

POTTSVILLE AREA SCHOOL DISTRICT

SINGLE AUDIT REPORT

POTTSVILLE, PENNSYLVANIA

FOR THE YEAR ENDED JUNE 30, 2016

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A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

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Board of School Directors
Pottsville Area School District
Pottsville, Pennsylvania

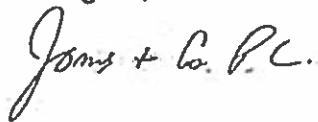
We have performed the Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements, for Federal Awards (Uniform Guidance) of the Pottsville Area School District for the year ended June 30, 2016. Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements, for Federal Awards (Uniform Guidance) indicates that the auditee is responsible for ensuring appropriate submission of the audit reports to appropriate government officials.

The reporting packages must be submitted no later than 30 days after you receive our Single Audit Report but no later than nine months after the year end (March 31, 2017).

The Single Audit was done to fulfill the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements, for Federal Awards (Uniform Guidance). It entailed: (1) an audit of the general purpose financial statements and our opinion thereon; (2) an examination of the Schedule of Expenditures of Federal Awards and our opinion thereon; (3) a review of the internal control structure based solely on the understanding obtained as part of the audit of the general purpose financial statements; (4) a review of the internal control structure made as a part of the audit of the federal financial assistance programs; (5) a review of compliance based on an audit of the general purpose financial statements in accordance with Government Auditing Standards; and (6) a review of compliance with laws and regulations related to the federal financial assistance programs and our opinion thereon.

As part of our report, we have not enclosed a management letter for the fiscal year ended June 30, 2016.

Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements, for Federal Awards (Uniform Guidance) requires that when filing the Single Audit Report and the Data Collection Form with the agencies listed on Page 2, the District must enclose the appropriate number of reports as listed.



December 16, 2016
Pottsville, Pennsylvania

POTTSVILLE AREA SCHOOL DISTRICT

LIST OF REPORT DISTRIBUTION

JUNE 30, 2016

- | | |
|---|---|
| 1 Single Audit Report - | Prothonotary Office
Schuylkill County Courthouse
Pottsville, PA |
| 1 Single Audit Report,
Data Collection Form &
Single Audit Reporting
Package Checklist | Must be submitted Via Electronic
Mail (E-mail)
Commonwealth of Pennsylvania
Office of the Budget - Bureau of
Audits, Special Audit Services
Division
RA-BOASingleAudit@state.pa.us |
| 1 Single Audit Report and
Data Collection Form | Federal Audit Clearinghouse
Via Internet Website
www.harvester.census.gov/sac |

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INDEPENDENT AUDITOR'S REPORT

Board of School Directors
Pottsville Area School District
Pottsville, 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 the Pottsville Area School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Pottsville Area School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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 the Pottsville Area School District, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 10-23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

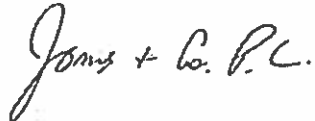
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pottsville Area School District's basic financial statements. The introductory section, combining and individual non-major fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The schedule of the District's proportionate share of the net pension liability and the schedule of the District's contributions have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2016, on our consideration of the Pottsville Area 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 the Pottsville Area School District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Jones + Co. P.C.".

December 16, 2016
Pottsville, Pennsylvania

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of School Directors
Pottsville Area School District
Pottsville, 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 the Pottsville Area School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Pottsville Area School District's basic financial statements, and have issued our report thereon dated December 16, 2016.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness. This material weakness is identified as finding 2016-01.

Compliance and Other Matters

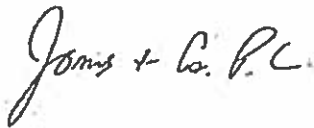
As part of obtaining reasonable assurance about whether the Pottsville Area School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2016-02 and 2016-03.

Pottsville Area School District's Response to Findings

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

Purpose of this Report

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



December 16, 2016
Pottsville, Pennsylvania

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

Board of School Directors
Pottsville Area School District
Pottsville, Pennsylvania

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

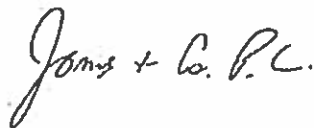
Report on Internal Control over Compliance

Management of the Pottsville Area 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 the Pottsville Area School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Pottsville Area School District's internal control over compliance.

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

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

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



December 16, 2016
Pottsville, Pennsylvania

**POTTSVILLE AREA SCHOOL DISTRICT
POTTSVILLE, PENNSYLVANIA**

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

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

The Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

During the fiscal year 2015-2016, the Pottsville Area School District experienced another year of significant increases in the costs for instruction and for health benefits for our employees. However, in the budgeting process, the Board of School Directors was able to balance the budget without any increase in millage to our taxpayers.

USING THE ANNUAL FINANCIAL REPORT (AFR)

This annual report consists of two distinct series of financial statements: district-wide and fund.

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

The remaining statements (fund) focus on individual parts of the District's operations in more detail than the government-wide statements. The governmental funds statements tell how general District services were financed in the short term as well as what remains for future spending. Proprietary fund statements offer short-term and long-term financial information about the activities that the District operates like a business. For this District, this is our Food 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.

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

**Figure A-1
Required Components of
Pottsville Area School District's
Financial Report**

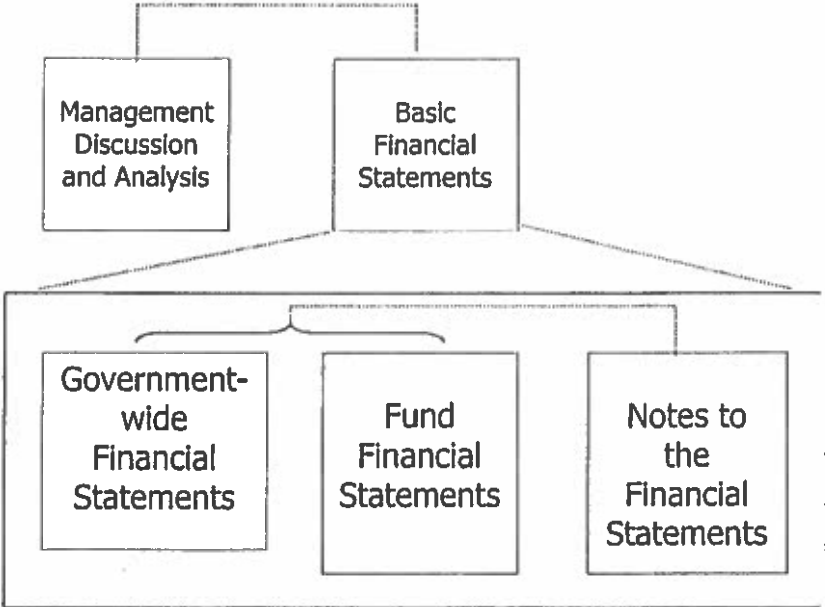


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District they cover and the types of information they contain. The remainder of this overview section of management discussion and analysis explains the structure and contents of each of the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

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

		Fund Statements		
	Government-wide Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as education, administration, and community services	Activities the District operates similar to private business – Food Services	Instances in which the District is the trustee or agent to someone else's resources – Scholarship Funds
Required financial statements	Statement of Net Assets (NAGW) Statement of Activities (SOA)	Balance Sheet (NAG) Statement of Revenues, Expenditures, and Changes in Fund Balance (REG)	Statement of Net Assets (NAP) Statement of Revenues, Expenses, and Changes in Fund Net Assets (REP) Statement of Cash Flows (CFP)	Statement of Fiduciary Net Assets (NAF) Statement of Changes in Fiduciary Net Assets (CNAF)
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 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

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 assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

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

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

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

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

Fund Financial Statements

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

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

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position: The District's combined net position decreased at June 30, 2016 when compared to the prior fiscal year. Total net position increased to (\$9,195,913) during the year from (\$48,255,100) to (\$57,451,013) on June 30, 2016. (See Table A-3.)

**Table A-3
Pottsville Area School District
For Years Ended June 30, 2016 and 2015
Net Position**

	Governmental Activities 2015-2016	Governmental Activities 2014-2015	Business Type Activities 2015-2016	Business Type Activities 2014-2015	Total 2015-2016	Total 2014-2015
Current and other assets	11,085,648	14,252,843	192,912	78,151	11,278,560	14,330,994
Capital assets	10,802,308	9,755,579	2,359	2,827	10,804,667	9,758,406
Total Assets	21,887,956	24,008,422	195,271	80,978	22,083,227	24,089,400
Deferred Outflows of Resources	1,506,000	0	0	0	1,506,000	0
Total Assets/Deferred Outflows	23,393,956	24,008,422	195,271	80,978	23,589,227	24,089,400
Deferred inflows resources	383,000	1,701,902	34,392	31,060	417,392	1,732,962
Current and other liabilities	7,076,684	6,301,102	34,296	13,729	7,110,980	6,314,831
Long term liabilities	73,495,915	64,279,542	15,953	17,165	73,511,868	64,296,707
Total Liabilities	80,955,599	72,282,546	84,641	61,954	81,040,240	72,344,500
Invested in capital assets - net of related net	3,621,055	2,473,846	2,359	2,827	3,623,414	2,476,673
Capital Projects	2,390,527	860,761	0	0	2,390,527	860,761
Unrestricted total net assets	-63,573,225	-51,608,731	108,271	16,197	63,464,954	51,592,534
Total Net Position	-57,561,643	-48,274,124	110,630	19,024	57,451,013	48,255,100
Total Liabilities and Net Position	23,393,956	24,008,422	195,271	80,978	23,589,227	24,089,400

Most of the District's net assets are invested in capital assets (buildings, land, and equipment).

Table A-4
Pottsville Area School District
Change in Net Position
For Years Ended June 30, 2016 and 2015

	Governmental Activities 2015-2016	Governmental Activities 2014-2015	Business Type Activities 2015-2016	Business Type Activities 2014-2015	Total 2015-2016	Total 2014-2015
REVENUES:						
Program Revenues						
Charges for Services	0	0	578,623	572,936	578,623	572,936
Operating Grants & Contributions	7,683,960	6,929,348	1,280,336	1,185,588	8,964,296	8,114,936
General Revenues					0	0
Property Taxes	8,327,142	8,381,411	0	0	8,327,142	8,381,411
Other Taxes	4,804,192	4,696,434	0	0	4,804,192	4,696,434
State Formula Aid	13,562,530	13,298,173	0	0	13,562,530	13,298,173
Investment Earnings	16,933	65,846	29	28	16,962	65,874
Other	3,101,652	2,977,326	50,202	47,728	3,151,854	3,025,054
Transfers	-225,000	-150,000	225,000	150,000	0	0
Total Revenues	37,271,409	36,198,538	2,134,190	1,956,280	39,405,599	38,154,818
EXPENSES:						
Depreciation - Unallocated	411,443	338,020	0	0	411,443	338,020
Instruction	31,035,511	27,086,213	0	0	31,035,511	27,086,213
Instructional Student Support	2,806,579	2,771,077	0	0	2,806,579	2,771,077
Administration	4,687,324	4,343,372	0	0	4,687,324	4,343,372
Operation & Maintenance of Facilities	4,562,790	4,692,873	0	0	4,562,790	4,692,873
Pupil Transportation	1,473,168	1,385,093	0	0	1,473,168	1,385,093
Student Activities	1,347,580	1,217,816	0	0	1,347,580	1,217,816
Community Services	142,946	135,256	0	0	142,946	135,256
Interest on Long-Term Debt	91,587	311,524	0	0	91,587	311,524
Food Service	0	0	2,042,584	2,070,581	2,042,584	2,070,581
Less on Disposal of Assets	0	0			0	0
Total Expenses	46,558,928	42,281,244	2,042,584	2,070,581	48,601,512	44,351,825
INCREASE (DECREASE) IN NET POSITION	-9,287,519	-6,082,706	91,606	-114,301	-9,195,913	-6,197,007

The District's total revenues were \$39,405,599 for the year ended June 30, 2016. Taxes and State Formula Aid amounted to \$26,693,864 or 67% of total revenue for the year. Another \$8,964,296 or 23% came from State and Federal Aid for specific programs (Operating Grants and Contributions) and the remainder totaling \$3,747,439 or 10% from Fees Charged for Services as well as Investment Earnings and Miscellaneous Sources. (See Table A-4.)

The total cost of all programs and services was \$48,601,512 for the year ended June 30, 2016. The majority of the District's costs related to educating and servicing students (Instruction, Instructional Student Support, Pupil Transportation, Student Activities), in the amount of \$36,662,838 or 75%, Administrative Costs accounted for \$4,562,790 or 10%, Operation of the District's Facilities accounted for 4,562,790 or 10%, Food Service Costs made up \$2,042,584 or 4%, and all other expenses accounted for \$645,976 or 1%. (See Table A-4.)

Total expenses exceeded revenues decreasing net assets by \$9,195,913. (See Table A-4.)

The cost of all District activities was \$48,601,512. (See Table A-4.)

- Some of the cost was paid by the users of the District's programs (\$578,623).
- Federal and state governments subsidized certain programs with grants and contributions (\$8,964,296).
- Most of the District's costs (\$29,862,680), however, were paid for by District taxpayers and taxpayers of our state.

This portion of governmental activities was paid for with taxes and state aid based on the statewide education aid formula and with investment earnings and other general revenues.

**Table A-5
Pottsville Area School District
Net Cost of Governmental Activities
For Years Ended June 30, 2016 and 2015**

	Total Cost of Services 2015-2016	Total Cost of Services 2014-2015	Percentage Change 2015-2016	Net Cost of Services 2015-2016	Net Cost of Services 2014-2015	Percentage Change 2015-2016
Depreciation - Unallocated	411,443	338,020		-411,443	-338,020	
Instruction	31,035,511	27,086,213		-25,158,289	-21,769,389	
Instructional Student Support	2,806,579	2,771,077		-2,452,334	-2,398,689	
Administration	4,687,324	4,343,372		-4,258,789	-4,029,330	
Operation & Maintenance of Facilities	4,562,790	4,692,873		-4,328,286	-4,492,438	
Pupil Transportation	1,473,168	1,385,093		-818,323	-782,388	
Student Activities	1,347,580	1,217,816		-1,221,615	-1,103,272	
Community Services	142,946	135,256		-134,302	-126,846	
Interest & Charges on Long Term Debt	91,587	311,524		-91,587	-311,524	
Food Service	0	0		0	0	
Less on Disposal of Assets	0	0		0	0	
Total Expenses	46,558,928	42,281,244	10.12%	-38,874,968	-35,351,896	9.97%

The results of this year's operations as a whole are reported in the Statement of Activities. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are represented to determine the final amount of the District's activities that are supported by other general revenues. The two largest general revenues are the Basic Education Subsidy provided by the State of Pennsylvania, and the local taxes assessed to community taxpayers. (See Table A-5.)

FINANCIAL ANALYSIS OF DISTRICT FUNDS

As of June 30, 2016, the District's governmental funds reported a combined fund balance of \$3,146,761 a decrease of \$3,623,709 from the prior year amount of \$6,770,460. (See Table A-6.) The primary reasons for this are specific to two funds:

General Fund:

The District budgeted significantly for health benefit costs, costs for anticipated needs of special education, and transportation. These costs continue to increase from year to year and are a challenge for the district in budgeting. Special education costs are dependent upon the type of student enrolled in the District each year. Enrollment and/or withdrawal of severely handicapped students can cause this expenditure to fluctuate. While the District does prepare a budget with a modest reserve each year for unexpected emergencies, this expenditure is dependent upon actual experience during the fiscal year. There were no significant unexpected expenditures during the year so the budgeted reserve amount was not needed.

Capital Reserve Fund:

The District has this fund for unforeseen and various capital expenditures.

**Table A-6
Pottsville Area School District
Change in Fund Balances
For Years Ended June 30, 2016 and 2015**

	Fund Balance June 30, 2016	Fund Balance June 30, 2015	Increase (Decrease)
General Fund	756,223	5,909,699	-5,153,476
Capital Reserve Fund	640,220	860,761	-220,541
Capital Projects	1,750,308		1,750,308
Non-Major Funds			0
Totals	3,146,751	6,770,460	-3,623,709

Revenues for the District's governmental funds were \$37,271,409 while total expenses were \$40,895,118 resulting in a net change in the fund balances of (\$3,623,709).

General Fund Budget

During the fiscal year, the Board of School Directors (The Board) authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the District. All adjustments are again confirmed at the time the annual audit is accepted, which is after the end of the fiscal year, which is not prohibited by state law.

The District applies for federal, state, and local grants and these grants cannot always be anticipated in the budgeting process.

Budgeted expenditures and other financing uses also increased this same amount to compensate for the additional approved grants. Transfers between specific categories of expenditures/financing uses occur during the year. The most significant transfers occur from the budget reserve category to specific expenditure areas.

The Budgetary Reserve includes amounts that will be funded by designated fund balance for planned opportunities of expenditures for improvements/enhancements to the District operations. These amounts will only be appropriated into expenditure categories if the fiscal results of the prior year-end with a positive addition to fund balance, which exceeds the total of these projected expenditures. The Board is using this method of budgeting to control tax increases while also protecting the integrity of the fund balance.

The following provides a summary of General Fund revenues:

**Table A-7
Pottsville Area School District
General Fund Revenues
For Years Ended June 30, 2016 and 2015**

	Revenues 2015-2016	Revenues 2014-2015	Increase (Decrease)	% Change
Local Sources				
Taxes	12,901,174	13,128,874	-227,700	
Interest	14,469	65,752	-51,283	
Other	3,022,944	2,837,577	185,367	
State Sources	20,258,256	19,196,462	1,061,794	
Federal Sources	988,234	1,031,059	-42,825	
Other Sources	1,893,198	374,844	1,518,354	
Total Revenue	39,078,275	36,634,568	2,443,707	6.67%

Total General Fund revenue increased by \$2,443,707 or 6.67% from the previous year.
(See Table A-7.)

The following provides a summary of General Fund expenditures:

**Table A-8
Pottsville Area School District
General Fund Expenditures
For Years Ended June 30, 2016 and 2015**

	Expenditures 2015-2016	Expenditures 2014-2015	Increase (Decrease)	% Change
Salaries	18,819,931	18,698,516	121,415	
Employee Benefits	12,082,435	8,869,805	3,212,630	
Purchased Services	10,045,274	5,797,539	4,247,735	
Supplies	1,672,702	4,459,011	(2,786,309)	
Equipment	110,981	1,324,368	(1,213,387)	
Debt Service	973,336	1,186,632	(213,296)	
Other Expenditures	302,081	516,966	(214,885)	
Total Expenditures	44,006,740	40,852,837	3,153,903	7.72%

Total General Fund expenditures increased \$3,153,903 or 7.72% from the previous year. The primary reason for this increase is due to higher costs in salaries and benefits. (See Table A-8.)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2016, the District had \$10,804,667, a increase of \$1,046,261 invested in a broad range of capital assets, including land, buildings and furniture, and equipment. (See Table A-9.)

The following provides a summary of our Capital Assets:

**Table A-9
Pottsville Area School District
Capital Assets – Net of Depreciation
For Years Ended June 30, 2016 and 2015**

	Governmental Activities 2015-2016	Governmental Activities 2014-2015	Business Type Activities 2015- 2016	Business Type Activities 2014- 2015	Total 2015-2016	Total 2014- 2015	% Change
Site Improvements	53,441	156,446	0	0	53,441	156,446	
Building & Building Improvements	8,165,415	6,565,447	0	0	8,165,415	6,565,447	
Furniture and Equipment	1,005,540	1,693,443	2,359	2,827	1,007,899	1,696,270	
Construction in Progress	1,577,912	1,340,243	0	0	1,577,912	1,340,243	
Long Term Prepayments	0	0	0	0	0	0	
Totals	10,802,308	9,755,579	2,359	2,827	10,804,667	9,758,406	10.72%

Debt Administration

The district has two extended capital lease agreements with DELL Financial Services for the purchase of various computer equipment. The outstanding balances are \$102,716.40 and \$50,439.01. The District has two Leaf leases for iPads with outstanding balances of \$27,218.53 and \$71,118.10. The District also has an agreement with Citibank Capital for the purchase of a new District-wide telephone system. Outstanding balance with Citibank Capital is \$73,868.18. The District has an energy conservation lease with Banc of America with an outstanding balance of \$2,341,560.86.

The District also has five lease agreements with Apple with the following outstanding balances:

1. 0.00 (Satisfied in 6.30.2016)
2. \$100,012.07
3. \$166,504.32
4. \$123,520.62
5. \$1,624,636.90

On August 28, 2012, the District issued \$4,155,000 in general obligation bonds with the proceeds to be utilized for various capital improvements including roofing projects. This included sufficient funds to retire 2008 Bonds on October 1, 2013. The District also issued \$3,070,000 in general obligation bonds in 2016.

Other obligations include accrued vacation pay and sick leave for specific employees of the District. More detailed information about our long-term liabilities is included in the financial statements.

The following provides a summary of our Long – Term Liabilities:

**Table A-10
Pottsville Area School District
Long-Term Liabilities
For Years Ended June 30, 2016 and 2015**

	Year Ending June 30, 2016	Year Ending June 30, 2015	Increase (Decrease)
General Obligation Bonds	6,590,000	3,780,000	2,810,000
Other Outstanding Debt & Compensated Absences	6,150,211	4,725,608	1,424,603
Net PSERS Pension Liability	62,330,000	56,719,000	5,611,000
Totals	75,070,211	65,224,608	9,845,603

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

A major financial issue facing the District again in fiscal year 2016-2017 will be the funding of our employer contribution to PSERS. The rate during 2016-17 is 30.03%, it has been established by the PSERS Board at 32.57% in 2017-2018. In 2004-2005, the rate was 4.23%. Another significant cost is the tuition paid to cyber/charter schools which have exceeded 1.5 million in the 2013-14 and grew to 1.9 million in 2015-16. Special education costs have grown significantly each year which has a direct correlation to rising costs in the related transportation for the special education students. Historically, the District was part of a consortium arrangement with Schuylkill Intermediate Unit No. 29 for their special education services. The consortium was comprised of twelve county public school districts during the 2002-2003 school year, eleven during the 2003-2004 school year, and has been declining since then. Over this time period our percentage of students requiring special education services has increased which has a direct correlation with the level of costs dependent on the severity of the disability.

Starting with the 2005-2006 school year, the District had taken over their district-located special education classes. As a result, the District will have to continue to budget for district-located special education costs as well as budgeting for special education students still located at the Intermediate Unit.

Please note that after reconciliation received in November 2015, there was a decrease in the payment to the Intermediate Unit in the amount of \$5,713.20 for 2014-2015. Special Education costs for school year 2015-2016 were \$997,166.

There is a tentative projected decrease in the payment to the Intermediate Unit for 2016-2017 in the amount of \$18,510 noting that more could be owed after reconciliation in December 2017. In addition to the Intermediate Unit costs, the District has projected \$6,268,422 of Special Education costs for district-located classes.

It will be necessary to continue to closely monitor future special education costs due to the fact of the District taking over its district-located special education classes as well as our reconciliation from the Intermediate Unit not being received until December of the following year. (See Table A-11.)

**Table A-11
Pottsville Area School District
Intermediate Unit Special Education Costs
For Years Ended June 30, 2017; 2016; and 2015**

	IU Special Ed 2016-2017	IU Special Ed 2015-2016	% Change	IU Special Ed 2014-2015	% Change
Projected Figure Adjustment Final Owed	\$978,656	\$997,166 <u>5,713.20</u> 991,452.80	-1.8%	\$969,541	3%

The District's retirement contribution on behalf of its employees to the Pennsylvania School Employees Retirement System (PSERS) increased for 2016-2017 by 4.19%. (See Table A-12.) Specifically, the rate is scheduled to increase to 32.57% on July 1, 2017. The District also expects health care premiums to increase approximately 5-10% per year for the foreseeable future. All of these factors may cause the Board to reduce programs, increase taxes, or both.

**Table A-12
Pottsville Area School District
Employer's Retirement Contributions**

Retirement 2016-2017	Retirement 2015-2016	Retirement 2014-2015	Retirement 2013-2014	Retirement 2011-2012
30.03%	25.84%	21.40%	16.93%	12.36%

The percentage of the total budget of revenue and expenditure by category for 2016-2017 as compared to 2015-2016 is as follows:

BUDGETED REVENUES

	<u>2016-2017</u>	<u>2015-2016</u>
Local	45%	44%
State	52%	53%
Federal/Other	3%	3%

BUDGETED EXPENDITURES

	<u>2016-2017</u>	<u>2015-2016</u>
Instruction	64%	62%
Support Services	31%	32%
Non-Instruction/Community	3%	3%
Fund Transfers/Debt	2%	3%

GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 56 (GASB 56) – GOING CONCERN CONSIDERATION

For the fiscal years ended June 30, 2015 and 2016 the District's General Fund recognized significant operating losses. Consequently, at June 30, 2016 the District's General Fund equity position has decreased significantly because of these losses. As a result GASB 56 requires that a determination be made as to whether the District will continue as a "going concern" thru the assessment date (June 30, 2017) and the look forward period (March 2018). Management believes these factors are significant in relation to the District's ability to meet its obligations. Consequently, the District formulated plans to mitigate the going concern consideration.

The District assembled various information that we consider to be relevant to the Districts' plans to mitigate the adverse effects of conditions and events that may indicate that there is a substantial doubt about the Districts' ability to continue as a going concern for a reasonable period of time including management's plans.

The District has developed a plan to mitigate the conditions indicated above. Increased revenue plans include (1) Increasing current real estate tax millage to the allowable "index" plus requesting additional millage for allowable "exceptions" provided in applicable regulations (2) Increasing the Occupation Assessment Tax rate and (3) Pursuing increased collection of delinquent real estate and personal taxes. In addition the District has initiated developed the following cost reduction measures (1) Curtailing all except essential expenditures, (2) Potential program eliminations and (3) Potential staffing reductions and other personnel savings. The District is also pursuing short term financing to provide cash flow support.

Based on the District plans discussed in the paragraph above it is determined that the District has developed plans that alleviate the going concern determination. Consequently, the audit opinion is not modified in regard to a going concern consideration.

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 Patricia A. Lombel, Assistant Business Manager/Acting Board Secretary at Pottsville Area School District, 1501 West Laurel Boulevard, Pottsville, PA 17901, (570) 621-2905.

POTTSVILLE AREA SCHOOL DISTRICT
STATEMENT OF NET POSITION (DEFICIT)

JUNE 30, 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	Governmental Activities	Business-Type Activities	Total
CURRENT ASSETS			
Cash and cash equivalents - Unrestricted	\$ 3,805,376	\$ 29,919	\$ 3,835,295
Cash and cash equivalents - Restricted	2,390,527	0	2,390,527
Taxes receivable, net	3,158,997	0	3,158,997
Intergovernmental receivables	1,730,748	129,584	1,860,332
Inventories	0	33,409	33,409
TOTAL CURRENT ASSETS	11,085,648	192,912	11,278,560
NON-CURRENT ASSETS			
Land and site improvements - net of accumulated depreciation	53,441	0	53,441
Building and building improvements - net of accumulated depreciation	8,165,415	0	8,165,415
Furniture, equipment, and automobiles - net of accumulated depreciation	1,005,540	2,359	1,007,899
Construction in progress	1,577,912	0	1,577,912
TOTAL NON-CURRENT ASSETS	10,802,308	2,359	10,804,667
TOTAL ASSETS	21,887,956	195,271	22,083,227
DEFERRED OUTFLOWS OF RESOURCES	1,506,000	0	1,506,000
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 23,393,956	\$ 195,271	\$ 23,589,227
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
CURRENT LIABILITIES			
Accounts payable	\$ 472,796	\$ 0	\$ 472,796
Accrued salaries and benefits	4,984,973	2,805	4,987,778
Current portion of long-term debt	1,499,296	0	1,499,296
Current portion of compensated absences	75,000	0	75,000
Internal balances	(31,491)	31,491	0
Accrued interest	76,110	0	76,110
TOTAL CURRENT LIABILITIES	7,076,684	34,296	7,110,980
NON-CURRENT LIABILITIES			
Bonds payable	6,200,000	0	6,200,000
Extended term financing agreements payable	3,572,299	0	3,572,299
Long-term portion of compensated absences	907,669	15,953	923,622
Net PSERS pension liability	62,330,000	0	62,330,000
Other postemployment benefits	485,947	0	485,947
TOTAL NON-CURRENT LIABILITIES	73,495,915	15,953	73,511,868
TOTAL LIABILITIES	80,572,599	50,249	80,622,848
DEFERRED INFLOWS OF RESOURCES	383,000	34,392	417,392
NET POSITION (DEFICIT)			
Invested in capital assets, net of related debt	3,621,055	2,359	3,623,414
Restricted for capital projects	2,390,527	0	2,390,527
Unrestricted	(63,573,225)	108,271	(63,464,954)
TOTAL NET POSITION (DEFICIT)	(57,561,643)	110,630	(57,451,013)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)	\$ 23,393,956	\$ 195,271	\$ 23,589,227

See notes to financial statements
which are an integral part of this statement.

POTTSVILLE AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities
	Expenses			Total
GOVERNMENTAL ACTIVITIES				
Unallocated depreciation	\$ 411,443	\$ 0	\$ (411,443)	\$ (411,443)
Instruction	31,035,511	0	(25,158,289)	(25,158,289)
Instructional student support	2,806,579	5,877,222	(2,452,334)	(2,452,334)
Administrative and financial support services	4,687,324	354,245	(4,258,789)	(4,258,789)
Operation and maintenance of plant services	4,562,790	428,535	(4,328,286)	(4,328,286)
Pupil transportation	1,473,168	234,504	(818,323)	(818,323)
Student activities	1,347,580	654,845	(1,221,615)	(1,221,615)
Community services	142,946	125,965	(134,302)	(134,302)
Interest on long-term debt	91,587	8,644	(91,587)	(91,587)
TOTAL GOVERNMENTAL ACTIVITIES	46,558,928	7,683,960	(38,874,968)	(38,874,968)
BUSINESS-TYPE ACTIVITIES				
Food services	2,042,564	1,280,336	0	(183,625)
TOTAL PRIMARY GOVERNMENT	48,601,512	8,964,296	(38,874,968)	(39,058,593)
GENERAL REVENUES AND TRANSFERS				
Taxes:				
Property taxes, levied for general purposes, net			8,327,142	8,327,142
Public utility, realty, earned income and miscellaneous taxes levied for general purposes, net			4,804,192	4,804,192
Grants, subsidies, and contributions not restricted			13,562,530	13,562,530
Investment earnings			16,933	16,962
Transfers			(225,000)	0
Miscellaneous			3,101,652	3,151,854
TOTAL GENERAL REVENUES AND TRANSFERS			29,587,449	29,862,680
CHANGE IN NET POSITION			(9,287,519)	(9,195,913)
NET POSITION - BEGINNING			(48,274,124)	(48,255,100)
NET POSITION (DEFICIT) - ENDING			\$ (57,561,643)	\$ (57,451,013)

See notes to financial statements which are an integral part of this statement.

POTTSVILLE AREA SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2016

	<u>General</u>	<u>Capital Reserve</u>	<u>Capital Projects</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES					
Cash	\$ 3,805,375	\$ 640,220	\$ 1,750,308	\$ 0	\$ 6,195,903
Taxes receivable, net	3,158,998	0	0	0	3,158,998
Due from other funds	31,491	0	0	0	31,491
Intergovernmental receivables	1,730,748	0	0	0	1,730,748
TOTAL ASSETS	<u>8,726,612</u>	<u>640,220</u>	<u>1,750,308</u>	<u>0</u>	<u>11,117,140</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 8,726,612</u>	<u>\$ 640,220</u>	<u>\$ 1,750,308</u>	<u>\$ 0</u>	<u>\$ 11,117,140</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 472,887	\$ 0	\$ 0	\$ 0	\$ 472,887
Accrued salaries and benefits	4,984,973	0	0	0	4,984,973
TOTAL LIABILITIES	<u>5,457,860</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,457,860</u>
DEFERRED INFLOWS OF RESOURCES	<u>2,512,519</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,512,519</u>
FUND BALANCES					
Restricted	0	640,220	1,750,308	0	2,390,528
Unassigned	756,233	0	0	0	756,233
TOTAL FUND BALANCES	<u>756,233</u>	<u>640,220</u>	<u>1,750,308</u>	<u>0</u>	<u>3,146,761</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 8,726,612</u>	<u>\$ 640,220</u>	<u>\$ 1,750,308</u>	<u>\$ 0</u>	<u>\$ 11,117,140</u>

See notes to financial statements
which are an integral part of this statement.

POTTSVILLE AREA SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION (DEFICIT)

GOVERNMENTAL FUNDS

AS OF JUNE 30, 2016

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 3,146,761
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of capital assets	29,562,976
Less: accumulated depreciation	(18,760,668)
Long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds.	
Bond payable	(6,590,000)
Extended term financing agreements payable	(4,681,595)
Other postemployment benefits	(485,947)
Net PSERS pension liability	(62,330,000)
Compensated absences	(982,669)
Delinquent personal and property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and are, therefore, deferred in the funds.	
	2,512,609
Net Deferred outflows (inflows) related to PSERS net pension liability	
	1,123,000
Governmental funds do not report a liability for accrued interest until due and payable.	
	<u>(76,110)</u>
TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES	\$ <u>(57,561,643)</u>

See notes to financial statements
which are an integral part of this statement.

POTTSVILLE AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES

ALL GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2016

	General	Capital Reserve	Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
Local sources	\$ 15,938,587	\$ 805	\$ 101,432	\$ 0	\$ 16,040,824
State sources	20,258,258	0	0	0	20,258,256
Federal sources	988,234	0	0	0	988,234
TOTAL REVENUES	<u>37,185,077</u>	<u>805</u>	<u>101,432</u>	<u>0</u>	<u>37,287,314</u>
OTHER FINANCING SOURCES					
Proceeds from issuance of bonds	0	0	3,070,000	0	3,070,000
Proceeds from extended term financing	1,893,198	0	0	0	1,893,198
TOTAL OTHER FINANCING SOURCES	<u>1,893,198</u>	<u>0</u>	<u>3,070,000</u>	<u>0</u>	<u>4,963,198</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>39,078,275</u>	<u>805</u>	<u>3,171,432</u>	<u>0</u>	<u>42,250,512</u>
EXPENDITURES					
Instruction	28,879,430	0	0	0	28,879,430
Support services	12,572,492	0	0	0	12,572,492
Non-instructional services	1,388,838	0	64,558	0	1,453,396
Capital outlay	0	221,346	1,356,566	0	1,577,912
Debt service	1,165,981	0	0	0	1,165,981
TOTAL EXPENDITURES	<u>44,006,741</u>	<u>221,346</u>	<u>1,421,124</u>	<u>0</u>	<u>45,649,211</u>
OTHER FINANCING (USES)					
Refund of prior year receipts	0	0	0	0	0
Interfund transfer	(225,000)	0	0	0	(225,000)
TOTAL OTHER FINANCING (USES)	<u>(225,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(225,000)</u>
TOTAL EXPENDITURES AND OTHER FINANCING (USES)	<u>44,231,741</u>	<u>221,346</u>	<u>1,421,124</u>	<u>0</u>	<u>45,874,211</u>
NET CHANGE IN FUND BALANCES	<u>(5,153,466)</u>	<u>(220,541)</u>	<u>1,750,308</u>	<u>0</u>	<u>(3,623,699)</u>
FUND BALANCES - BEGINNING	<u>5,909,699</u>	<u>860,761</u>	<u>0</u>	<u>0</u>	<u>6,770,460</u>
FUND BALANCES - ENDING	<u>\$ 756,233</u>	<u>\$ 640,220</u>	<u>\$ 1,750,308</u>	<u>\$ 0</u>	<u>\$ 3,146,761</u>

See notes to financial statements
which are an integral part of this statement.

POTTSVILLE AREA SCHOOL DISTRICT

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

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2016

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ (3,623,699)
Because some property taxes will not be collected for several months after the District's year end, they are not considered as available revenues in the governmental funds.	209,093
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	973,336
Compensated absences reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.	(36,774)
Other postemployment benefits reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(207,967)
Interest is recognized in governmental funds when paid but is accrued in the Statement of Activities.	101,058
Governmental funds report issuance of long term debt as revenues. In the Statement of Net Position these are listed as long-term debt.	(4,963,198)
Governmental funds report capital outlays as expenditures. In the Statement of Activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense.	1,787,224
Pension expense related to the PSERS net pension liability	(2,786,098)
Depreciation expense is recognized in the Statement of Activities but is not recognized in governmental funds.	<u>(740,494)</u>
CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES	\$ <u>(9,287,519)</u>

See notes to financial statements
which are an integral part of this statement.

POTTSVILLE AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 16,480,354	\$ 16,480,354	\$ 15,938,587	\$ (541,767)
State sources	20,229,716	20,229,716	20,258,256	28,540
Federal sources	1,068,565	1,068,565	988,234	(80,331)
TOTAL REVENUES	37,778,635	37,778,635	37,185,077	(593,558)
OTHER FINANCING SOURCES				
Proceeds from extended term financing	0	0	1,893,198	1,893,198
TOTAL OTHER FINANCING SOURCES	0	0	1,893,198	1,893,198
TOTAL REVENUES AND OTHER FINANCING SOURCES	37,778,635	37,778,635	39,078,275	1,299,640
EXPENDITURES				
Regular programs	18,519,326	18,519,326	19,592,450	(1,073,124)
Special programs	6,767,118	6,767,118	7,247,078	(479,960)
Vocational programs	1,399,485	1,399,485	1,418,776	(19,291)
Other instructional programs	586,265	586,265	598,780	(12,515)
Nonpublic school programs	25,000	25,000	22,346	2,654
Pupil personnel services	1,550,879	1,550,879	1,450,024	100,855
Instructional staff services	1,359,411	1,359,411	1,140,939	218,472
Administrative services	2,551,825	2,551,825	2,488,251	63,574
Pupil health	503,007	503,007	458,031	44,976
Business services	886,919	886,919	896,520	(9,601)
Operation and maintenance of plant services	5,120,240	5,120,240	4,294,489	825,751
Student transportation services	1,341,138	1,341,138	1,374,367	(33,229)
Central and other support services	656,976	656,976	469,871	187,105
Other support services	12,000	12,000	0	12,000
Student activities	1,267,825	1,267,825	1,252,126	15,699
Community services	163,600	163,600	136,612	26,988
Scholarships and awards	0	0	100	(100)
Capital outlay	0	0	0	0
Debt service (principal and interest)	685,081	685,081	1,165,981	(480,900)
TOTAL EXPENDITURES	43,396,095	43,396,095	44,006,741	(610,646)
OTHER FINANCING (USES)				
Interfund transfers	(76,500)	(76,500)	(225,000)	148,500
Budgetary reserve	(500,000)	(500,000)	0	(500,000)
TOTAL OTHER FINANCING (USES)	(576,500)	(576,500)	(225,000)	(351,500)
TOTAL EXPENDITURES AND OTHER FINANCING (USES)	43,972,595	43,972,595	44,231,741	(259,146)
NET CHANGE IN FUND BALANCES	(6,193,960)	(6,193,960)	(5,153,466)	1,040,494
FUND BALANCE - BEGINNING OF YEAR	7,211,219	7,211,219	5,909,699	(1,301,520)
FUND BALANCE - END OF YEAR	\$ 1,017,259	\$ 1,017,259	\$ 756,233	\$ (261,026)

See notes to financial statements
which are an integral part of this statement.

POTTSVILLE AREA SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Food Service</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
CURRENT ASSETS	
Cash	\$ 29,919
Intergovernmental receivables	129,584
Due from other funds	0
Inventories	<u>33,409</u>
TOTAL CURRENT ASSETS	<u>192,912</u>
NON-CURRENT ASSETS	
Machinery and equipment	671,893
Less: accumulated depreciation	<u>(669,534)</u>
TOTAL NON-CURRENT ASSETS	<u>2,359</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>0</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ <u>195,271</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
CURRENT LIABILITIES	
Accounts payable	\$ 0
Due to other funds	31,491
Accrued salaries and benefits	<u>2,805</u>
TOTAL CURRENT LIABILITIES	<u>34,296</u>
NON-CURRENT LIABILITIES	
Long-term portion of compensated absences	<u>15,953</u>
TOTAL NON-CURRENT LIABILITIES	<u>15,953</u>
TOTAL LIABILITIES	<u>50,249</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred revenues - commodities	17,583
Deferred revenues - student payments	<u>16,809</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>34,392</u>
NET POSITION	
Invested in capital assets - net of related debt	2,359
Unrestricted	<u>108,271</u>
TOTAL NET POSITION	<u>110,630</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ <u>195,271</u>

See notes to financial statements
which are an integral part of this statement.

POTTSVILLE AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2016

	Food Service
OPERATING REVENUES	
Food service revenues	\$ 578,623
Other operating revenues	50,202
TOTAL OPERATING REVENUES	628,825
OPERATING EXPENSES	
Personal services - salaries	726,247
Personal services - employee benefits	521,253
Purchased property services	11,675
Supplies	781,945
Depreciation	468
Other operating expenses	996
TOTAL OPERATING EXPENSES	2,042,584
OPERATING (LOSS)	(1,413,759)
NON-OPERATING REVENUES (EXPENSES)	
Earnings on investments	29
State sources	202,196
Federal sources	1,078,140
TOTAL NON-OPERATING REVENUES (EXPENSES)	1,280,365
CONTRIBUTIONS AND TRANSFERS	
Transfers in (out)	225,000
TOTAL CONTRIBUTIONS AND TRANSFERS	225,000
CHANGE IN NET POSITION	91,606
NET POSITION - BEGINNING OF YEAR	19,024
NET POSITION - END OF YEAR	\$ 110,630

See notes to financial statements
which are an integral part of this statement.

POTTSVILLE AREA SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2016

	Food Service
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers and intergovernments	\$ 628,825
Cash paid to employees for services	(1,247,500)
Cash paid to suppliers for goods and services	(879,128)
NET CASH (USED FOR) OPERATING ACTIVITIES	<u>(1,497,803)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
State sources	202,196
Federal sources	1,078,140
Operating transfers in (out)	225,000
Increase (Decrease) in long-term portion of compensated absences	(1,212)
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>1,504,124</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	0
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on investments	<u>29</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,350
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>23,569</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 29,919</u>
OPERATING INCOME (LOSS)	\$ (1,413,759)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH (USED) BY OPERATING ACTIVITIES:	
Depreciation	468
Changes in current assets and current liabilities	
(Increase) Decrease in intergovernmental receivables	(106,443)
(Increase) Decrease in inventories	(1,968)
(Increase) Decrease in advances to other funds	24,329
Increase (Decrease) in advances to other funds	31,491
Increase (Decrease) in accrued salaries and benefits	(35,253)
Increase (Decrease) in deferred revenue	3,332
TOTAL ADJUSTMENTS	<u>(84,044)</u>
TOTAL CASH (USED FOR) OPERATING ACTIVITIES	<u>\$ (1,497,803)</u>

See notes to financial statements
which are an integral part of this statement.

POTTSVILLE AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION

FIDUCIARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Private Purpose Trust</u>	<u>Activity</u>	<u>Total Fiduciary Funds</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Cash	734,348	\$ 374,259	\$ 1,108,607
TOTAL ASSETS	<u>734,348</u>	<u>374,259</u>	<u>1,108,607</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 734,348</u>	<u>\$ 374,259</u>	<u>\$ 1,108,607</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
LIABILITIES			
Other current liabilities	\$ 0	\$ 374,259	\$ 374,259
TOTAL LIABILITIES	<u>0</u>	<u>374,259</u>	<u>374,259</u>
DEFERRED INFLOWS OF RESOURCES	<u>0</u>	<u>0</u>	<u>0</u>
 NET POSITION			
Unrestricted	<u>734,348</u>	<u>0</u>	<u>734,348</u>
TOTAL NET POSITION	<u>734,348</u>	<u>0</u>	<u>734,348</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 734,348</u>	<u>\$ 374,259</u>	<u>\$ 1,108,607</u>

See notes to financial statements
which are an integral part of this statement.

POTTSVILLE AREA SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Private Purpose Trust</u>
ADDITIONS	
Gifts and contributions	\$ 52,362
Other additions	<u>1,725</u>
TOTAL ADDITIONS	<u>54,087</u>
 DEDUCTIONS	
Scholarships awarded	39,875
 TOTAL DEDUCTIONS	<u>39,875</u>
 CHANGE IN NET POSITION	<u>14,212</u>
 NET POSITION - BEGINNING OF YEAR	<u>720,136</u>
 NET POSITION - END OF YEAR	<u><u>\$ 734,348</u></u>

See notes to financial statements
which are an integral part of this statement.

POTTSVILLE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Pottsville Area School District (the "District") is governed by the Pottsville Area School District Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

The financial statements of the Pottsville Area School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

In June 1999, the Governmental Accounting Standards Board (GASB) approved Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis -for State and Local Governments.

The financial statements include:

- Management's Discussion and Analysis (MDA), providing an analysis of the District's overall financial position and results of operations.
- Financial statements prepared using full-accrual accounting for all of the District's activities.
- A change in the fund financial statements to focus on major funds.

POTTSVILLE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

REPORTING ENTITY

The District is not a component unit of any other primary government.

BASIS OF PRESENTATION

District-wide statements - The statement of net assets and the statement of activities provide information about the financial activities of the overall district, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-Type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each business-type activity of the District and for each function of the District's governmental activities.

- Direct Expenses are those that are clearly identifiable with a specific program.
- Program revenues include 1) charges to students or recipients who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) 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 as general revenues.

Depreciation expense can be specifically identified by function and is included in the direct expenses of each function. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. The effect of interfund activity has been removed from these statements.

POTTSVILLE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

BASIS OF PRESENTATION - continued

Fund Financial Statements - The fund financial statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category - *governmental, proprietary and fiduciary*-are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities. Enterprise fund operating revenues are related to charges for food in the District's cafeteria. The primary non-operating revenues are federal nutrition program grants and commodities received from the U.S. Department of Agriculture.

The fiduciary funds are presented in the fiduciary fund financial statements by type (agency). Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the District, these funds are not incorporated into the District-wide statements.

The District reports the following major governmental funds:

General Fund - The General Fund is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Capital Projects/Reserve Fund - The Capital Projects/Reserve Fund is used to account for financial resources to be used for the acquisition or construction of capital items or extraordinary expenditures.

The District reports the following major proprietary fund types:

Food Service Fund - The Food Service Fund is used to account for all financial transactions related to the food service operation.

POTTSVILLE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

BASIS OF ACCOUNTING

The district-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, 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 and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term liabilities are reported as other financing sources.

All business-type activities and enterprise funds of the district follow FASB Statements and Interpretations on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

BUDGETING

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general fund. Project-length financial plans are used for capital projects funds. All unencumbered budget appropriations, except capital projects, lapse at the end of each fiscal year.

At the fund level, actual expenditures cannot exceed budgeted appropriations; however, with proper approval by the school board, budgetary transfers between accounts can be made. The budgeted financial statements represented in this report reflect the final budget authorization, including all transfers.

POTTSVILLE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

DEPOSITS AND INVESTMENTS

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments with a maturity of one year or less at the time of purchase are recorded at cost or amortized cost. Those with a maturity of greater than one year are reported at fair value. Changes in the fair value of investments are recorded as investment income.

TAXES ASSESSED

The following is a listing of the taxes assessed along with their respective tax levy:

<u>Tax Type</u>	<u>Millage/Rate</u>	<u>Tax Levy</u>
Real Estate - Schuylkill County	34.00 mills	\$ 9,391,225
Occupation Tax - Act 511	\$100.00/person	1,164,900
Per Capita Tax - Act 511	\$ 5.00/person	58,280
Per Capita Tax - Section 679	\$ 5.00/person	58,280
Total Assessed Valuation		\$ <u>10,672,685</u>

The following is the tax calendar showing levy date, payment periods and delinquent dates for the above listed taxes:

Levy date	July 1
Discount (2%) payment period	July 1 to August 31
Face payment period	September 1 to October 31
Penalty (10%) payment period	November 1 to December 31
Delinquent date	December 31

Taxes which remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent taxes that is not collected within 60 days of year-end is deferred in the fund based financial statements because it is not known to be available to finance the operations of the District in the current year. An allowance has been established to recognize the uncollectible portion.

POTTSVILLE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

INVENTORY

Inventories are recorded using the consumption method of accounting and consist of purchased food, supplies, and surplus commodities received from the federal government. Food and supply purchases are recorded at invoice cost, computed on a first-in, first-out method. Surplus commodities are stated at standard costs, as determined by the Department of Agriculture. In the fund based financial statements, commodities received are recorded as deferred revenue until consumed.

CAPITAL ASSETS

Capital assets, which include land, buildings and improvements, and furniture and equipment, are reported in the government-wide financial statements. The District defines capital assets as assets with an initial, individual cost of more than \$1,250. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Useful Life</u>
Land	Not depreciated
Land Improvements	20 years
Buildings and Improvements	15-30 years
Furniture and Equipment	5-15 years
Vehicles	3-15 years

POTTSVILLE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

COMPENSATED ABSENCES

Compensated absences are those for which employees receive pay. A liability is recorded through the use of estimates, which apply historical data to current factors. The District maintains records of unused absences and applies current and/or contracted compensation rates to the various types of compensated absences. Sick leave is recorded using the termination payment method, which has no current maximum per employee. The District allows only restricted sabbatical leave and therefore, has no recorded liability in advance of the sabbatical.

ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

In government-wide financial statements as well as proprietary fund financial statements, all accrued liabilities and long-term debt are reported as liabilities in the statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bond issuance costs are expensed in period incurred.

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

FUND EQUITY

In the fund financial statements, governmental funds report designations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a restricted purpose.

NET POSITION

Net assets represent the difference between assets and liabilities in the District-wide financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets.

POTTSVILLE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS:

DEPOSITS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District does not have a policy for custodial credit risk on deposits. At June 30, 2016, the carrying amount of the District's deposits was \$7,334,429. and the bank balance was \$7,361,162. Of the bank balance \$825,920. was covered by federal depository insurance, and \$6,535,242. was exposed to custodial credit risk because it was uninsured and the collateral held by the depository's agent was not in the District's name. The District is secured under Act 72 as required by the Commonwealth of Pennsylvania primarily by a pledged pool of securities.

A portion of the District's deposits (\$2,390,527.) are in the Pennsylvania School District Liquid Asset Fund (PSDLAF). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF acts like a money market mutual fund in that its objective is to maintain a stable net asset value of \$1. per share, is rated by a nationally recognized statistical rating organization, and is subject to an independent annual audit.

INVESTMENTS

Statutes authorize the District to invest in U.S. Treasury bills, time or share accounts of institutions insured by the Federal Deposit Insurance Corporation or Federal Savings and Loan Insurance Corporation or in certificates of deposit when they are secured by proper bond or collateral, repurchase agreements, state treasurer's investment pools or mutual funds. As of June 30, 2016, the District had no investments.

Investments classified as U.S. agencies are securities of agencies of the U.S. government that have an implied but not explicit guarantee.

POTTSVILLE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – continued
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS – continued

INVESTMENTS - continued

Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF, PLGIT and INVEST act like money market mutual funds in that their objective is to maintain a stable net asset value of \$1. per share, is rated by a nationally recognized statistical rating organization and is subject to an independent annual audit.

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. It is the practice of the District to limit its interest rate risk by investing in securities with maturity dates under one year.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The District has no investments subject to custodial credit risk.

Credit Risk

The District has no investment policy that would limit its investment choices to those with certain credit ratings. As of June 30, 2016, PSDLAF, PLGIT, INVEST, FHLBs, FHLMCs, and FNMA were rated as AAA by a nationally recognized statistical rating organization.

Concentration Risk

The District does not have a policy that would limit the amount it may invest in any one issuer.

POTTSVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - continued

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 3 - CAPITAL ASSETS:

A summary of capital asset activity during the fiscal year follows:

	Balance June 30, 2015	Net Additions (Deductions)	Balance June 30, 2016
Governmental Activities:			
Capital Assets, Not Being Depreciated			
	\$ 0	\$ 0	\$ 0
Total Capital Assets, Not Being Depreciated	0	0	0
Capital Assets, Being Depreciated:			
Land and Site Improvements	2,029,008	(465,562)	1,563,446
Buildings and Improvements	16,146,721	3,041,335	19,188,056
Furniture, Equipment, and Vehicles	8,259,781	(1,026,219)	7,233,562
Total Capital Assets, Being Depreciated	26,435,510	1,549,554	27,985,064
Accumulated Depreciation For:			
Land and Site Improvements	(1,872,562)	362,557	(1,510,005)
Buildings and Improvements	(9,581,274)	(1,441,367)	(11,022,641)
Furniture, Equipment, and Vehicles	(6,566,338)	338,316	(6,228,022)
Total Accumulated Depreciation	(18,020,174)	(740,494)	(18,760,668)
Construction in progress	1,340,243	237,669	1,577,912
Governmental Activities - Capital Assets, Net	\$ 9,755,579	\$ 1,046,729	\$ 10,802,308
Business-type Activities:			
Furniture/Equipment	\$ 671,893	\$ 0	\$ 671,893
Less: Accumulated Deprecation	(669,066)	(468)	(669,534)
Business-type Activities - Capital Assets, Net	\$ 2,827	\$ (468)	\$ 2,359

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

Governmental Activities	
Unallocated	\$ 411,443
Instructional	220,004
Administration and Financial Support	1,033
Operation and Maintenance of Plant Services	4,229
Student Transportation	99,177
Student Activities	4,608
Total Governmental Activities	740,494
Business-Type Activities	
Food Service	468
Total Depreciation Expense	\$ 740,962

POTTSVILLE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 4 - CHANGES IN GENERAL LONG-TERM DEBT:

A summary of General Long-Term Debt is as follows:

	Compensated Absences	General Obligation Bonds	Extended Term Financings	Net PSERS Pension Liability	Other Post Employment Benefits	Total
Balance - July 1, 2015	\$ 945,895	\$ 3,780,000	\$ 3,501,733	\$ 56,719,000	\$ 277,980	\$ 65,224,608
Additions	36,774	3,070,000	1,893,198	5,611,000	577,986	11,188,958
Principal Reductions	0	(260,000)	(713,336)	0	(370,019)	(1,343,355)
Balance - June 30, 2016	<u>\$ 982,669</u>	<u>\$ 6,590,000</u>	<u>\$ 4,681,595</u>	<u>\$ 62,330,000</u>	<u>\$ 485,947</u>	<u>\$ 75,070,211</u>
Due Within One Year	<u>\$ 75,000</u>	<u>\$ 390,000</u>	<u>\$ 1,109,296</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,574,296</u>

COMPENSATED ABSENCES

General Long-Term Debt includes a liability of \$982,669., which represents the amounts of compensated absences computed by using unused sick and vacation days at current compensation rates, not limited to the maximum payout at retirement. If an employee separates from service for reasons other than sickness or retirement, no payout is required. If an employee retires with unused compensated absences, the payout policy is as follows:

Emergency and personal - no payout

Vacation (administrative personnel) - limited accumulation of vacation days

Sickness - payout is based on age and years of services in the District with no maximum per professional employee.

Nonprofessional employees are subject to a minimum payout of \$500. and a maximum payout of \$2,400.

POTTSVILLE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 4 - CHANGES IN GENERAL LONG-TERM DEBT - continued

EXTENDED TERM FINANCINGS

Extended term financings are comprised of the following agreements:

AFS Education Finance

On July 1, 2013, the District entered into a Capital lease with Apple Financial Services Education Finance in the amount of \$48,800. for the acquisition of various computer equipment. Terms require 4 annual payments of \$13,412.92 including interest at 6.512% per annum through July 1, 2016. This lease was satisfied during the year.

\$ 0

Citi Mortgage Agreement

On September 26, 2006, the District entered into an extended term financing agreement with Citi Mortgage. Proceeds were used to finance a new District wide telephone system. Terms require 3 interest only payments of \$756.38 each and 166 payments of \$1,573.95 including interest at the rate of 4.73% per annum through October 2020.

\$ 73,868

Dell Financial Services

On July 1, 2012, the District entered into a Capital Lease with Dell Financial Services in the amount of \$238,480. for the acquisition of various computer equipment. Terms require 5 annual payments of \$53,528.47 including interest at 4.702% per annum through December 1, 2016.

\$ 50,439

POTTSVILLE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 4 - CHANGES IN GENERAL LONG-TERM DEBT - continued

Dell Financial Services

On June 1, 2013, the District entered into a Capital Lease with Dell Financial Services in the amount of \$252,865. for the acquisition of various computer equipment. Terms require 5 annual payments of \$54,950.14 including interest at 4.070% per annum through July 1, 2017.

\$ 102,716

Banc of America Public Capital Corp

On May 14, 2013, the District entered into a Capital Lease with Banc of America Public Capital Corp in the amount of \$3,200,977. to finance a Honeywell energy contract in the amount of \$1,185,000. The balance of the funds (\$2,015,977.) was utilized to satisfy the CITI Capital Lease identified above. Terms require 193 monthly payments ranging from \$8,041.17 to \$32,172.93 including interest at 4.504% per annum through May 14, 2019.

\$ 2,341,561

AFS Education Finance

On July 8, 2013, the District entered into a Capital Lease with Apple Financial Services Education Finance in the amount of \$397,325. for the acquisition of various computer equipment. Terms require 4 annual payments of \$101,412.25 including interest at 1.391% per annum through July 8, 2016.

\$ 100,012

AFS Education Finance

On July 25, 2015, the District entered into a Capital Lease with Apple Financial Services Education Finance in the amount of \$165,936. for the acquisition of various computer equipment. Terms require 4 annual payments of \$42,414.88 including interest at 2.70% per annum through July 25, 2018.

\$ 123,521

POTTSVILLE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 4 - CHANGES IN GENERAL LONG-TERM DEBT - continued

LEAF Capital Funding

On July 16, 2014, the District obtained a capital lease in the amount of \$41,800 thru LEAF Capital Funding, LLC for the purchase of Toshiba Laptop computers. Terms of the lease call for 60 monthly payments of \$806.74 at an interest rate of 5.929% through July 2019.

\$ 27,219

AFS Education Finance

On April 29, 2016, the District entered into a Capital Lease with Apple Financial Services Education Finance in the amount of \$1,624,637. for the acquisition of various computer equipment. Terms require 16 quarterly payments of \$103,995.23 including interest at 1.173% per annum through April 1, 2020.

\$ 1,624,637

AFS Education Finance

On July 9, 2014, the District entered into a Capital Lease with Apple Financial Services Education Finance in the amount of \$333,041. for the acquisition of various computer equipment. Terms require 4 annual payments of \$85,004.51 including interest at 2.50% per annum through July 9, 2017.

\$ 166,504

LEAF Capital Funding

On July 1, 2015, the District obtained a capital lease in the amount of \$102,625 thru LEAF Capital Funding, LLC for the purchase of Toshiba laptop computers. Terms of the lease call for 60 monthly payments of \$806.74 at an interest rate of 8.038% through July 2019.

\$ 71,118

NET PSERS PENSION LIABILITY:

During the year ended June 30, 2016 the District, in conformity with GASB 68 recorded its' share of the Net PSERS pension liability. At June 30, 2016 the Districts' share of the liability is \$62,330,000. See Note 15 for more information.

POTTSVILLE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 4 - CHANGES IN GENERAL LONG-TERM DEBT – continued

GENERAL OBLIGATION BONDS

General Obligation Bonds - Series of 2012

On August 28, 2012, the District issued \$4,155,000. of General Obligation Bonds for the purpose of substantially refunding the Series of 2008 issue and to pay the costs of issuance. Interest rates range from .26% through 2.77%. Annual installments as set fourth below are required to provide for payment of principal and interest through October 2027.

\$ 3,520,000

General Obligation Bonds - Series of 2016

On February 18, 2016, the District issued \$3,070,000. of General Obligation Bonds for the purpose of financing a infrastructure and guaranteed energy reduction District wide project and to pay the costs of issuance. Interest rates range from .90% through 2.65%. Annual installments as set fourth below are required to provide for payment of principal and interest through May 2013.

\$ 3,070,000

OTHER POST EMPLOYMENT BENEFITS

The District also provides other postemployment benefits as more fully discussed in Note 10. Total liability at June 30, 2016 was \$485,947.

A summary of Long-Term Debt principal maturities and interest requirements follows:

Year Ending June 30,	General Obligation Bond Series 2012/2016	Extended Term Financing Agreements	Total
2017	\$ 548,028	\$ 1,197,001	\$ 1,745,029
2018	552,440	1,044,750	1,597,190
2019	557,232	867,498	1,424,730
2020	570,358	818,256	1,388,614
2021	582,482	199,507	781,989
2022-2026	3,032,893	530,996	3,563,889
2027-2031	2,170,342	349,337	2,519,679
Subtotal	<u>8,013,775</u>	<u>5,007,345</u>	<u>13,021,120</u>
Less: Interest Expense	<u>(1,423,775)</u>	<u>(325,750)</u>	<u>(1,749,525)</u>
Principal Outstanding	<u>\$ 6,590,000</u>	<u>\$ 4,681,595</u>	<u>\$ 11,271,595</u>

POTTSVILLE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 5 - RISK MANAGEMENT AND LITIGATION:

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets errors and omissions; injuries to employees; and natural disasters. The District maintains coverage from commercial insurance companies to cover these risks of loss.

NOTE 6 - OTHER DISCLOSURE - JOINT SECONDARY PROGRAM MANAGEMENT AGREEMENT:

On July 1, 1991, the Saint Clair Area School District and the Pottsville Area School District entered into an agreement which provides for the education of grades 9 through 12 of the Saint Clair Area School District at the Pottsville Area High School. The agreement had been officially ratified by both School Boards.

Significant agreement provisions are:

- (1) Agreement duration - Unless terminated early, as set forth below, the agreement is in force for a period of (5) five years, commencing on July 1, 1991 and ending June 30, 1997. The agreement will automatically renew subject to limitations thereafter.
- (2) Termination provisions - The agreement will remain in effect for a minimum period of five (5) years and is not subject to termination during this period except by written consent of both parties. After this period, either party may terminate the agreement by giving written notice to the other at least one (1) year prior to the beginning of the school year of intended termination.
- (3) Tuition payments - The Saint Clair Area School District will pay to Pottsville Area for those students who attend school in Pottsville Area tuition payments which will be calculated in accordance with Section 2561 of the Public School Code (as amended). Payment terms provide for estimated monthly payments based on the annual joint program budget with a final reconciliation being done in May with the final payment being due on or before June 30.
- (4) Transportation - The Saint Clair Area School District shall arrange and pay for transportation to and from Pottsville Area.
- (5) Joint School Committee - The program shall be directed by a joint school committee appointed by both School Boards. The committee shall consist of four (4) members elected from the Pottsville Area Board of Directors and one (1) member elected from the Saint Clair Board of Directors.

POTTSVILLE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 6 - OTHER DISCLOSURE - JOINT SECONDARY PROGRAM MANAGEMENT AGREEMENT - continued

On October 20, 1993, the Saint Clair Area School District and the Pottsville Area School District entered into an extension agreement which will extend the original agreement for an additional five (5) year term extending through and including the 2000-2001 school year. The agreement shall remain in effect for such extended five (5) year period and shall not be subject to termination during such five (5) year extension period, except by the formal action and written consent of both parties. After this period, the agreement shall be automatically renewed unless one party indicates its desire to terminate such agreement at least one (1) year prior to the start of the last year as indicated under this extension agreement. The agreement shall continue to be automatically renewable thereafter for a period of one (1) year or as otherwise agreed to by both parties unless either party cancels by giving the other party written notice at least one (1) year prior to the termination of any such renewal period.

On October 7, 2015 the District's entered into an updated agreement for the education of St Clair's 9th thru 12th grade students at Pottsville for a 10 year period starting with the 2015/2015 school year. St Clair agrees to pay Pottsville an annual tuition payment of \$1,600,000 in 10 equal monthly payments. The agreement provides for several potential adjustments to this amount including a provision for any changes in regard to the formula used by the Commonwealth of Pennsylvania for the Basic Education Subsidy and/or the Special Education Subsidy, and a provision for payment by St Clair for special education costs that exceed \$25,000 for any St Clair student. If a merger between both Districts is not reached prior to the end of this agreement, and if notification of this fact is given by either district two years prior to the end of the agreement, both parties agree to negotiate in good faith to extend this agreement. If such notification is not given by either district at least two years prior to the end of the agreement, the agreement will continue until a two-year notification is given by either district.

Total tuition paid to the District for the year ended June 30, 2016 was \$1,737,440.

NOTE 7 - BUDGETARY INFORMATION:

No budget versus actual comparison for the Capital Projects Fund has been displayed in the accompanying financial statements as no budget is required nor was adopted for the fund.

POTTSVILLE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 8 - INTERFUND ACTIVITY:

A summary of interfund accounts receivable (payable), all which are considered current and relate to state subsidy transfers, at June 30, 2016 is as follows:

<u>Fund</u>	<u>Receivable (Payable)</u>
General	\$ 31,491
Cafeteria	\$ (31,491)

A summary of interfund operating transfers in (out) for the year ended June 30, 2016 follows:

<u>Fund</u>	<u>Transfer In (Out)</u>
General	\$ (225,000)
Cafeteria	\$ 225,000

POTTSVILLE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS:

PLAN DESCRIPTION

The Pottsville Area School District Retiree Health Care Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the School Board. The Plan provides postemployment healthcare benefits to eligible retirees of the District in accordance with the various labor contracts and personnel policies. At July 1, 2014, 75 retired employees were eligible to participate. Inasmuch as the Plan has no assets, reporting another employee benefit trust fund in the accompanying financial statements is not required nor was a separate or stand-alone report issued.

FUNDING POLICY

The contribution requirements of plan members and the District are established and may be amended by the School Board, subject to applicable labor contracts. Plan members are not required to contribute; however, for the member and the spouse, coverage ceases upon the later of the exhaustion of accumulated sick days at retirement used to obtain health coverage, the exhaustion of an HCA based on accumulated sick days at retirement, or Medicare eligibility. If a retiree runs out of unused sick days prior to reaching Medicare eligibility, they may continue on the District plan by paying 100% of premiums.

The District may contribute the *annual required contribution of the employer* (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For 2016, the District made no contributions and instead elected to continue funding on a *pay-as-you-go* basis, which amounted to \$370,019. for 2016. These costs are recognized as an expense when claims or premiums are paid.

POTTSVILLE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - continued

ANNUAL OPEB COST AND NET OPEB OBLIGATION

For 2016, the components of the District's annual OPEB (other postemployment benefit) cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan were as follows:

Annual Required Contribution	\$ 582,543
Interest on Net OPEB Obligation	12,509
Adjustment to Annual Required Contribution	(17,066)
Annual OPEB Cost	<u>577,986</u>
Contributions or Payment Made	(370,019)
Increase in Net OPEB Obligation	<u>207,967</u>
Net OPEB Obligation, Beginning of Year	277,980
Net OPEB Obligation, End of Year	<u>\$ 485,947</u>
Percentage of Annual OPEB Cost Contributed	<u>64.02%</u>

FUNDED STATUS AND FUNDING PROGRESS

The funded status of the Plan as of July 1, 2014, the date of the most recent actuarial valuation is as follows:

Actuarial Accrued Liability (AAL)	\$ 7,959,751
Actuarial Value of Assets	0
Unfunded AAL (UAAL)	<u>7,959,751</u>
Funded Ratio	<u>0.00%</u>
Covered Payroll	<u>\$ 17,456,761</u>
UAAL as Percentage of Covered Payroll	<u>45.60%</u>

POTTSVILLE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 9 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - continued

ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of potential occurrences of certain events in the future. Examples include assumption about future employment, mortality, healthcare costs trends, inflation, etc. Amounts determined regarding the funded status of the plan and the annual required contributions of the District are subject to constant changes and modifications as actual results are compared with past expectations and new estimates and assumptions are formed regarding the future. Projections of retiree benefits for financial reporting purposes are based on current plan activities as it is handled by the District and the benefits are received by the eligible plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the District and plan members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2014, actuarial valuation, the individual entry age normal actuarial cost method was used. There were also merit and seniority salary rate increase assumptions taken into consideration and those are detailed in the actuarial study and are based on age. There was also an inflationary rate assumption factored into the calculation. Per the actuarial study, the assumed rate ranges from 8.5% in the short-term to 5% in the long-term for health care related costs. The UAAL is being amortized as a level percentage of active member payroll over a period of 30 years.

POTTSVILLE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 10 - GASB STATEMENT NO. 54:

On June 15, 2010, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54 (Fund Balance Reporting and Governmental Fund Type Definitions). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB-54 establishes criteria for classifying fund balances into specifically defined classifications that should be based on hierarchy that reflects the extent to which the government is bound to honor constraints on how those funds can be spent. Established classifications are as follows:

Nonexpendable – Amounts that cannot be spend because they are either in a nonspendable form or are legally or contractually required to be maintained intact.

Restricted – Amounts constrained to be used for a specific purpose stipulated by constitution, external resource providers or through enabling legislation.

Committed – Amounts constrained to be used for a specific purpose determined by a formal action of the School District Board of Directors (the district's highest level of decision-making authority).

Assigned – Amounts intended to be used for a specific purpose by the finance committee or an individual authorized by the governing body.

Unassigned – Residual amounts available for any purpose not contained in other classifications.

The District assigned fund balance is fund balance reporting occurring by the School Board Administration Authority, under the direction of the Business Manager.

POTTSVILLE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 10 - GASB STATEMENT NO. 54 – continued

ORDER OF FUND BALANCE SPENDING POLICY

The District's policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year by adjusting entries.

First, nonspendable fund balances are determined. Then, restricted fund balances for the nongeneral funds are classified as restricted fund balance.

It is possible for the nongeneral funds to have negative unassigned fund balance when nonspendable amounts plus the restricted fund balances for specific purpose amounts exceed the positive fund balance for the nongeneral fund.

BALANCE SHEET - GOVERNMENTAL FUNDS				
JUNE 30, 2016				
	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
EQUITY				
Nonspendable	\$ 0	\$ 0	\$ 0	\$ 0
Restricted	0	2,390,528	0	2,390,528
Committed	0	0	0	0
Assigned	0	0	0	0
Unassigned	756,233	0	0	756,233
TOTAL FUND BALANCE	<u>\$ 756,233</u>	<u>\$ 2,390,528</u>	<u>\$ 0</u>	<u>\$ 3,146,761</u>

NOTE 11 - RELATED ORGANIZATIONS:

On August 19, 2015 the District revised its' policy in regard to Booster Clubs. Effective with this revision, the District High School Athletic Office will administer all financial deposits and disbursements for all Booster clubs in a manner similar to the procedures utilized for District student activity accounts. Each booster club was required to close their individual bank accounts and submit the funds to the District no later than September 30, 2015. An individual "account" was established for each Booster Club in order to segregate each Club's activity and available funds. The Booster Club accounts are reflected in the Districts' financial statement as part of the Fiduciary Activity Funds.

POTTSVILLE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 12 - CONTINGENCY – SHAMOKIN AREA SCHOOL DISTRICT:

Occasionally, there are students attributable to the District that are attending Northwestern Academy (NWA), which is located in the Shamokin Area School District (SASD). The District is responsible for paying tuition invoiced by SASD for students who attended NWA during the current year. SASD has invoiced for both tuition and rental payments for the NWA. However, the District believes that the assessing of amounts for rental payments is not an appropriate expense. This position has been taken by the majority of the School Districts' that have students at NWA. NWA and SASD have been involved in dialogue with the PA Department of Education (PDE) in an effort to determine the allowability of this rental charge, but have not come to an agreement. The District has estimated that its potential exposure for this rental liability if upheld is approximately \$66,011. This has not been accrued as the ultimate outcome of PDE's decision is unknown and presently payment is uncertain.

**NOTE 13 – OTHER DISCLOSURE – SCHUYLKILL TECHNOLOGY CENTER
OVERPAYMENT REFUND AGREEMENT**

During the year ended June 30, 2014 an agreement was reached between the District and the Schuylkill Technology Center whereby the Center will refund to the District \$387,464. which arose as a result of incorrect enrollment figures reported by the District as of October 1, 2011, 2012, and 2013. On or before November 15, 2014 the Center will pay to Pottsville the entire amount of excess funds from the 2013-2014 school year, on or before November 15, 2015 the Center will pay to Pottsville the entire amount of excess funds from the 2014-2015 school year, and beginning on November 15, 2016 the Center will pay to Pottsville annually, over a five year period, 1/5 of any remaining balance due after the 2 payments made as noted above. During the current year a payment of \$22,174.95 was received for the 2014/2015 fiscal year. At June 30, 2016 the total remaining receivable is \$315,102.58.

**NOTE 14 – OTHER CONTINGENCY – ERRORS ON YEAR END TRANSPORTATION
REPORTS:**

During the preparation of the 2015/2016 year end transportation report it was discovered that the District had in previous years over reported the number of reimbursable students transported. The District has notified the PA Department of Education and is working with them to determine the extent of any potential subsidy overpayment. The District has computed an estimate of \$376,428.77. No accrual of liability has been made until the District and PDE review the issue and come to an agreement on any potential subsidy repayment.

POTTSVILLE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 15- PENSION:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PENSIONS

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

General Information about the Pension Plan

PLAN DESCRIPTION

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

POTTSVILLE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 15 – PENSION – continued

BENEFITS PROVIDED

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

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

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

POTTSVILLE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 15 – PENSION – continued

CONTRIBUTIONS

Member Contributions:

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

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

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

Members who joined the System after June 30, 2011, automatically contributed at the Membership Class T-E rate of 7.50% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elected Class T-F membership, contribute at 10.30% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%.

Employer Contributions:

The school district's contractually required contribution rate for fiscal year ended June 30, 2016 was 25.00% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$4,961,458. for the year ended June 30, 2016.

POTTSVILLE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 15 – PENSION - continued

PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

At June 30, 2016, the District reported a liability of \$62,330,000. for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2014 to June 30, 2015. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2015, the District proportion was .1439%, which was a increase of .0006 from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$5,363,000. At June 30, 2016, the District reported net deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Net Deferred Outflows (Inflows) of Resources
Difference between employer contributions and proportionate share of total contributions	\$ <u>1,123,000</u>

\$1,123,000. reported as net deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as an addition of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related pensions will be recognized in pension expense as follows:

Year Ended June 30,		
2016	\$	114,000
2017		114,000
2018		114,000
2019		781,000
2020		0
Total Deferred Outflows of Resources	\$	<u>1,123,000</u>

POTTSVILLE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 15 – PENSION - continued

***PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS
OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED
TO PENSIONS - continued***

ACTUARIAL ASSUMPTIONS

Total pension liability as of June 30, 2015 was determined by rolling forward the System's total pension liability as of the June 30, 2014 actuarial valuation to June 30, 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 – 7.50%, includes inflation at 3.00%
- Salary increases – Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1%, and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disable annuitants, the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

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

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.

POTTSVILLE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 15 – PENSION - continued

***PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS
OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED
TO PENSIONS – continued***

ACTUARIAL ASSUMPTIONS - continued

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public markets global equity	22.5%	4.8%
Private markets (equity)	15.0%	6.6%
Private real estate	12.0%	4.5%
Global fixed income	7.5%	2.4%
U.S. long treasuries	3.0%	1.4%
TIPS	12.0%	1.1%
High yield bonds	6.0%	3.3%
Cash	3.0%	0.7%
Absolute return	10.0%	4.9%
Risk parity	10.0%	3.7%
MLPs/Infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	-14.0%	1.1%
	<u>100%</u>	

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

POTTSVILLE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 15 – PENSION - continued

PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS - continued

DISCOUNT RATE

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

SENSITIVITY OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

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

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
District's proportionate share of the net pension liability	\$ 76,829,000	\$ 62,330,000	\$ 50,145,000

POTTSVILLE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - continued

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 16 – OTHER DISCLOSURE – GILLINGHAM CHARTER SCHOOL CHARTER RENEWAL

Pursuant to the Charter School Law (CSL), 24 Pa. C.S.A. 17-1701-A, et seq., the Board of Education of the School District of Pottsville ("School District") granted a charter to Gillingham Charter School ("Gillingham" or "Charter School") to operate a charter school from July 1, 2011 until June 30, 2016.

In 2015, the Charter School applied for renewal of the Charter for an additional five-year term and by Resolution dated December 2, 2015, the School District Board of School Directors notified Gillingham Charter School that the Charter School's Charter not be renewed.

In compliance with Section 1729-A of the Charter School Law, the Board of Directors of the Pottsville Area School District issued a notice of non-renewal by Resolution dated December 2, 2015 setting forth the reasons why the Charter School's Charter should not be renewed, scheduling a hearing in this matter and authorizing the appointment of a hearing officer to conduct a hearing.

A hearing officer was appointed and held public hearings on April 18, 19, 20, 21, 25, 26, 2016 and May 3, 4, 12, 19, 23, 2016, during which testimony and exhibits were received regarding the recommended non-renewal. A 30-day public comment period was provided following the conclusion of the hearings. Pursuant to the Charter School Law, the Charter School was permitted to remain in operation beyond July 6, 2016, pending the outcome of those proceedings.

On June 28, 2016 the hearing officer submitted a report to the School District's administration, including Findings of Fact, Conclusions of Law and a proposed adjudication recommending revocation and non-renewal of the Charter. The School District reviewed the Charter School's request for a renewal, all of the testimony and exhibits admitted during the hearing, the hearing officer's report, including its findings of fact and conclusions of law, the submissions by all interested counsel, and all public comments received.

The Board of Directors of the Pottsville Area School District denied the Charter School's request on July 6, 2016 and adopted the hearing officer's report, its Findings of Fact and Conclusions of Law, as the reasons for this decision.

The Charter School appealed this decision to the State Charter School Appeal Board ("Appeal Board"), pursuant to the requirement contained in Section 1729-A (f) of the Charter School Law, the Charter shall remain in effect and the Charter School was permitted to remain open pending the conclusion of its appeal before the Appeal Board.

The matter is currently before the Appeal Board and a date has not yet been set for that hearing.

POTTSVILLE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2016

**NOTE 17 – GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT
NO. 56 (GASB 56) – GOING CONCERN CONSIDERATION:**

For the fiscal years ended June 30, 2015 and 2016 the District's General Fund recognized significant operating losses. Consequently, at June 30, 2016 the District's General Fund equity position has decreased significantly because of these losses. As a result GASB 56 requires that a determination be made as to whether the District will continue as a "going concern" thru the assessment date (June 30, 2017) and the look forward period (March 2018). Management believes these factors are significant in relation to the District's ability to meet its obligations. Consequently, the District formulated plans to mitigate the going concern consideration.

The District assembled various information that we consider to be relevant to the Districts' plans to mitigate the adverse effects of conditions and events that may indicate that there is a substantial doubt about the Districts' ability to continue as a going concern for a reasonable period of time including management's plans.

The District has developed a plan to mitigate the conditions indicated above. Increased revenue plans include (1) Increasing current real estate tax millage to the allowable "index" plus requesting additional millage for allowable "exceptions" provided in applicable regulations (2) Increasing the Occupation Assessment Tax rate and (3) Pursuing increased collection of delinquent real estate and personal taxes. In addition the District has initiated developed the following cost reduction measures (1) Curtailing all except essential expenditures, (2) Potential program eliminations and (3) Potential staffing reductions and other personnel savings. The District is also pursuing short term financing to provide cash flow support.

Based on the District plans discussed in the paragraph above it is determined that the District has developed plans that alleviate the going concern determination. Consequently, the audit opinion is not modified in regard to a going concern consideration.

SUPPLEMENTAL INFORMATION

POTTSVILLE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

A. SUMMARY OF AUDIT RESULTS

1. Auditor's report expresses an unqualified opinion on the financial statements of Pottsville Area School District.
2. One significant deficiency disclosed during the audit of the financial statements is reported in the report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with Government Auditing Standards. This significant deficiency was also considered a material weakness.
3. No instances of noncompliance material to the financial statements of Pottsville Area School District, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit. However, one (1) immaterial instance of noncompliance was noted and is reported as we believe it warrants attention of those charged with governance.
4. No significant deficiencies conditions relating to the audit of the major federal award programs is reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for Pottsville Area School District expresses an unqualified opinion.
6. There were no audit findings relative to the major federal programs for the Pottsville Area School District that are to be reported in accordance with 2 CFR section 200.516(a).
7. The programs tested as major programs were:

Program	CFDA #
National School Lunch	10.555
Regular/Severe Need Breakfast	10.553
Commodities	10.555
After School Snacks	10.555

8. The threshold for distinguishing types A and B Programs was \$750,000.
9. Pottsville Area School District was determined not to be a low-risk auditee.

POTTSVILLE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

SIGNIFICANT DEFICIENCY/MATERIAL WEAKNESS

2016-01 General Ledger Maintenance and Financial Reporting

Condition: Required procedures necessary to properly maintain the Districts' general ledger were not followed resulting in inaccurate financial reporting being made to the Board of School Directors.

Criteria: #1 - Proper "close-out" of the Districts' General Fund general ledger was not accomplished at the end of June 30, 2015. Consequently the opening Balance Sheet account balances were not reflected in the general ledger accounts as of July 1, 2015. The effect of this was that all the balance sheet accounts balances reported throughout the 2015/2016 fiscal year were incorrect. Consequently, proper reconciliation from detail information (for example bank account reconciliations) to the general ledger was not possible. If the required reconciliations were done this error would have been identified and could have been corrected. However these reconciliations were not done during the 2015/2016 year and as such the general ledger balance differences were not identified nor were they corrected.

Criteria: #2 - Proper general ledger maintenance was not performed in several months during the audit period. The Districts' accounting computer system requires that a "double entry procedure" be run at least monthly. This procedure posts all open accounting transactions. The result of not performing these maintenance procedures was that the general ledger balance were not correct and reported misleading information.

Cause: Required procedures were not followed required during the 2015/2016 fiscal year.

Effect: Because of the failure to accomplish required procedures, inaccurate financial information was provided during the 2015/2016 fiscal year.

Recommendation: We immediately recommended that the District establish procedures to ensure that proper reconciliations be accomplished between detail information and the general ledger and that all required year-end closeout procedures and monthly procedures be adhered to.

Views of Responsible Officials and Planned Corrective Actions: Upon notification the District instituted procedures to ensure the required procedures are being accomplished with proper checks and balances being established.

POTTSVILLE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

B. FINDINGS - FINANCIAL STATEMENTS AUDIT - CONTINUED

VIOLATION OF LAWS AND REGULATIONS

2016-02 Failure to Receive Required Tax Collector Reports

Condition: Tax collector monthly reports were not submitted to and received by the District as required.

Criteria: The Tax Collection Manual as prepared by the PA Governors Center for Local Government Services (Department of Community & Economic Development) Revised April 2007 requires that a tax collector is required to submit (unless required more frequently by the taxing jurisdiction) a monthly report to the District by the 10th of each month. The report must contain (among other items) a listing of all taxes collected in the prior month and a reconciliation of the tax duplicates.

Cause: We noted that required reports were not received from one District tax collector for Occupation and Per Capita taxes for the 2015/2016 tax duplicates.

Effect: While the tax collector did submit payments, without the required reports the District was unable to verify the payments made and the tax duplicates. It should be noted that the District did make repeated requests for these reports but did not receive them.

Recommendation: We recommend that the District require that all tax collectors submit the required reports on a timely basis as required by the manual. If they are not received, we recommend that the District levy the penalties for late filing as provided for in the manual.

Views of Responsible Officials and Planned Corrective Actions: The Pottsville Area School District agrees with the finding and will ensure that all tax collectors submit the required reports.

POTTSVILLE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

B. FINDINGS - FINANCIAL STATEMENTS AUDIT - CONTINUED

VIOLATION OF LAWS AND REGULATIONS – CONTINUED

2016-03 Violation of Bidding Requirements

Condition: Bidding requirements were not followed during the 2015/2016 fiscal year.

Criteria: Bidding requirements for Pennsylvania Governments are established annually by the PA Department of Labor and Industry under the authority of Act 97 of 2011. For both the 2015 and 2016 calendar years the level of purchase that requires formal competitive bidding is for any purchases and contracts exceeding \$19,400. In addition, 3 telephone/email quotations are to be obtained for purchases/contracts between \$10,500 and \$19,400.

Cause: During our 2015/2016 expenditure testing we noted several transactions where we could not locate evidence that the bidding requirements as outlined in the Criteria paragraph above were followed.

Effect: As the required bidding requirements were not followed during the 2015/2016 fiscal year it is possible that acquired goods/services were not acquired at the lowest cost.

Recommendation: We recommend that the District ensure that all individuals involved in procurement of goods and services become familiar with these requirements and that they follow them when acquiring goods and/or services.

Views of Responsible Officials and Planned Corrective Actions: The Pottsville Area School District agrees with the finding and will ensure that all individuals involved in procurement of goods and services become familiar with these requirements and that they follow them when acquiring goods and/or services.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

POTTSVILLE AREA SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor/ Pass Through Grantor/ Program Title	Source Code	Federal CFDA Number	Pass Through Grantors' Number	Program or Award Amount	Grant Period Beginning/Ending Date	Total Received For Year	Accrued Or (Deferred) Revenue July 1, 2015	Revenue Recognized	Expenditures	Accrued Or (Deferred) Revenue June 30, 2016
U.S. DEPARTMENT OF EDUCATION										
Passed Through State Department of Education:										
E.S.E.A Title I - 2015-2016	(I)	84,010	013-160349	\$ 672,521	7-1-15 / 9-30-16	\$ 672,521	\$ 0	\$ 670,735	\$ 670,735	\$ (1,786)
E.S.E.A. Title IIA Improving Teacher Quality - 2015-2016	(I)	84,367	020-160349	158,488	7-1-15 / 9-30-16	158,488	0	158,488	158,488	0
Rural and low income Schools 2014-2015	(I)	84,358	007-150349	56,751	7-1-14 / 9-30-15	10,917	7,266	11,651	11,651	0
Passed Through Schuylkill IU #29:										
IDEA Part B - 2015-2016	(I)	84,027	N/A	426,490	7-1-15 / 6-30-16	426,490	0	426,490	426,490	0
IDEA Section 619 - 2015-2016	(I)	84,173	N/A	6,681	7-1-15 / 9-30-16	6,681	0	6,681	6,681	0
ARRA - Race to the Top	(I)	84,413A	N/A	50,839	7-1-12 / 9-30-15	10,345	10,345	0	0	0
21st Century Community Learning Center - 2014-2015	(I)	84,287	N/A	53,204	7-1-14 / 9-30-15	26,660	12,586	14,074	14,074	0
21st Century Community Learning Center - 2015-2016	(I)	84,287	N/A	43,785	7-1-15 / 9-30-16	26,259	0	30,980	30,980	4,721
TOTAL DEPARTMENT OF EDUCATION				1,468,559		1,346,361	30,197	1,319,099	1,319,099	2,935
U.S. GENERAL SERVICES ADMINISTRATION										
Passed Through State Department of General Services:										
Donation of Federal Surplus Property	(I)	39,003	231026	2,493	7-1-15 / 6-30-16	2,493	0	2,493	2,493	0
TOTAL GENERAL SERVICES ADMINISTRATION				2,493		2,493	0	2,493	2,493	0
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES										
Passed Through State Department of Welfare:										
Medical Assistance - Access Administration - 2014/2015	(I)	93,778	NONE	20,623	7-1-14 / 9-30-15	5,971	5,971	0	0	0
Medical Assistance - Access Administration - 2015/2016	(I)	93,778	NONE	45,982	7-1-15 / 9-30-16	26,189	0	40,010	40,010	13,821
TOTAL DEPARTMENT OF HEALTH & HUMAN SERVICES				66,605		32,160	5,971	40,010	40,010	13,821
U.S. DEPARTMENT OF AGRICULTURE										
Passed Through State Department of Education:										
National School Lunch - 2015-2016	(I)	10,555	129-54-610-03	791,194	7-1-15 / 6-30-16	692,874	0	791,194	791,194	98,320
National School Lunch - 2015-2016	(S)	N/A	129-54-610-03	46,905	7-1-15 / 6-30-16	41,093	0	46,905	46,905	5,812
National School Lunch - 2014-2015	(I)	10,555	129-54-610-03	759,158	7-1-14 / 6-30-15	16,189	18,189	-	-	0
National School Lunch - 2014-2015	(S)	N/A	129-54-610-03	47,314	7-1-14 / 6-30-15	1,129	1,129	-	-	0
Regular/Severe Need Breakfast - 2014-2015	(I)	10,553	129-54-610-03	161,038	7-1-14 / 6-30-15	3,627	3,627	-	-	0
Regular/Severe Need Breakfast - 2014-2015	(S)	N/A	129-54-610-03	8,698	7-1-14 / 6-30-15	196	196	-	-	0
Regular/Severe Need Breakfast - 2015-2016	(I)	10,553	129-54-610-03	183,174	7-1-15 / 6-30-16	159,000	0	183,174	183,174	24,174
Regular/Severe Need Breakfast - 2015-2016	(S)	N/A	129-54-610-03	9,674	7-1-15 / 6-30-16	8,397	0	9,674	9,674	1,277
After School Snacks 2015-2016	(I)	10,555	129-54-610-03	1,416	7-1-15 / 6-30-16	1,416	0	1,416	1,416	0
Passed Through State Department of Agriculture:										
Value of USDA Commodities	(I)	10,555	2-07-54-610	103,146	7-1-15 / 6-30-16 (A)	103,146 (B)	(16,793)	102,356 (C)	102,356 (D)	(17,583)
TOTAL DEPARTMENT OF AGRICULTURE				2,111,717		1,029,067	6,348	1,134,719	1,134,719	112,000
SUB-TOTAL				3,649,374		2,410,081	42,516	2,496,321	2,496,321	128,756
STATE AWARD EXPENDITURES				112,591		50,815	1,325	56,579	56,579	7,089
TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ 3,536,783		\$ 2,359,266	\$ 41,191	\$ 2,439,742	\$ 2,439,742	\$ 121,667

Source Code Legend:
(I) Indicates direct federal financial assistance funding.
(I) Indicates indirect federal financial assistance funding.
(S) Indicates State matching funding.

Other Code Legend:
(A) Indicates value of USDA commodities received in current year.
(B) Indicates beginning inventory value of USDA commodities.
(C) Indicates value of USDA commodities used in current year.
(D) Indicates ending inventory value of USDA commodities.

POTTSVILLE AREA SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:

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

NOTE 2 - COMMODITIES:

The beginning and ending deferred income figures listed represent the beginning and ending commodities inventories in the Cafeteria Fund. These commodities are received through the State from the U.S. Department of Agriculture. The commodities are valued at amounts assigned to the various items by the U.S. Department of Agriculture when the commodities are offered.

POTTSVILLE AREA SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY

FOR THE YEAR ENDED JUNE 30, 2016

	June 30, 2015	June 30, 2014	June 30, 2013
DISTRICT'S PROPORTION OF THE NET PENSION LIABILITY (ASSET)	0.1439%	0.1433%	0.1381%
DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)	\$ 62,330,000	\$ 56,719,000	\$ 56,533,000
DISTRICT'S COVERED-EMPLOYEE PAYROLL	\$ 18,520,530	\$ 18,285,304	\$ 17,727,914
DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) AS A PERCENTAGE OF ITS COVERED-EMPLOYEE PAYROLL	336.55%	310.19%	318.89%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	54.40%	52.24%	54.49%

Ultimately, this schedule should present information for the last ten years. However, until ten years of information can be compiled, information is presented for as many years as is available.

POTTSVILLE AREA SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2016

	June 30, 2015	June 30, 2014
CONTRACTUALLY REQUIRED CONTRIBUTION	\$ <u>3,716,000</u>	\$ <u>3,683,433</u>
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	<u>(3,716,000)</u>	<u>(3,683,433)</u>
CONTRIBUTION DEFICIENCY (EXCESS)	\$ <u>0</u>	\$ <u>0</u>
DISTRICT'S COVERED-EMPLOYEE PAYROLL	\$ 18,520,530	\$ 18,285,304
CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	20.06%	20.14%

Ultimately, this schedule should present information for the last ten years. However, until ten years of information can be compiled, information is presented for as many years as is available.