ (566,671)	
Bonds payable	(24,685,000)	
Capital lease obligations	(479,644)	
Accrued interest on the bonds	(347,914)	
Unamortized:		
Bonds insurance costs	7,548	
Bond premium, net of discount	(1,207,428)	
Compensated absences	(654,897)	
Early retirement incentive	(106,268)	
Other postemployment benefits	(765,325)	(28,805,599)
Total net position (deficit) of governmental activities		<u>\$ (30,419,168)</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, 2015

	Major funds				Nonmajor funds	Total governmental funds
	General fund	Capital project funds		Debt service fund		
		Capital reserve fund	Athletic stadium fund			
Revenues and other financing sources:						
Revenues:						
Local sources:						
Real estate taxes and penalties	\$ 38,756,721					\$ 38,756,721
Other taxes and penalties	5,599,979					5,599,979
Investment income	112,396	\$ 308	\$ 734		\$ 5	113,443
Rent	102,693					102,693
Other revenues	1,473,499		340,521		85,570	1,899,590
Total local sources	46,045,288	308	341,255		85,575	46,472,426
State sources	11,341,141					11,341,141
Federal sources	2,087,527					2,087,527
Other financing sources, interfund transfers		174,970		\$ 5,514,908		5,689,878
Total revenues and other financing sources	59,473,956	175,278	341,255	5,514,908	85,575	65,590,972

(continued)

CONESTOGA VALLEY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2015

	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	\$ 37,229,185					\$ 37,229,185
Support services	15,255,303					15,255,303
Operation of noninstructional services	1,246,056				\$ 9,470	1,255,526
Capital outlay		\$ 639,336	\$ 3,601,448		50,226	4,291,010
Debt service:						
Principal	143,222			\$ 4,565,053		4,708,275
Interest				1,004,755		1,004,755
Total expenditures	<u>53,873,766</u>	<u>639,336</u>	<u>3,601,448</u>	<u>5,569,808</u>	<u>59,696</u>	<u>63,744,054</u>
Other financing uses, interfund transfers	<u>5,689,878</u>					<u>5,689,878</u>
Total expenditures and other financing uses	<u>59,563,644</u>	<u>639,336</u>	<u>3,601,448</u>	<u>5,569,808</u>	<u>59,696</u>	<u>69,433,932</u>

(continued)

CONESTOGA VALLEY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2015

	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	\$ (89,688)	\$ (464,058)	\$ (3,260,193)	\$ (54,900)	\$ 25,879	\$ (3,842,960)
Fund balances:						
July 1, 2014	<u>13,907,155</u>	<u>3,721,587</u>	<u>3,240,153</u>	<u>368,873</u>	<u>73,003</u>	<u>21,310,771</u>
June 30, 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>

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, 2015

Total net change in fund balances, governmental funds	\$ (3,842,960)
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, \$2,938,235; capital outlays, \$4,995,847.	2,057,612
Loss on disposal of assets is not recorded in the governmental funds	(45,296)
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.	(217,606)
Principal payments and interest expense on prepaid debt service was recorded in prepaids in the governmental funds.	130,103
The internal service funds are used by mangement to charge the cost of certain activites to individual funds. The net revenue of the internal service fund is	416,429

(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, 2015

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	\$	54,797	
Compensated absences		1,115	
Post employment benefits			(188,003)

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	\$ 5,690,315	
Cost of benefits earned	<u>(8,440,000)</u>	(2,749,685)

The issuance of long-term obligations (i.e., bonds, leases, loans) 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:

Accrued interest	58,919	
Capital lease	154,215	
Repayment of bonds and notes principal	4,440,053	
Amortization of:		
Bond premium	284,895	
Bond discount	(25,413)	
Bond insurance costs	(3,019)	
Deferred charge on refunding	<u>(228,837)</u>	<u>4,680,813</u>

Change in net position (deficit) of governmental activities		<u>\$ 297,319</u>
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See notes to financial statements.

CONESTOGA VALLEY SCHOOL DISTRICT
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2015

ASSETS

	Major funds	
	Food service	Internal service
Current assets:		
Cash and cash equivalents	\$ 43	
Investments	470,500	\$ 1,811,430
Due from other governments	25,763	
Due from other funds	1,302	315,933
Other receivables, net	13,524	509
Inventory	39,216	
Prepays		16,217
	550,348	2,144,089
Total current assets		
Noncurrent assets:		
Machinery and equipment	1,069,758	
Accumulated depreciation	(906,840)	
	162,918	
Total noncurrent assets		
Total assets	\$ 713,266	\$ 2,144,089

See notes to financial statements.

LIABILITIES AND NET POSITION

	Major funds	
	Food service	Internal service
Current liabilities:		
Due to other funds	\$ 560,145	
Accounts payable	5,445	\$ 338,228
Accrued salaries and benefits	70,272	
Unearned revenue	36,329	
Total current liabilities	672,191	338,228
Net position:		
Net investment in capital assets	162,918	
Unrestricted	(121,843)	1,805,861
Total net position	41,075	1,805,861
Total liabilities and net position	\$ 713,266	\$ 2,144,089

CONESTOGA VALLEY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2015

	Major funds	
	Food service	Internal service
Operating revenues:		
Food service revenue	\$ 710,352	
Charges for services		\$ 5,473,933
Other local sources	39,247	3,296
Total operating revenues	749,599	5,477,229
Operating expenses:		
Depreciation	27,812	
Employee benefits, medical insurance		4,631,659
Food supplies	919,259	
Miscellaneous expenses	548	
Administrative services	1,850	429,270
Personnel	1,002,713	
Total operating expenses	1,952,182	5,060,929
Operating income (loss)	(1,202,583)	416,300
Nonoperating revenues:		
Earnings on investments	36	129
State subsidy revenue	58,634	
Federal subsidy revenue	962,712	
Social Security subsidy revenue	25,271	
Retirement subsidy revenue	64,791	
Total nonoperating revenues	1,111,444	129
Change in net position	(91,139)	416,429
Total net position:		
July 1, 2014	132,214	1,389,432
June 30, 2015	\$ 41,075	\$ 1,805,861

See notes to financial statements.

CONESTOGA VALLEY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2015

	Major funds	
	Food service	Internal service
Cash flows from operating activities:		
Cash received:		
Users	\$ 704,483	
Assessments made to other funds		\$ 5,476,720
Other operating revenue	39,247	
Cash payments:		
Employee benefits, medical insurance		(5,317,956)
Suppliers for goods and services	(707,245)	
Other operating expenses	(548)	(429,270)
Salaries	(944,047)	
Net cash used in operating activities	(908,110)	(270,506)
Cash flows from noncapital financing activities:		
State sources	160,650	
Federal sources	1,041,478	
Net cash provided by noncapital financing activities	1,202,128	
Cash flows from investing activities:		
Earnings on investments	36	129
Withdrawals or redemptions from investment securities	1,680,312	5,474,005
Purchase of investment securities	(1,974,353)	(5,203,628)
Net cash provided by (used in) investing activities	(294,005)	270,506

(continued)

CONESTOGA VALLEY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)

YEAR ENDED JUNE 30, 2015

	Major funds	
	Food service	Internal service
Net change in cash and cash equivalents	\$ 13	\$ -
Cash and cash equivalents:		
Beginning of year	30	-
End of year	\$ 43	\$ -
Reconciliation of operating income (loss) to net cash used in operating activities:		
Operating income (loss)	\$ (1,202,583)	\$ 416,300
Adjustments:		
Depreciation	27,812	
Donated commodities	107,571	
(Increase) decrease in:		
Prepaid		(16,217)
Due from other funds	(1,302)	(315,933)
Other receivables	(5,869)	(509)
Inventories	897	
Increase (decrease) in:		
Accounts payable	5,017	(269,258)
Due to other funds	89,381	(84,889)
Accrued benefits	60,516	
Unearned revenue	10,450	
Total adjustments	294,473	(686,806)
Net cash used in operating activities	\$ (908,110)	\$ (270,506)

See notes to financial statements.

CONESTOGA VALLEY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS

YEAR ENDED JUNE 30, 2015

	<u>Student activities</u>	<u>Private purpose trust</u>
Assets:		
Cash and cash equivalents	\$ 14,822	
Investments	<u>137,523</u>	<u>\$ 162,235</u>
Total assets	<u><u>\$ 152,345</u></u>	<u><u>\$ 162,235</u></u>
Liabilities, due to student groups	\$ 152,345	
Net position, held in trust for scholarships	<u> </u>	<u>\$ 162,235</u>
Total liabilities and net position	<u><u>\$ 152,345</u></u>	<u><u>\$ 162,235</u></u>

See notes to financial statements.

CONESTOGA VALLEY SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – FIDUCIARY FUNDS

YEAR ENDED JUNE 30, 2015

	<u>Private purpose trust</u>
Additions:	
Gifts and contributions	\$ 10,321
Earnings and investments	<u>219</u>
Total additions	10,540
Deductions, scholarships awarded	<u>(5,300)</u>
Change in net position	5,240
Net position:	
July 1, 2014	<u>156,995</u>
June 30, 2015	<u><u>\$ 162,235</u></u>

See notes to financial statements.

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

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 conformity 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, 2015

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, 2015

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, 2015

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, 2015

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 expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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, 2015

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, 2015

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, 2015 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, 2015

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 represents 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 the pension plans' fiduciary net position; 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, 2015

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, 2015

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, 2015, the rate of employer contribution was 21.40%. The 21.40% rate is composed of a contribution rate of 20.50% for pension benefits and 0.90% for healthcare insurance premium assistance. The District is required to pay the entire 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, 2015 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, 2015, the District's obligation for single coverage health insurance under this program was approximately \$106,000.

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

1. Summary of significant accounting policies (continued):

Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures or expenses during the reporting period. 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, 2015

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, 2015, \$450,000 of the District's bank balance was insured by the Federal Deposit Insurance Corporation (FDIC) and the remaining balance was collateralized under Act 72.

Financial statement amounts, deposits:

Government activities	\$ 2,419,919
Business-type activities	43
Fiduciary funds, student activities	<u>14,822</u>
	<u><u>\$ 2,434,784</u></u>

CONESTOGA VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2015

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

Investments:

As of June 30, 2015, the District had the following investments and restricted investments:

Investment	Maturity	Fair value	
PA Local Government Investment Trust		\$ 295,909	
PA School District Liquid Asset Fund		10,681,704	*
Certificates of deposit:			
Susquehanna Bank:			
	July 28, 2015	100,000	**
	March 22, 2016	100,000	**
PA School District Liquid Asset Fund:			
	July 27, 2015	245,000	**
	July 27, 2015	245,000	**
	July 27, 2015	245,000	**
	July 30, 2015	245,000	**
	July 30, 2015	245,000	**
	July 30, 2015	245,000	**
	September 1, 2015	4,000,000	***
	September 4, 2015	245,000	**
	September 9, 2015	245,000	**
	September 10, 2015	245,000	**
	September 11, 2015	245,000	**
	September 17, 2015	200,000	**
	October 21, 2015	245,000	**
	November 6, 2015	245,000	**
	November 13, 2015	245,000	**
	November 19, 2015	245,000	**
	November 19, 2015	245,000	**
	December 10, 2015	245,000	**
	February 4, 2016	245,000	**
	February 12, 2016	245,000	**

CONESTOGA VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2015

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

Investments (continued):

<u>Investment</u>	<u>Maturity</u>	<u>Fair value</u>
Certificates of deposit (continued):		
PA School District Liquid Asset Fund		
(continued):		
	June 1, 2016	\$ 245,000 **
	June 1, 2016	245,000 **
	September 19, 2016	245,000 **
	September 19, 2016	<u>245,000 **</u>
Total		<u><u>\$ 20,767,613</u></u>

* Includes restricted investments of \$118,768

** Certificates of deposit totaling \$5,790,000 are insured by FDIC

*** Collateralized certificate of deposit investment pool which invests in insured certificates of deposit

Financial statement amounts:

Governmental activities, current assets	\$ 19,878,587
Governmental activities, restricted, current assets	118,768
Business-type activities	470,500
Fiduciary funds	<u>299,758</u>
	<u><u>\$ 20,767,613</u></u>

CONESTOGA VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 YEAR ENDED JUNE 30, 2015

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, 2015, 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
Susquehanna 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, 2015 was 14.833 (\$14.833 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, 2015

4. Taxes receivable and related accounts, general fund:

A summary of the taxes receivable and related accounts as of June 30, 2015 were as follows:

	<u>Taxes receivable</u>	<u>Tax revenue recognized</u>	<u>Unearned revenue</u>	<u>Unavailable revenue</u>
Real estate, net	\$ 499,584	\$ 142,609		\$ 356,975
Earned income taxes	780,808	780,808		
Per capita and emergency management services tax	205,951	65,327	\$ 140,624	
Transfer tax	118,432	118,432		
Amusement tax	62,591	62,591		
	<u>\$ 1,667,366</u>	<u>\$ 1,169,767</u>	<u>\$ 140,624</u>	<u>\$ 356,975</u>

5. Due from/to other funds and transfers:

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

	<u>Due from other funds</u>	<u>Due to other funds</u>
General fund	\$ 560,620	\$ 648,828
Debt service	313,973	
Food service fund	1,302	560,145
Internal service fund	315,933	
Athletic facilities improvement fund	17,620	475
Total	<u>\$ 1,209,448</u>	<u>\$ 1,209,448</u>

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

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

The General Fund due to other funds pertains to the following: \$313,973 to the Debt Service Fund for principal and interest payments; \$315,933 to the Internal Service Fund for healthcare claims; \$18,922 pertains to participation fees of \$3,875, rental fees of \$13,745, and \$1,302 pertaining to Food Service Fund payroll and benefits. The Athletic Facilities Improvement Fund pertains to rental fees of \$475. The Food Service Fund due to other funds of \$560,145 pertains to payroll and benefits paid by the General Fund.

Interfund transfers in the governmental funds for the year ended June 30, 2015 are as follows:

	<u>Transfers to other funds</u>	<u>Transfers from other funds</u>
General fund	\$ 5,689,878	
Capital reserve		\$ 174,970
Debt service fund		<u>5,514,908</u>
	<u>\$ 5,689,878</u>	<u>\$ 5,689,878</u>

Transfers include debt service payments and \$174,970 transferred to the capital reserve fund for future capital improvements.

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

6. Due from other governments:

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2015, the following amounts are due from other governmental units:

	<u>General fund</u>	<u>Food service fund</u>
Federal programs	\$ 206,946	\$ 22,188
State programs/grants:		
School lunch		1,231
School breakfast		234
State subsidies:		
Social Security	186,078	2,110
Retirement	1,531,272	
Medicaid administration claim	1,384	
Pre-K counts	17,803	
Transportation	9,970	
Local:		
IDEA, Part B	523,563	
Special Education	103,455	
	<u>\$ 2,580,471</u>	<u>\$ 25,763</u>

7. Unearned revenue:

Unearned revenue at June 30, 2015 consists of the following:

General fund, unearned revenue:	
Per capita and emergency management service tax, Note 4	\$ 140,624
Other	48,032
	<u>\$ 188,656</u>
Food service fund, commodities inventory	<u>\$ 36,329</u>

CONESTOGA VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2015

8. Fund balances:

As of June 30, 2015, 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	\$ 157,567					\$ 157,567
Restricted:						
Debt service				\$ 313,973		313,973
Capital projects		\$ 3,257,529				3,257,529
Committed:						
Future pension obligation	6,903,271					6,903,271
Health savings account reserve	510,043					510,043
Assigned:						
Athletic facilities, Buckskin Consortium					\$ 59,486	59,486
Extra curricular, Market Street Sports					39,396	39,396
Assessment appeals	1,850,000					1,850,000
Unassigned	<u>4,396,586</u>		\$ (20,040)			<u>4,376,546</u>
Total fund balances	<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>

CONESTOGA VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2015

9. Capital assets:

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

	Beginning balance	Increases	Decreases	Transfers	Ending balance
Governmental activities:					
Capital assets not being depreciated, land	\$ 2,153,951				\$ 2,153,951
Capital assets being depreciated:					
Site improvements	2,525,564	\$ 4,017,067		\$ 580,813	7,123,444
Buildings and building improvements	88,030,559				88,030,559
Furniture and equipment	7,174,125	832,128	\$ 975,773		7,030,480
Total assets being depreciated	97,730,248	4,849,195	975,773	580,813	102,184,483
Less accumulated depreciation for:					
Site improvements	2,339,679	286,584			2,626,263
Building and building improvements	37,405,659	1,862,523			39,268,182
Furniture and equipment	4,328,343	789,128	930,477		4,186,994
Total accumulated depreciation	44,073,681	2,938,235	930,477		46,081,439
Total capital assets being depreciated, net	53,656,567	1,910,960	45,296	580,813	56,103,044
Construction in progress	590,282	146,652		(580,813)	156,121
Governmental activities, capital assets, net	\$ 56,400,800	\$ 2,057,612	\$ 45,296	\$ -	\$ 58,413,116

CONESTOGA VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2015

9. Capital assets (continued):

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending balance</u>
Business-type activities:					
Capital assets being depreciated, equipment	\$ 1,069,758				\$ 1,069,758
Less accumulated depreciation for equipment	<u>879,028</u>	<u>\$ 27,812</u>			<u>906,840</u>
Business-type activities, capital assets, net	<u>\$ 190,730</u>	<u>\$ (27,812)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 162,918</u>

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

	<u>Instruction</u>	<u>Support services</u>	<u>Total</u>
Regular instruction	\$ 2,520,572		\$ 2,520,572
Special instruction	2,432		2,432
Pupil personnel		\$ 592	592
Instructional staff		10,870	10,870
Administration		4,861	4,861
Pupil health		210	210
Business services		990	990
Operation of plant and maintenance		202,156	202,156
Central services		49,853	49,853
Student activities		145,699	145,699
	<u>\$ 2,523,004</u>	<u>\$ 415,231</u>	<u>\$ 2,938,235</u>

CONESTOGA VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

10. Long-term debt:

Summary of general obligation bonds and notes (secured by the full faith and credit of the District) as of June 30, 2015:

Year	Amount	Interest rates	Maturity date	Annual principal installments ranging from
2004 bonds	\$ 2,920,000	4.00% - 5.00%	2018	\$550,000 - \$1,800,000
2008 (General Obligation Note)	566,671	3.77% - 6.00%	2023	\$33,343 - \$66,666
2012 bonds	18,165,000	2.00% - 4.00%	2020	\$2,300,000 - \$5,015,000
2014 bonds	<u>3,600,000</u>	.40% - 2.20%	2021	\$5,000 - \$2,400,000
	<u>\$ 25,251,671</u>			

CONESTOGA VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2015

10. Long-term debt (continued):

The following is a summary of debt transactions of the District for the year ended June 30, 2015:

Bonds and notes payable at July 1, 2014	\$ 29,691,724
Principal paid:	
Series of 2004	(1,725,000)
Series of 2004 (Note)	(123,387)
Series of 2008 (Note)	(66,666)
Series of 2012	(2,520,000)
Series of 2014	<u>(5,000)</u>
Bonds and note payable at June 30, 2015	25,251,671
Original issue premium, net of discount	<u>1,207,428</u>
Total long-term debt	26,459,099
Less current portion	<u>4,476,666</u>
	<u><u>\$ 21,982,433</u></u>

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

Year ending June 30,	Principal	Interest	Total
2016	\$ 4,476,666	\$ 842,373	\$ 5,319,039
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
2021-2023	<u>1,413,341</u>	<u>53,597</u>	<u>1,466,938</u>
	<u><u>\$ 25,251,671</u></u>	<u><u>\$ 2,587,620</u></u>	<u><u>\$ 27,839,291</u></u>

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

10. Long-term debt (continued):

Expenditures for interest on long-term debt for the year ended June 30, 2015 were \$1,004,755 and were primarily provided from general fund transfers.

11. Letter of credit:

As of June 30, 2015, the School District has a letter of credit with a local bank for \$771,797 which pertains to the athletic stadium project. The letter of credit matures on June 30, 2016. The letter of credit is secured by property of the School District.

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 \$175,320. The principal balance will be amortized over a term of 36 months at an effective annual interest rate of 2.46%. Three annual payments of principal and interest of \$60,435 are payable during the month of November each year.

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, 2015

12. Capital leases (continued):

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

Fiscal year ending June 30,	Principal	Interest	Total
2016	\$ 286,256	\$ 17,377	\$ 303,633
2017	147,299	7,406	154,705
2018	46,089	1,121	47,210
	<u>\$ 479,644</u>	<u>\$ 25,904</u>	<u>\$ 505,548</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, 2015

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 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the 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 member, 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, 2015

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, 2015 was 20.50% 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 \$5,690,315 for the year ended June 30, 2015.

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, 2015, the District reported a liability of \$84,583,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2013 to June 30, 2014. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2014, the District's proportion was .2137 percent, which was a decrease of .007% from its proportion measured as of June 30, 2013.

CONESTOGA VALLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2015

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, 2015, the District recognized pension expense of \$8,440,000. At June 30, 2015 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		\$ 6,047,000
Changes in proportion	\$ 4,288,000	
District contributions subsequent to the measurement date	5,690,315	
	\$ 9,978,315	\$ 6,047,000

For the year ended June 30, 2015, \$5,690,315 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 reports 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,	
2016	\$ (478,000)
2017	(478,000)
2018	(478,000)
2019	(478,000)
2020	153,000

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

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, 2014 was determined by rolling forward the System's total pension liability as of the June 30, 2013 actuarial valuation to June 30, 2014 using the following actuarial assumptions, applied to all periods included in the 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 3 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, 2013 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the PSERS board at its March 11, 2011 board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

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

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

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

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, 2014:

<u>Asset class</u>	<u>Target allocation</u>	<u>Expected real rate of return</u>
Public market global equity	19 %	5.0 %
Private markets (equity)	21	6.5
Private real estate	13	4.7
Global fixed income	8	2.0
U.S. treasuries	3	1.4
Treasury inflation protected securities	12	1.2
High yield bonds	6	1.7
Cash	3	0.9
Absolute return	10	4.8
Risk parity	5	3.9
Master limited partnerships/infrastructure	3	5.3
Commodities	6	3.3
Financing (LIBOR)	<u>(9)</u>	1.1
	<u>100 %</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, 2015

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:

	<u>1% Decrease 6.50%</u>	<u>Current discount rate 7.50%</u>	<u>1% Increase 8.50%</u>
District's proportionate share of the net pension liability	\$ 105,507,000	\$ 84,583,000	\$ 66,722,000

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, 2015

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, 2015

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, 2014	\$ 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>\$ 365,475</u>
Annual OPEB cost	\$ 365,475
Interest on net obligation	25,979
Adjustment made to annual required contribution	(35,443)
Estimated contributions made	<u>(168,008)</u>
Increase in net OPEB obligation	188,003
Net OPEB liability:	
Beginning of year	<u>577,322</u>
End of year	<u>\$ 765,325</u>

CONESTOGA VALLEY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 YEAR ENDED JUNE 30, 2015

14. Other postemployment benefits (continued):

Trend information:

Fiscal year ended	Annual OPEB cost	Employer contributions	Percentage of annual OPEB cost contributed	Net OPEB obligation
6/30/2015	\$ 365,475	\$ 168,008	45.97%	\$ 765,325
6/30/2014	302,499	221,753	73.31%	577,322
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	July 1, 2014	July 1, 2012	July 1, 2010
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, 2015

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 Technical Center (LCCTC):

The District is one of 16 member school districts of the Lancaster County Career and Technical 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 Technical 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, 2015 was \$871,481, 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, 2015

15. Joint ventures (continued):

Lancaster County Career and Technical 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 Technical 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. The bonds are intended to be issued in one or more series over a three-year period. 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, 2015 was \$1,006,936.

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, 2015 was \$1,239,363.

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 is \$450,197.

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

15. Joint ventures (continued):

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

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

Fiscal year ending June 30,	Total
2016	\$ 111,487
2017	111,388
2018	123,771
2019	123,630
2020	123,596
2021-2025	618,637
2026-2030	618,311
2031-2035	618,584
2036-2037	<u>247,092</u>
Total minimum future rental payments	<u>\$ 2,696,496</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, 2015. 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, 2015

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, 2015 was approximately \$1,914,900. 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, 2015 was \$38,995. 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, 2015 was \$75,634. 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, 2015

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 Technical 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, 2015, 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 \$6,063,523 in total. A liability for claims incurred prior to June 30, 2015 and paid subsequently is recorded in the amount of \$338,228 in accounts payable in the Internal Service Fund.

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

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, 2015, 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, 2015, 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 \$1,514,000.

As of June 30, 2015, the District was committed under various equipment and construction contracts for elementary school and high school improvements totaling \$697,145 and for athletic stadium improvements totaling \$443,301. Of these amounts, a total of \$250,940 was recorded in accounts payable at year-end.

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

18. Adoption of new accounting principles:

Effective July 1, 2014, the District adopted GASB Statements No. 67, *Financial Reporting for Pension Plans*, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The new standards revise and establish new financial reporting requirements for pension benefits provided for employees. The following is the adjustment to net position for governmental activities:

	<u>Governmental activities</u>
Beginning net position as previously reported at June 30, 2014	<u>\$ 47,185,513</u>
Prior period adjustment - implementation GASB 68 Net pension liability (measurement date)	(82,159,000)
Deferred outflows - District's contribution made during fiscal year 2014	<u>4,257,000</u>
Total prior period adjustment	<u>(77,902,000)</u>
Net position (deficit) as restated, July 1, 2014	<u><u>\$ (30,716,487)</u></u>

19. Subsequent event:

Effective July 1, 2015, the District entered into an agreement with SOS Lancaster (SOSL) a personnel and management services corporation to provide part-time and full-time personnel based on a predetermined schedule agreed upon by the District and SOSL. SOSL is responsible to hire, supervise and assign its employees to carry out the duties SOSL is contracted to perform for or on behalf of the District.

The School District has evaluated subsequent events through December 7, 2015, the date that 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, 2015

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

CONESTOGA VALLEY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2015

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

CONESTOGA VALLEY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2015

	Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) - entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a) / c)
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, 2015

	Budgeted amounts		Actual budgetary activities	Variance with final budget positive (negative)
	Original	Final		
Revenues:				
Local sources:				
Real estate taxes and penalties	\$ 38,828,292	\$ 38,828,292	\$ 38,756,721	\$ (71,571)
Other taxes and penalties	5,046,290	5,046,290	5,599,979	553,689
Investment income	125,000	125,000	112,391	(12,609)
Rent	75,000	75,000	102,693	27,693
Revenues from intermediate sources	627,459	627,459	733,167	105,708
Tuition	40,800	40,800	60,370	19,570
Other revenue	396,000	396,000	581,388	185,388
Revenues from student activities	88,000	88,000	89,940	1,940
Total local sources	45,226,841	45,226,841	46,036,649	809,808
State sources	11,584,911	11,584,911	11,341,141	(243,770)
Federal sources	2,154,009	2,154,009	2,087,527	(66,482)
Total revenues	58,965,761	58,965,761	59,465,317	499,556
Expenditures:				
Instruction:				
Regular programs	29,205,365	29,221,140	28,920,615	300,525
Special programs	6,846,924	7,199,787	7,014,455	185,332
Vocational programs	1,102,639	971,639	967,524	4,115
Other instructional programs	393,639	345,139	326,591	18,548
	37,548,567	37,737,705	37,229,185	508,520

(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, 2015

	Budgeted amounts		Actual budgetary activities	Variance with final budget positive (negative)
	Original	Final		
Expenditures (continued):				
Support services:				
Pupil personnel services	\$ 2,109,995	\$ 2,136,280	\$ 2,007,647	\$ 128,633
Instructional staff services	2,251,936	2,265,521	2,072,069	193,452
Administrative services	2,665,262	2,743,721	2,651,490	92,231
Pupil health	519,941	522,195	520,485	1,710
Business services	575,957	603,257	587,701	15,556
Operation and maintenance of plant services	4,532,166	4,202,021	4,043,616	158,405
Student transportation services	2,266,722	2,292,577	2,169,706	122,871
Central and other support services	1,350,911	1,241,089	1,202,589	38,500
	<u>16,272,890</u>	<u>16,006,661</u>	<u>15,255,303</u>	<u>751,358</u>
Operation of noninstructional services:				
Student activities	1,103,644	1,129,844	1,038,890	90,954
Community services	42,398	24,498	19,449	5,049
	<u>1,146,042</u>	<u>1,154,342</u>	<u>1,058,339</u>	<u>96,003</u>
Debt service	<u>163,000</u>	<u>161,550</u>	<u>143,222</u>	<u>18,328</u>
Total expenditures	<u>55,130,499</u>	<u>55,060,258</u>	<u>53,686,049</u>	<u>1,374,209</u>
Excess of revenues over expenditures	<u>3,835,262</u>	<u>3,905,503</u>	<u>5,779,268</u>	<u>1,873,765</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, 2015

	<u>Budgeted amounts</u>		<u>Actual budgetary activities</u>	<u>Variance with final budget positive (negative)</u>
	<u>Original</u>	<u>Final</u>		
Other financing uses:				
Interfund operating transfers	\$ 5,753,461	\$ 5,828,461	\$ 5,826,822	\$ 1,639
Budgetary reserve	225,000	220,241		220,241
	<u>5,978,461</u>	<u>6,048,702</u>	<u>5,826,822</u>	<u>221,880</u>
Net change in fund balances	<u>\$ (2,143,199)</u>	<u>\$ (2,143,199)</u>	(47,554)	<u>\$ 2,095,645</u>
Fund balances:				
July 1, 2014			<u>13,867,011</u>	
June 30, 2015			<u>\$ 13,819,457</u>	

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (unaudited)

YEAR ENDED JUNE 30, 2015

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, 2015.
7. The budget for the General Fund is adopted on the modified accrual basis of accounting, except that a budgetary reserve is provided.

CONESTOGA VALLEY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
(unaudited)

YEAR ENDED JUNE 30, 2015

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	\$ 59,465,317
Reclassifications, athletic fund revenue not included in general fund budgetary approval	<u>8,639</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - general fund	<u><u>\$ 59,473,956</u></u>
Expenditures:	
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedule	\$ 53,686,049
Reclassifications, athletic fund expenditures not included in general fund budgetary approval	<u>187,717</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - general fund	<u><u>\$ 53,873,766</u></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, 2015

	Special revenue funds		
	Athletic facilities improvement	Extra- curricular fund	Total nonmajor funds
ASSETS			
Assets:			
Cash and cash equivalents	\$ 41,604	\$ 39,396	\$ 81,000
Due from other funds	17,620		17,620
Other receivables, net	737		737
Total assets	\$ 59,961	\$ 39,396	\$ 99,357
LIABILITIES AND FUND BALANCES			
Liabilities, due to other funds	\$ 475		\$ 475
Fund balance, assigned	59,486	\$ 39,396	98,882
Total liabilities and fund balances	\$ 59,961	\$ 39,396	\$ 99,357

CONESTOGA VALLEY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2015

	Special revenue funds		
	Athletic facilities improvement	Extra- curricular fund	Total nonmajor funds
Revenues and other financing sources:			
Revenues, local sources	\$ 64,977	\$ 20,593	\$ 85,570
Investment income	5		5
Total revenues and other financing sources	64,982	20,593	85,575
Expenditures:			
Operation of noninstructional services	9,470		9,470
Capital outlay	50,226		50,226
Total expenditures	59,696	-	59,696
Net changes in fund balances	5,286	20,593	25,879
Fund balances:			
July 1, 2014	54,200	18,803	73,003
June 30, 2015	\$ 59,486	\$ 39,396	\$ 98,882

CONESTOGA VALLEY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2015

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, 2014	Revenue recognized	Expenditures	Accrued (unearned) revenue at June 30, 2015
<u>U.S. Department of Agriculture:</u>										
Passed through the Pennsylvania Department of Education:										
Child Nutrition Cluster										
National School Lunch Program:										
	I/F	10.555	N/A	07/01/14-6/30/15	N/A	\$ 692,609		\$ 710,947	\$ 710,947	\$ 18,338
	I/F	10.555	N/A	07/01/13-6/30/14	N/A	170,455	\$ 170,455			-
	I/F	10.555	N/A	07/01/11-6/30/12	N/A		850			850
School Breakfast Program:										
	I/F	10.553	N/A	07/01/14-6/30/15	N/A	140,344		144,194	144,194	3,850
	I/F	10.553	N/A	07/01/13-6/30/14	N/A	38,070	38,070			-
Total passed through the Pennsylvania Department of Education						1,041,478	209,375	855,141	855,141	23,038
Passed through the Pennsylvania Department of Agriculture:										
National School Lunch Program, donated commodities										
	I/F	10.555	N/A	07/01/14-6/30/15	N/A	111,179 (b)	(17,258) (a)	107,571 (c)	107,571	(20,866) (d)
Total U.S. Department of Agriculture						1,152,657	192,117	962,712	962,712	2,172
<u>U.S. Department of Education:</u>										
Passed through the Pennsylvania Department of Education:										
Title I Grants to Local Educational Agencies:										
	I/F	84.010	013-150096	07/01/14-06/30/15	1,078,474	797,512		963,153	963,153	165,641
	I/F	84.010	013-140096	07/17/13-09/30/14	1,077,415	356,470	319,155	37,315	37,315	-
Title II, Improving Teacher Quality:										
	I/F	84.367	020-150096	07/01/14-06/30/15	174,299	174,136		174,299	174,299	163
	I/F	84.367	020-140096	07/17/13-09/30/14	174,728	23,139	23,139			-
Title III, Improving Language Instruction:										
	I/F	84.365	010-150096	07/01/14-06/30/15	83,199	55,466		54,681	54,681	(785)
	I/F	84.365	010-140096	07/17/13-09/30/14	43,842	5,846	3,389	2,457	2,457	-

(continued)

CONESTOGA VALLEY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2015

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, 2014	Revenue recognized	Expenditures	Accrued (unearned) revenue at June 30, 2015
<u>U.S. Department of Education (continued):</u>										
Passed through the Pennsylvania Department of Education (continued): Striving Readers Comprehensive Literacy Grant Program:										
	I/F	84.371	143-140096	10/01/14-09/30/15	\$ 802,675	\$ 668,896		\$ 708,305	\$ 708,305	\$ 39,409
	I/F	84.371	143-130096	07/01/13-09/30/14	849,247	212,312	\$ 118,715	93,597	93,597	-
Total passed through the Pennsylvania Department of Education						2,293,777	464,398	2,033,807	2,033,807	204,428
Passed through the Lancaster-Lebanon Intermediate Unit: Special Education - Grants to States: IDEA, Part B:										
	I/F	84.027	062-15-0-013	07/01/14-09/30/15	670,057	152,883		670,057	670,057	517,174
	I/F	84.027	062-14-0-013	07/01/13-09/30/14	598,612	463,617	463,617			-
IDEA-Preschool (619):										
	I/F	84.173	131-14-0-013	07/01/14-06/30/15	6,389			6,389	6,389	6,389
	I/F	84.173	131-13-0-013	07/01/13-06/30/14	4,901	4,901	4,901			-
Total passed through the Lancaster-Lebanon Intermediate Unit						621,401	468,518	676,446	676,446	523,563
Total U.S. Department of Education						2,915,178	932,916	2,710,253	2,710,253	727,991
<u>U.S. Department of Health and Human Services:</u>										
Passed through the Pennsylvania Department of Welfare, ACCESS:										
	I/F	93.778	N/A	07/01/14-06/30/15		8,465		8,465	8,465	-
Total U.S. Department of Health and Human Services						8,465	-	8,465	8,465	-
Total expenditures of federal awards						\$ 4,076,300	\$ 1,125,033	\$ 3,681,430	\$ 3,681,430	\$ 730,163

(continued)

CONESTOGA VALLEY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2015

Source codes:

I = Indirect funding

F = Federal share

CFDA = Catalog of Federal Domestic Assistance

Calculation of 25% rule (25% for low-risk auditee):

Total expenditures per above

\$ 3,681,430

84.027 and 84.173

Special education cluster
Striving Readers Comprehensive Literacy

\$ 676,446

84.371

Reading Program

\$ 801,902

\$ 1,478,348

\$ 3,681,430 = 40.2% Programs meet the 25% 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.

Note 2 Food distribution

- 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



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, 2015 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 7, 2015.

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
December 7, 2015



Independent Auditors' Report on Compliance for each Major Federal Program
and Report on Internal Control Over Compliance Required by
OMB Circular A-133

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

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 its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Brown Schultz Steidman & Fritz

Lancaster, Pennsylvania
December 7, 2015

CONESTOGA VALLEY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

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 Section 510(a) of Circular A-133? _____yes X no

(continued)

CONESTOGA VALLEY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

I. SUMMARY OF AUDITORS' RESULTS (CONTINUED):

Identification of major programs:

<u>CFDA numbers</u>	<u>Name of federal program or cluster</u>
84.027	Special Education Cluster:
84.173	Special education Grants to States
	Special education-preschool grant
84.371	Striving Readers Comprehensive Literacy Reading Program

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

\$ 300,000

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, 2015

There were no prior year OMB Circular A-133 audit findings.