

Pine-Richland School District

Single Audit

June 30, 2015

PINE-RICHLAND SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2015

TABLE OF CONTENTS

Independent Auditor's Report

Management's Discussion and Analysis

i

Financial Statements:

Government-Wide Financial Statements:

| | |
|---------------------------|---|
| Statement of Net Position | 1 |
| Statement of Activities | 2 |

Fund Financial Statements:

| | |
|---|----|
| Balance Sheet - Governmental Funds | 4 |
| Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position | 5 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds | 6 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities | 7 |
| Statement of Net Position - Proprietary Funds | 8 |
| Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds | 9 |
| Statement of Cash Flows - Proprietary Funds | 10 |
| Statement of Fiduciary Net Position | 11 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund | 12 |

| | |
|-------------------------------|----|
| Notes to Financial Statements | 13 |
|-------------------------------|----|

PINE-RICHLAND SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2015

TABLE OF CONTENTS

(Continued)

Required Supplementary Information:

| | |
|--|----|
| Schedule of the School District's Proportionate Share of the Net Pension Liability | 53 |
| Postemployment Benefits Other Than Pension Benefits (OPEBs) Schedule of Funding Progress | 54 |
| Postemployment Benefits Other Than Pension Benefits (OPEBs) Factors and Trends Used in Actuarial Valuation | 55 |

Supplementary Information:

| | |
|--|----|
| Combining Statement of Fiduciary Net Position | 56 |
| Combining Balance Sheet - All Capital Project Funds | 57 |
| Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - All Capital Project Funds | 58 |
| Schedule of Expenditures of Federal Awards | 59 |
| Notes to the Schedule of Expenditures of Federal Awards | 60 |

Independent Auditor's Reports Required by OMB Circular A-133:

| | |
|---|----|
| 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 <i>Government Auditing Standards</i> | 61 |
| Independent Auditor's Report on Compliance for its Major Program and on Internal Control over Compliance Required by OMB Circular A-133 | 63 |
| Schedule of Findings and Questioned Costs | 65 |
| Summary Schedule of Prior Audit Findings | 66 |

Independent Auditor's Report

Board of Directors
Pine-Richland School District

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 Pine-Richland School District (School District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the 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 School District, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 2 to the financial statements, the School District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, "*Accounting and Financial Reporting for Pensions*," and GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date*," which requires the School District to record its net pension liability and related items on the financial statements. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through xiv and the required supplementary information on pages 53 through 55 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 School District's basic financial statements. The combining financial statements on pages 56 through 58 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated **DATE XX**, 2015, on our consideration of the 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

Board of Directors
Pine-Richland School District
Independent Auditor's Report
Page 3

reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Pittsburgh, Pennsylvania
DATE XX, 2015

PINE-RICHLAND SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2015

Required Supplementary Information (RSI)

Our discussion and analysis of Pine-Richland School District’s (School District) financial performance provides an overview of the District’s financial activities for the fiscal year ended June 30, 2015. Please review in conjunction with the School District’s financial statements that begin on page 1.

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

FINANCIAL HIGHLIGHTS

During the fiscal year 2014-2015, the School District’s total General Fund expenditures increased by \$8,826,473 or 13.4% over the prior year’s spending. The School District did exceed its budgeted allocations for the year. Total expenditures for the 2014-2015 fiscal year were \$74,610,400 which represented a negative variance from the budget of \$(920,736). However, this was primarily a result of ratifying the collective bargaining agreement with the Pine-Richland Education Association. This agreement was under a period of status quo for two years. The agreement was finalized in September 2014 and resulted in a retroactive payment consisting of salaries and employer paid benefits in excess of \$2.2 million. Despite the retroactive payment and the fact overall costs increased, three functional areas of spending were less in 2014-2015 than the prior year (1) business services, (2) community services, and (3) debt service.

Revenues for the School District totaled \$75,596,337 for the year. This represents an increase from the prior year of approximately \$5.5 million or 7.8%. The millage rate for real estate tax was held flat at 19.2083 mills for 2014-2015. The School District’s actual revenues for the fiscal year exceeded budgeted projections by \$2,517,366. This was largely a result of additional revenue collected for earned income tax, interim real estate tax, and real estate transfer tax. Although the budget included a factor for residential growth in the Township of Pine, the number of completed developments during the year exceeded estimates. This impacted all three tax revenue categories. In addition, the School District collected more delinquent real estate tax revenue than anticipated. Part of the fluctuation was due to timing of collections received from the previous fiscal year, and the other portion was a result of the resolution of some delinquent liabilities from property owners.

The School District’s overall revenues exceeded overall expenditures thus resulting in an increase in its fund balance of \$1,413,931 to its current level of \$17,513,852. This level of fund balance represents approximately 23.8% of total budgeted expenditures and other financing uses which is considered healthy for public school systems. The School District has committed a portion of fund balance for the Public School Employees’ Retirement System and assigned portions of fund balance for employee benefit obligations, such as retirement contributions and healthcare premiums, future capital improvements, and debt service to help alleviate the need for future millage rate increases for the taxpayers of the School District.

**PINE-RICHLAND SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS**

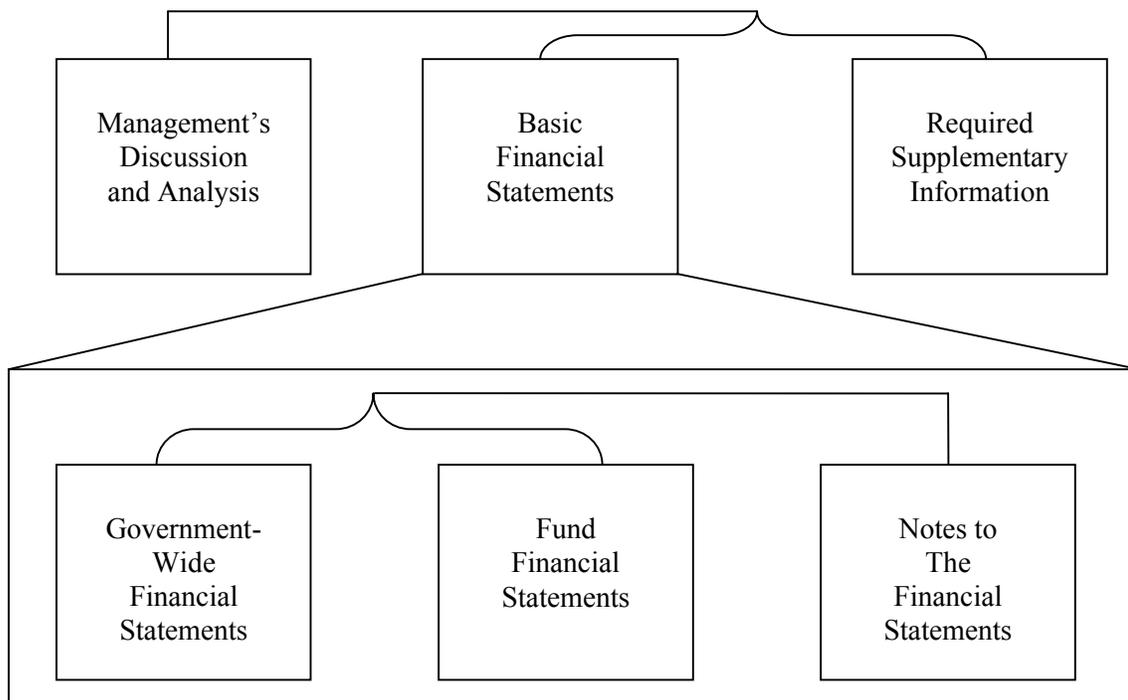
JUNE 30, 2015

USING THE BASIC FINANCIAL STATEMENT REPORT

This Basic Financial Statement Report consists of the MD&A and a series of financial statements and notes to those statements. The Statement of Net Position and Statement of Activities, on pages 1 through 3, provide information about the activities of the School District as a whole and present a longer-term view of the School District’s financial position. Fund Financial Statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The Fund Financial Statements also look at the School District’s most significant funds with all other non-major funds presented in total in one column. For Pine-Richland School District, the General Fund is the most significant fund. Lastly, the financial statements 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
Pine-Richland School District’s
Financial Report



PINE-RICHLAND SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

REPORTING THE SCHOOL DISTRICT AS A WHOLE

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did the School District perform financially during Fiscal Year Ended June 30, 2015?" The Statement of Net Position and the Statement of Activities help to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net position and changes in the net positions. This change in net position is important because it tells the reader, for the School District as a whole, whether the financial position of the School District has improved or diminished. The changes presented on this statement may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Pennsylvania restricting revenue growth, legislative law, specifically Act 1 of 2006, facility conditions and improvements, required educational programs and initiatives, student population growth, mandated services, fixed asset depreciation, and other factors.

OVERVIEW OF FINANCIAL STATEMENTS

Government-Wide Statements

The government-wide statements report information about the School District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and 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 School District's net positions and how they have changed. Net position, the difference between the School District's assets and liabilities, are one way to measure the School District's financial health or position.

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

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

In the Statement of Net Position and the Statement of Activities, the School District is divided into two distinct kinds of activities:

PINE-RICHLAND SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

- Governmental activities – Most of the School District's basic services are included here, such as instruction, support services, operation and maintenance of plant, pupil transportation services, and administrative services. Property and earned income taxes, state and federal subsidies and grants finance most of these activities.
- Business type activities – The School District operates a food service operation and charges fees to staff, students and visitors to cover the costs of the food service and catering operations.

REPORTING THE SCHOOL DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Fund financial statements provide detailed information about the most significant funds—not the School District as a whole. Some funds are required by state law and by bond requirements.

Governmental funds – Most of the School 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 School 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 School District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are reflected in the reconciliations on pages 5 and 7.

Proprietary fund – This fund is used to account for the School District's activities that are similar to business operations in the private sector, or where the reporting is concerned with determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the School District charges for services it provides—whether to outside customers or to other units in the School District—these services are generally reported in proprietary funds. The Food Service Fund is the School District's only major proprietary fund and uses the same basis of accounting as business-type activities; therefore, these statements will essentially match.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The School District's total net position was \$(90,000,750) at June 30, 2015. This is an increase in net position from the prior year, after restatement, of \$3,921,074.

PINE-RICHLAND SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

Table A-1
Fiscal Year ended June 30, 2015 and 2014
Net Position

| | <u>2015</u> | | | <u>2014</u> | | |
|---|-----------------------------------|------------------------------------|-----------------------|-----------------------------------|------------------------------------|-----------------------|
| | Governmental <u>Activities</u> | Business-Type <u>Activities</u> | <u>Total</u> | Governmental <u>Activities</u> | Business-Type <u>Activities</u> | <u>Total</u> |
| Current Assets | \$ 31,788,954 | \$ 515,481 | \$ 32,304,435 | \$ 29,950,727 | \$ 608,087 | \$ 30,558,814 |
| Noncurrent Assets | <u>109,869,833</u> | <u>239,141</u> | <u>110,108,974</u> | <u>110,514,965</u> | <u>323,942</u> | <u>110,838,907</u> |
| Total Assets | <u>141,658,787</u> | <u>754,622</u> | <u>142,413,409</u> | <u>140,465,692</u> | <u>932,029</u> | <u>141,397,721</u> |
| Deferred Outflow of Resources | <u>10,469,474</u> | - | <u>10,469,474</u> | <u>7,046,671</u> | - | <u>7,046,671</u> |
| Current Liabilities | 14,695,311 | 61,536 | 14,756,847 | 13,844,960 | 87,934 | 13,932,894 |
| Noncurrent Liabilities | <u>222,184,786</u> | - | <u>222,184,786</u> | <u>228,433,322</u> | - | <u>228,433,322</u> |
| Total Liabilities | <u>236,880,097</u> | <u>61,536</u> | <u>236,941,633</u> | <u>242,278,282</u> | <u>87,934</u> | <u>242,366,216</u> |
| Deferred Inflow of Resources | <u>5,942,000</u> | - | <u>5,942,000</u> | - | - | - |
| Net Position | | | | | | |
| Net Investment in Capital Assets | (14,588,134) | 239,141 | (14,348,993) | (40,320,742) | 323,942 | (39,996,800) |
| Unrestricted | <u>(76,105,702)</u> | <u>453,945</u> | <u>(75,651,757)</u> | <u>(54,445,177)</u> | <u>520,153</u> | <u>(53,925,024)</u> |
| Total Net Position - as restated | <u>(90,693,836)</u> | <u>693,086</u> | <u>(90,000,750)</u> | <u>(94,765,919)</u> | <u>844,095</u> | <u>(93,921,824)</u> |
| Total Liabilities, Deferred Inflows and Net Position | <u>\$ 152,128,261</u> | <u>\$ 754,622</u> | <u>\$ 152,882,883</u> | <u>\$ 147,512,363</u> | <u>\$ 932,029</u> | <u>\$ 148,444,392</u> |

Most of the School District's net position is invested in capital assets (buildings, land, and equipment). The remaining unrestricted net position is a combination of restricted, assigned and unassigned amounts. The assigned balances are amounts set aside to fund future capital improvements as planned by the School District and its Board of Directors.

The results of this year's operations as a whole are reported in the Statement of Activities on Pages 2 and 3. All expenses are reported in the first column. Specific charges, grants, revenues, and subsidies that directly relate to specific expense categories are represented to determine the final amount of the School District's activities that are supported by other general revenues. The two largest general revenues are the local taxes assessed to community taxpayers and Basic Education Subsidy provided by the Commonwealth of Pennsylvania.

PINE-RICHLAND SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

The 2014-2015 financial statements offer a view of the financial condition of the School District on a consolidated basis. For example, investment earnings not only include interest earnings in the general fund, but also interest earnings in the Food Service Fund and all other Governmental Funds.

Table A-2 takes the information from that Statement, rearranges it slightly, so you can see our total revenues for the year. Prior year information is also provided for a comparative analysis of government-wide data.

Table A-2
 Fiscal Year Ended June 30, 2015
 Changes in Net Position

| | <u>Gov't. Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|---|--------------------------|---------------------------------|---------------------|
| Revenues | | | |
| <u>Program revenues:</u> | | | |
| Charges for services | \$ 424,789 | \$ 1,255,963 | \$ 1,680,752 |
| Operating grants and contributions | 10,787,314 | 327,180 | 11,114,494 |
| Capital grants and contributions | 1,207,771 | - | 1,207,771 |
| <u>General revenues:</u> | | | |
| Property taxes | 50,427,858 | - | 50,427,858 |
| Other taxes | 7,993,110 | - | 7,993,110 |
| Grants, subsidies and contributions, unrestricted | 4,759,698 | - | 4,759,698 |
| Investment earnings | 889,099 | 440 | 889,539 |
| Miscellaneous income | 133,213 | - | 133,213 |
| Total revenues | <u>76,622,852</u> | <u>1,583,583</u> | <u>78,206,435</u> |
| Expenses | | | |
| Instructional services | 41,596,565 | - | 41,596,565 |
| Support services | 20,536,768 | - | 20,536,768 |
| Student activities and athletics | 1,728,786 | - | 1,728,786 |
| Community services | 64,800 | - | 64,800 |
| Interest on long-term debt | 5,630,154 | - | 5,630,154 |
| Unallocated depreciation expense | 2,990,936 | - | 2,990,936 |
| Food services | - | 1,737,352 | 1,737,352 |
| Total expenses | <u>72,548,009</u> | <u>1,737,352</u> | <u>74,285,361</u> |
| Increase (decrease) in net assets | <u>\$ 4,074,843</u> | <u>\$ (153,769)</u> | <u>\$ 3,921,074</u> |

PINE-RICHLAND SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

Table A-2-Continued
Fiscal Year Ended June 30, 2014
Changes in Net Assets

| | <u>Gov't. Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|---|--------------------------|---------------------------------|---------------------|
| Revenues | | | |
| <u>Program revenues:</u> | | | |
| Charges for services | \$ 403,010 | \$ 1,320,585 | \$ 1,723,595 |
| Operating grants and contributions | 8,970,604 | 360,680 | 9,331,284 |
| Capital grants and contributions | 1,205,238 | - | 1,205,238 |
| <u>General revenues:</u> | | | |
| Property taxes | 47,299,170 | - | 47,299,170 |
| Other taxes | 7,517,612 | - | 7,517,612 |
| Grants, subsidies and contributions, unrestricted | 4,759,550 | - | 4,759,550 |
| Investment earnings | 288,836 | 1,238 | 290,074 |
| Refunds of Prior Year Receipts | (204,560) | - | (204,560) |
| Refunds of Prior Year Expenses | - | - | - |
| (Loss) Gain on sale/disposal of asset | - | - | - |
| Miscellaneous income | 127,544 | - | 127,544 |
| Total revenues | <u>70,367,004</u> | <u>1,682,503</u> | <u>72,049,507</u> |
| Expenses | | | |
| Instructional services | 36,010,408 | - | 36,010,408 |
| Support services | 18,064,430 | - | 18,064,430 |
| Student activities and athletics | 1,429,582 | - | 1,429,582 |
| Community services | 85,800 | - | 85,800 |
| Interest on long-term debt | 6,502,760 | - | 6,502,760 |
| Capital outlay (not subject to capitalization) | - | - | - |
| Unallocated depreciation expense | 6,007,559 | - | 6,007,559 |
| Food services | - | 1,737,995 | 1,737,995 |
| Total expenses | <u>68,100,539</u> | <u>1,737,995</u> | <u>69,838,534</u> |
| Increase (decrease) in net assets | <u>\$ 2,266,465</u> | <u>\$ (55,492)</u> | <u>\$ 2,210,973</u> |

PINE-RICHLAND SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

The tables below present the expenses of both the Governmental Activities and the Business-type Activities of the School District.

Table A-3 shows the School District's eight largest functions—instructional programs, instructional student support, administrative, operation and maintenance of plant, pupil transportation services, student activities, community services, food service, as well as each program's net cost (total cost less revenues generated by the activities). This table also shows the net costs offset by the other unrestricted grants, subsidies and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues. Prior year information is again provided to allow for a comparative analysis.

Table A-3
 Fiscal Year ended June 30, 2015
 Governmental Activities

| <u>Functions/Programs</u> | <u>Total Costs of Services</u> | <u>Net Cost of Services</u> |
|--|--------------------------------|-----------------------------|
| Instructional services | \$ 41,596,565 | \$ 33,521,026 |
| Pupil personnel | 2,327,351 | 2,146,348 |
| Instructional staff support services | 1,026,186 | 947,654 |
| Administrative services | 3,936,415 | 3,684,670 |
| Pupil health | 856,325 | 694,209 |
| Business services | 885,733 | 858,021 |
| Operation and maintenance | 4,873,198 | 4,564,777 |
| Pupil transportation services | 4,396,534 | 2,729,883 |
| Central administrative services | 2,164,436 | 2,133,524 |
| Other support services | 70,590 | 70,590 |
| Student activities and athletics | 1,728,786 | 1,299,314 |
| Community services | 64,800 | 64,800 |
| Interest on long-term debt | 5,630,154 | 4,422,383 |
| Unallocated depreciation expense | 2,990,936 | 2,990,936 |
| Total Governmental Activities | <u>\$ 72,548,009</u> | <u>\$ 60,128,135</u> |
| Less: | | |
| Unrestricted & restricted grants, subsidies | | <u>(4,759,698)</u> |
| Total needs from local taxes and other revenues | | <u>\$ 55,368,437</u> |

PINE-RICHLAND SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

Table A-3 continued
Fiscal Year ended June 30, 2014
Governmental Activities

| <u>Functions/Programs</u> | <u>Total Costs of Services</u> | <u>Net Cost of Services</u> |
|--|--------------------------------|-----------------------------|
| Instructional services | \$ 36,010,408 | \$ 29,457,171 |
| Pupil personnel | 2,063,610 | 1,913,747 |
| Instructional staff support services | 975,516 | 909,759 |
| Administrative services | 3,101,815 | 2,899,539 |
| Pupil health | 614,342 | 472,887 |
| Business services | 895,603 | 873,453 |
| Operation and maintenance | 4,725,361 | 4,443,853 |
| Pupil transportation services | 4,052,578 | 2,500,332 |
| Central administrative services | 1,565,316 | 1,542,144 |
| Other support services | 70,289 | 70,289 |
| Student activities and athletics | 1,429,582 | 1,047,632 |
| Community services | 85,800 | 85,800 |
| Interest on long-term debt | 6,502,760 | 5,297,522 |
| Unallocated depreciation expense | 6,007,559 | 6,007,559 |
| Total Governmental Activities | \$ 68,100,539 | \$ 57,521,687 |
| Less: | | |
| Unrestricted & restricted grants, subsidies | | (4,759,550) |
| Total needs from local taxes and other revenues | | \$ 52,762,137 |

The dependence upon tax revenues for governmental activities is apparent. Approximately, eighty-one percent (81%) of instruction activities are supported through taxes and other local revenues. For all governmental activities local revenue support is seventy-five percent (75%). The community, as a whole, is the primary support for Pine-Richland School District students.

BUSINESS-TYPE ACTIVITY

The only major business-type activity of the School District is the food service operations. As noted on the Statement of Revenues, Expenses, and Changes in Fund Net Position on page 9, this program had operating revenues of \$1,236,767 and operating expenses of \$1,711,512 for the fiscal year 2015. The food service management company, Sodexo, guarantees a profit from their services. The guarantee for 2014-2015 was \$10,469.18 which is extended to the School District as a credit during the school year. The Food Service Operations ended the year with a decrease in net position of \$(144,365). In 2014-2015, the School District incurred \$29,606 in repair costs for various pieces of kitchen equipment. The food service department also purchased six cafeteria tables, a milk cooler and replacement computer equipment for the point of sale system.

The School District continues to experience good participation levels and believes this will continue to increase as student population continues to grow. The School District will be monitoring food

PINE-RICHLAND SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

costs to ensure that lunch prices remain at appropriate levels to cover expenditures. Business-type activities receive no support from local tax revenues.

THE DISTRICT'S FUNDS

The General Fund, which accounts for the School District's operations, represents one of the School District's most significant major funds. All governmental funds combined had a fund balance of \$22,363,893, as noted on page 6. The net increase of \$1,217,689 is primarily attributable to an overall increase in the operations of the General Fund. School District fund balance in the General Fund remains healthy and is currently \$17.5 million or 23.5% of actual expenditures and other financing uses for 2014-2015. Total fund balance consists of amounts allocated as non-spendable, restricted, committed, assigned and unassigned as shown on page 4.

General Fund Budgeting Highlights

The School District's budget is prepared according to Pennsylvania law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Operating Fund.

During the fiscal year, the School Board of Directors (the Board) authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the School District. The budgeting systems are designed to tightly control budgets by administrators responsible for their individual areas. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided on Page 12.

For the General Operating Fund, original and final budget revenue totals remained unchanged from \$73,078,971. Expenditures budgeted at \$73,062,544 were increased from the original budget by \$627,120 via board approved budget transfers throughout the fiscal year from other financing uses. The difference between expenditure and revenue budget allocations consists of other financing sources and uses such as bond refunding activity, interfund transfers, refunds from a prior year, budgetary reserve and utilization of fund balance reserves. For the 2014-2015 fiscal year, local and state revenues exceeded budget projections. Local revenues were higher than anticipated primarily due to additional revenue collected for earned income tax, interim real estate tax, real estate transfer tax and delinquent real estate tax. State revenues were higher than expected because the School District received additional subsidies for special education to help offset for extraordinary costs and additional funding for transportation. Total actual revenues collected were \$75,596,337.

Expenditures were budgeted at \$73,689,664 while actual expenditures were \$74,610,400. Negative variances did occur in multiple program areas. This was primarily a result of ratifying the collective bargaining agreement with the Pine-Richland Education Association. This agreement was under a period of status quo for two years. The agreement was finalized in September 2014 and resulted in a retroactive payment consisting of salaries and employer paid benefits in excess of \$2.2 million. These costs were charged to various functional areas within the instruction and support services categories. The negative variance for student transportation was associated with additional costs incurred for specialized transportation for students with severe needs. Negative variances were offset by some positive variances that occurred as a result of reduction in

PINE-RICHLAND SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

spending and cost controls for many functional areas. Expenditures total, net variance, for the fiscal year was \$(1,596,630).

As a result of operations, the General Operating Fund Balance increased by \$1,413,931 to its current level of \$17,513,852.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, the School District's Governmental Activities had \$106,886,777 invested in a broad range of capital assets, including land, site improvements, buildings, and furniture and equipment. This amount represents a net decrease of \$531,189 or 0.5% from last year. The decrease in capital assets is primarily a result of depreciation on existing assets net of current year asset additions.

Table A-4
 Governmental Activities
 Capital assets – net of depreciation (if applicable)

| | 2015 | 2014 |
|--------------------------|-----------------------|-----------------------|
| Land | \$ 1,542,645 | \$ 1,544,645 |
| Construction in Progress | - | 17,154 |
| Site Improvements | 5,079,017 | 8,552,670 |
| Buildings & Improvements | 98,401,404 | 94,878,576 |
| Furniture & Equipment | 1,863,711 | 2,424,921 |
| Total | \$ 106,886,777 | \$ 107,417,966 |

Debt Administration

As of June 30, 2015, the School District had total outstanding bond and note principal of \$136,226,079 as listed in Note 9 on pages 32 through 36 of the financial statements. Table A-5 below depicts the School District's total outstanding debt by issue.

PINE-RICHLAND SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

Table A-5
 Outstanding Debt

| General Obligation Notes/Bonds | <u>2015</u> | <u>2014</u> |
|--|------------------------------|------------------------------|
| Bonds, Series B of 1993 | \$ 6,043,683 | \$ 7,454,392 |
| Bonds, Series A of 1996 | 12,041,024 | 11,348,316 |
| Bonds, Series of 2003 | - | 17,555,000 |
| Bonds, Series of 2005 | - | 19,335,000 |
| Refunding Series of 2006 | - | 8,110,000 |
| Bonds, Variable Rate Demand Revenue, Series of 2006 | - | 3,270,000 |
| Refunding Series of 2007 | 8,070,000 | 8,210,000 |
| Bonds, State Public School Authority Revenue, 2008 | 1,826,372 | 1,921,519 |
| Bonds, Series of 2010 | 28,735,000 | 28,785,000 |
| Refunding Series of 2011 | 6,610,000 | 6,825,000 |
| Refunding Series of 2011A | 3,935,000 | 4,165,000 |
| Refunding Series of 2011B | 10,510,000 | 10,890,000 |
| Bonds, Variable Rate Demand Revenue, Series of 2011C | - | 5,985,000 |
| Bonds, Series of 2012 | 4,480,000 | 4,655,000 |
| Refunding Series of 2014A | 8,065,000 | - |
| Refunding Series of 2014B | 17,680,000 | - |
| Refunding Series of 2015A | 9,935,000 | - |
| Refunding Series of 2015B | 9,515,000 | - |
| Variable Rate Revenue Note, 2015 | 2,800,000 | - |
| Variable Rate Revenue Note, 2015A | 5,980,000 | - |
| Total: | <u>\$ 136,226,079</u> | <u>\$ 138,509,227</u> |

Other obligations include accrued and compensated vacation pay, sick leave pay, and post-employment benefits for qualifying employees who retire from the School District. More detailed information about our long-term liabilities is included in Note 9 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

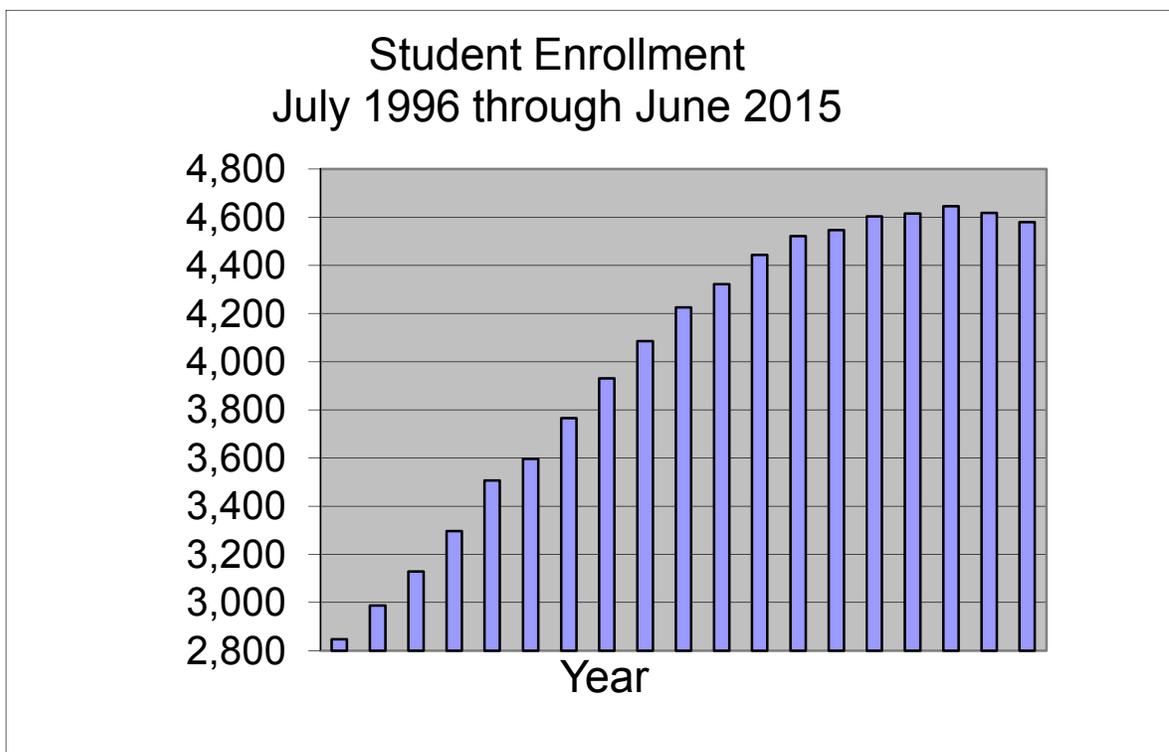
Pine-Richland School District has a bond rating of "AA-/Stable" by Standard & Poor's (S&P), a New York municipal finance agency. The "AA-/Stable" rating reflects the School District's stable outlook and strong capacity to meet financial commitments.

The community has experienced substantial growth in population and economic wealth. The graph below depicts the student population growth over the past 19 years.

PINE-RICHLAND SCHOOL DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2015



The rapid growth within the Pine-Richland School District puts additional burden on local taxpayers, as each year requires an analysis of staffing levels, transportation services, educational programs, support services, and extracurricular activities to meet student needs and demand. Facilities must continually be updated and expanded to meet these enrollment trends. The construction of Eden Hall Upper Elementary School, which accommodates 4th, 5th, and 6th grade students, was completed and opened in August 2008. The School District also completed a significant expansion project to the Pine-Richland High School in August 2012.

In July 2006, the Governor of Pennsylvania signed into law Act 1 of 2006 that imposes a limitation by which school board directors are not permitted to raise the real estate tax rate beyond a predetermined index or percentage each year. Currently, the law does provide for some exceptions to exceed this limitation. Examples of these include special education costs, employer retirement contribution rate costs, and certain construction costs. Increases in tax rates beyond those permissible under the Act would require referendum approval by the voters of the Pine-Richland School District before budget adoption could occur. This represents a significant change to school district finances that has caused 500 school districts in the Commonwealth of Pennsylvania to accelerate their budget timeline. The adjusted index under Act 1 for the Pine-Richland School District for the 2014-2015 school year was 2.5%.

Next Year’s Budget Comparison

The revenue and expenditure budget for the 2015-2016 school year is \$3,049,015 more than the prior year budget. This represents an overall increase of 4.14% in budgeted revenues and

PINE-RICHLAND SCHOOL DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2015

expenditures. The School District’s real estate tax rate was not increased for 2015-2016 in order to meet the obligations of the next year budget.

The comparison of revenue and expenditure categories is as follows:

Table A-6
BUDGETED REVENUES

| | <u>2015-2016</u> | <u>2014-2015</u> |
|-----------------------------|------------------|------------------|
| Local | \$ 59,337,186 | \$ 57,573,633 |
| State | 15,671,764 | 15,095,843 |
| Federal/Other | 314,737 | 409,497 |
| Other Financial Sources | - | 27,000 |
| Utilization of Fund Balance | 1,421,675 | 590,374 |

BUDGETED EXPENDITURES

| | <u>2015-2016</u> | <u>2014-2015</u> |
|---------------------------|------------------|------------------|
| Instruction | \$ 43,505,045 | \$ 41,138,497 |
| Support Services | 21,467,589 | 20,098,972 |
| Non-Instruction/Community | 1,772,819 | 1,695,500 |
| Facilities | 210,575 | 790,419 |
| Debt Service | 9,029,334 | 9,349,154 |
| Transfer/Refunds | 210,000 | - |
| Other Financing Uses | 550,000 | 623,805 |

The Pine-Richland School District has been active in controlling costs where possible and promoting fiscal responsibility. The current real estate millage rate for 2015 has been held constant at 19.2083 mills for the third fiscal year. All efforts to utilize School District growth to fund future needs without additional taxpayer support is a primary goal of the Board of Directors and management of the School District.

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 School District’s finances and to show the School Board of Director’s accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Dana L. Siford, Director of Financial and Operational Services, at Pine-Richland School District, 702 Warrendale Road, Gibsonsia, PA 15044. You may also make requests via email to dsiford@pinerichland.org.

PINE-RICHLAND SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2015

| | Governmental Activities | Business-Type Activities | Total |
|--|----------------------------|-----------------------------|------------------------|
| Assets: | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 25,896,696 | \$ 447,512 | \$ 26,344,208 |
| Cash and cash equivalents - restricted | 1,370,584 | - | 1,370,584 |
| Taxes receivable, net: | | | |
| Property taxes | 1,907,581 | - | 1,907,581 |
| Earned income taxes | 98,581 | - | 98,581 |
| Internal balances | (32,601) | 32,601 | - |
| Due from other governments | 1,682,913 | - | 1,682,913 |
| Other receivables | 189,616 | 5,426 | 195,042 |
| Prepaid expenses | 675,584 | - | 675,584 |
| Inventories | - | 29,942 | 29,942 |
| Total current assets | 31,788,954 | 515,481 | 32,304,435 |
| Noncurrent assets: | | | |
| Nondepreciable capital assets: | | | |
| Land | 1,542,645 | - | 1,542,645 |
| Depreciable capital assets, net of depreciation: | | | |
| Site improvements | 5,079,017 | - | 5,079,017 |
| Buildings and building improvements | 98,401,404 | - | 98,401,404 |
| Furniture and equipment | 1,863,711 | 239,141 | 2,102,852 |
| Investment in joint venture | 1,826,372 | - | 1,826,372 |
| Swap investment | 1,156,684 | - | 1,156,684 |
| Total noncurrent assets | 109,869,833 | 239,141 | 110,108,974 |
| Total Assets | 141,658,787 | 754,622 | 142,413,409 |
| Deferred Outflows of Resources: | | | |
| Accumulated decrease in fair value of hedging derivative | 2,292,529 | - | 2,292,529 |
| Deferred charge on refunding | 1,270,159 | - | 1,270,159 |
| Deferred outflows of resources for pension | 6,906,786 | - | 6,906,786 |
| Total Deferred Outflows of Resources | 10,469,474 | - | 10,469,474 |
| Liabilities: | | | |
| Current liabilities: | | | |
| Accounts payable | 1,497,257 | 61,536 | 1,558,793 |
| Accounts payable from restricted assets | 119,471 | - | 119,471 |
| Current portion of long-term obligations | 4,879,012 | - | 4,879,012 |
| Accrued interest payable | 2,046,540 | - | 2,046,540 |
| Accrued salaries and benefits | 6,153,031 | - | 6,153,031 |
| Total current liabilities | 14,695,311 | 61,536 | 14,756,847 |
| Noncurrent liabilities: | | | |
| Bonds and notes payable | 131,417,554 | - | 131,417,554 |
| Unamortized bond discount/premium | 975,778 | - | 975,778 |
| Other postemployment benefits | 1,745,152 | - | 1,745,152 |
| Net pension liability | 83,120,000 | - | 83,120,000 |
| Compensated absences | 966,557 | - | 966,557 |
| Hedging derivative liability - swap | 2,292,529 | - | 2,292,529 |
| Investment derivative liability - swap | 527,910 | - | 527,910 |
| Loan payable - swap | 1,139,306 | - | 1,139,306 |
| Total noncurrent liabilities | 222,184,786 | - | 222,184,786 |
| Total Liabilities | 236,880,097 | 61,536 | 236,941,633 |
| Deferred Inflows of Resources: | | | |
| Deferred inflows of resources for pension | 5,942,000 | - | 5,942,000 |
| Net Position: | | | |
| Net investment in capital assets | (14,588,134) | 239,141 | (14,348,993) |
| Unrestricted | (76,105,702) | 453,945 | (75,651,757) |
| Total Net Position | \$ (90,693,836) | \$ 693,086 | \$ (90,000,750) |

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

PINE-RICHLAND SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Change in Net Position | | |
|--|---------------|----------------------|------------------------------------|----------------------------------|--|--------------------------|-----------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Governmental Activities: | | | | | | | |
| Instructional services: | | | | | | | |
| Regular instruction | \$ 28,762,958 | \$ 18,983 | \$ 4,787,297 | \$ - | \$ (23,956,678) | \$ - | \$ (23,956,678) |
| Special instruction | 9,877,241 | - | 3,060,952 | - | (6,816,289) | - | (6,816,289) |
| Vocational instruction | 2,476,045 | - | 152,616 | - | (2,323,429) | - | (2,323,429) |
| Other instructional programs | 480,321 | - | 55,691 | - | (424,630) | - | (424,630) |
| Total instructional services | 41,596,565 | 18,983 | 8,056,556 | - | (33,521,026) | - | (33,521,026) |
| Support services: | | | | | | | |
| Pupil personnel | 2,327,351 | - | 181,003 | - | (2,146,348) | - | (2,146,348) |
| Instructional staff | 1,026,186 | - | 78,532 | - | (947,654) | - | (947,654) |
| Administration | 3,936,415 | - | 251,745 | - | (3,684,670) | - | (3,684,670) |
| Pupil health | 856,325 | - | 162,116 | - | (694,209) | - | (694,209) |
| Business services | 885,733 | - | 27,712 | - | (858,021) | - | (858,021) |
| Operation of plant and maintenance services | 4,873,198 | 95,646 | 212,775 | - | (4,564,777) | - | (4,564,777) |
| Student transportation services | 4,396,534 | - | 1,666,651 | - | (2,729,883) | - | (2,729,883) |
| Central administration | 2,164,436 | - | 30,912 | - | (2,133,524) | - | (2,133,524) |
| Other support services | 70,590 | - | - | - | (70,590) | - | (70,590) |
| Total support services | 20,536,768 | 95,646 | 2,611,446 | - | (17,829,676) | - | (17,829,676) |
| Non-instructional services: | | | | | | | |
| Student activities and athletics | 1,728,786 | 310,160 | 119,312 | - | (1,299,314) | - | (1,299,314) |
| Community services | 64,800 | - | - | - | (64,800) | - | (64,800) |
| Total non-instructional services | 1,793,586 | 310,160 | 119,312 | - | (1,364,114) | - | (1,364,114) |
| Unallocated expenses - excluding direct expenses reported as a function above: | | | | | | | |
| Interest on long-term debt | 5,630,154 | - | - | 1,207,771 | (4,422,383) | - | (4,422,383) |
| Unallocated depreciation and amortization | 2,990,936 | - | - | - | (2,990,936) | - | (2,990,936) |
| Total unallocated expenses | 8,621,090 | - | - | 1,207,771 | (7,413,319) | - | (7,413,319) |
| Total governmental activities | 72,548,009 | 424,789 | 10,787,314 | 1,207,771 | (60,128,135) | - | (60,128,135) |

(Continued)

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

PINE-RICHLAND SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

(Continued)

| Functions/Programs | Program Revenues | | | Net (Expense) Revenue and Change in Net Position | | | |
|---|----------------------|----------------------|------------------------------------|--|-------------------------|--------------------------|------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Business-Type Activities: | | | | | | | |
| Food service | 1,737,352 | 1,255,963 | 327,180 | - | - | (154,209) | (154,209) |
| Total Primary Government | \$ 74,285,361 | \$ 1,680,752 | \$ 11,114,494 | \$ 1,207,771 | (60,128,135) | (154,209) | (60,282,344) |
| General revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property taxes, levied for general purposes, net | | | | | 50,427,858 | - | 50,427,858 |
| Other taxes levied for general purposes, net | | | | | 7,993,110 | - | 7,993,110 |
| Grants, subsidies, and contributions not restricted | | | | | 4,759,698 | - | 4,759,698 |
| Investment earnings | | | | | 889,099 | 440 | 889,539 |
| Miscellaneous income | | | | | 133,213 | - | 133,213 |
| Refund of prior year expenses | | | | | - | - | - |
| Transfers (to) from Agency Funds | | | | | (2,760) | 2,760 | - |
| Total general revenues | | | | | 64,200,218 | 3,200 | 64,203,418 |
| Change in Net Position | | | | | 4,072,083 | (151,009) | 3,921,074 |
| Net Position: | | | | | | | |
| Beginning of year - as restated | | | | | (94,765,919) | 844,095 | (93,921,824) |
| End of year | | | | | <u>\$ (90,693,836)</u> | <u>\$ 693,086</u> | <u>\$ (90,000,750)</u> |

(Concluded)

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

PINE-RICHLAND SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2015

| <u>Assets</u> | <u>General Fund</u> | <u>Capital Projects</u> | <u>Total</u> |
|---|-------------------------|-----------------------------|----------------------|
| Cash and cash equivalents | \$ 22,212,889 | \$ 3,683,807 | \$ 25,896,696 |
| Cash and cash equivalents - restricted | - | 1,370,584 | 1,370,584 |
| Taxes receivable, net: | | | |
| Property taxes | 1,907,581 | - | 1,907,581 |
| Earned income taxes | 98,581 | - | 98,581 |
| Interfund receivables | 1,100 | - | 1,100 |
| Due from other governments | 1,682,913 | - | 1,682,913 |
| Other receivables | 189,616 | - | 189,616 |
| Prepaid expenses | 675,584 | - | 675,584 |
| Total Assets | \$ 26,768,264 | \$ 5,054,391 | \$ 31,822,655 |
| <u>Liabilities, Deferred Inflows of Resources, and Fund Balance</u> | | | |
| Liabilities: | | | |
| Accounts payable | \$ 1,412,378 | \$ 84,879 | \$ 1,497,257 |
| Accounts payable from restricted assets | - | 119,471 | 119,471 |
| Interfund payables | 33,701 | - | 33,701 |
| Accrued salaries and benefits | 6,153,031 | - | 6,153,031 |
| Total Liabilities | 7,599,110 | 204,350 | 7,803,460 |
| Deferred Inflows of Resources: | | | |
| Unavailable revenue - taxes | 1,655,302 | - | 1,655,302 |
| Fund Balance: | | | |
| Nonspendable | 675,584 | - | 675,584 |
| Restricted | - | 1,251,113 | 1,251,113 |
| Committed: | | | |
| For the Public School Employees' Retirement System | 192,471 | - | 192,471 |
| Assigned: | | | |
| For future capital improvements | 3,380,669 | 3,598,928 | 6,979,597 |
| For 2015-2016 budget | 1,421,675 | - | 1,421,675 |
| For athletic fund | 13,717 | - | 13,717 |
| For debt service expenditures | 635,638 | - | 635,638 |
| For employee benefit obligations | 5,298,390 | - | 5,298,390 |
| Unassigned | 5,895,708 | - | 5,895,708 |
| Total Fund Balance | 17,513,852 | 4,850,041 | 22,363,893 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balance | \$ 26,768,264 | \$ 5,054,391 | \$ 31,822,655 |

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

PINE-RICHLAND SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION

JUNE 30, 2015

Total Fund Balance - Governmental Funds \$ 22,363,893

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.

| | | |
|--------------------------|---------------------|-------------|
| Capital assets, gross | \$ 171,722,189 | |
| Accumulated depreciation | <u>(64,835,412)</u> | 106,886,777 |

Property tax revenues are recognized in the year for which levied rather than when "available." The portion of property tax revenues that are not available in the governmental funds are as follows:

1,655,302

The investment in joint venture does not represent a financial asset that would be recorded as an asset in the governmental funds.

1,826,372

The actuarially accrued net pension liability and deferred inflows and outflows of resources for pension for the School District's employees are not recorded on the fund financial statements.

(82,155,214)

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Additionally, accrued interest is not due and payable in the current period and, therefore, is not reported as a liability in the funds. These liabilities at year-end consist of:

| | | |
|--|--------------------|----------------------|
| Bonds/notes payable | (136,226,079) | |
| Unamortized discount/premium | (975,778) | |
| Unamortized deferred charge on refunding | 1,270,159 | |
| Swaps, net | (581,019) | |
| Accrued interest on debt | (2,046,540) | |
| Compensated absences and other postemployment benefits | <u>(2,711,709)</u> | <u>(141,270,966)</u> |

Total Net Position - Governmental Activities \$ (90,693,836)

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

PINE-RICHLAND SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2015

| | General Fund | Capital Projects | Total |
|--|-----------------|---------------------|---------------|
| Revenues: | | | |
| Local sources | \$ 60,045,941 | \$ 390,299 | \$ 60,436,240 |
| State sources | 15,189,652 | - | 15,189,652 |
| Federal sources | 360,744 | - | 360,744 |
| Total revenues | 75,596,337 | 390,299 | 75,986,636 |
| Expenditures: | | | |
| Current: | | | |
| Instruction | 43,223,246 | - | 43,223,246 |
| Support services | 19,519,767 | - | 19,519,767 |
| Operation of non-instructional services | 1,681,081 | - | 1,681,081 |
| Capital outlay | 868,762 | 382,206 | 1,250,968 |
| Debt service: | | | |
| Principal and interest | 9,317,544 | 204,335 | 9,521,879 |
| Total expenditures | 74,610,400 | 586,541 | 75,196,941 |
| Excess (Deficiency) of Revenues over Expenditures | 985,937 | (196,242) | 789,695 |
| Other Financing Sources (Uses): | | | |
| Proceeds from issuance of debt | 54,475,000 | - | 54,475,000 |
| Bond premium (discount) | 274,430 | - | 274,430 |
| Payments to refunding bond escrow | (54,318,676) | - | (54,318,676) |
| Interfund transfers in (out) | (2,760) | - | (2,760) |
| Total other financing sources (uses) | 427,994 | - | 427,994 |
| Net Change in Fund Balance | 1,413,931 | (196,242) | 1,217,689 |
| Fund Balance: | | | |
| Beginning of year | 16,099,921 | 5,046,283 | 21,146,204 |
| End of year | \$ 17,513,852 | \$ 4,850,041 | \$ 22,363,893 |

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

PINE-RICHLAND SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2015

Net Change in Fund Balance - Governmental Funds \$ 1,217,689

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This amount is the net effect of these items.

| | | | |
|--|----------------------------|--------------------|-----------|
| | Capital outlays | \$ 2,962,690 | |
| | Less: depreciation expense | <u>(3,493,879)</u> | (531,189) |

Because some property taxes will not be collected for several months after the School District's fiscal year end, they are not considered "available" revenues in the governmental funds. The value of this item changed by this amount during the year.

66,384

The governmental funds report proceeds from debt as other financing sources, while the repayment of debt principal is reported as an expenditure. Also, governmental funds report the effect of original issue discounts and premiums when debt is first issued, whereas these amounts are amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. Swaps are adjusted to fair market value in the statement of activities, whereas only the net settlement payments are recorded in the governmental funds. The net effect of these differences in the treatment of bonds, interest, and swaps is as follows:

| | | | |
|--|---|------------------|-----------|
| | Proceeds from issuance of bonds | (54,475,000) | |
| | Bond accretion | (1,081,999) | |
| | Accrued interest on bonds | 288,341 | |
| | Principal repayments | 4,485,147 | |
| | Principal repayments through refundings | 54,318,676 | |
| | Adjustment of swap fair market values | 553,593 | |
| | Unamortized bond premium | (274,430) | |
| | Amortization of discounts/premiums | <u>(201,532)</u> | 3,612,796 |

In the statement of activities, certain operating expenses (compensated absences, other postemployment benefits, and pension benefits) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used.

(293,597)

Change in Net Position of Governmental Activities \$ 4,072,083

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

PINE-RICHLAND SCHOOL DISTRICT

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

JUNE 30, 2015

| | Food Service | Non-Major Fund | Total Proprietary Funds |
|----------------------------------|-------------------|-------------------|----------------------------|
| Assets: | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 436,665 | \$ 10,847 | \$ 447,512 |
| Due from other funds | 33,701 | - | 33,701 |
| Other receivable | 3,137 | 2,289 | 5,426 |
| Inventories | 29,942 | - | 29,942 |
| Total current assets | 503,445 | 13,136 | 516,581 |
| Non-current assets: | | | |
| Furniture and equipment | 714,110 | - | 714,110 |
| Less accumulated depreciation | (474,969) | - | (474,969) |
| Total non-current assets | 239,141 | - | 239,141 |
| Total Assets | 742,586 | 13,136 | 755,722 |
| Liabilities: | | | |
| Due to other funds | 1,100 | - | 1,100 |
| Accounts payable | 61,536 | - | 61,536 |
| Total Liabilities | 62,636 | - | 62,636 |
| Net Position: | | | |
| Net investment in capital assets | 239,141 | - | 239,141 |
| Unrestricted | 440,809 | 13,136 | 453,945 |
| Total Net Position | \$ 679,950 | \$ 13,136 | \$ 693,086 |

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

PINE-RICHLAND SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2015

| | <u>Food Service</u> | <u>Non-Major Fund</u> | <u>Total Proprietary Funds</u> |
|---|---------------------|---------------------------|------------------------------------|
| Operating Revenues: | | | |
| Food service revenue | \$ 1,236,767 | \$ - | \$ 1,236,767 |
| Concession revenue | - | 19,196 | 19,196 |
| Total operating revenues | <u>1,236,767</u> | <u>19,196</u> | <u>1,255,963</u> |
| Operating Expenses: | | | |
| Purchased professional and technical services | 903,517 | - | 903,517 |
| Purchased property service | 50,152 | - | 50,152 |
| Supplies | 666,546 | 25,840 | 692,386 |
| Depreciation | 84,801 | - | 84,801 |
| Other operating expenses | 6,496 | - | 6,496 |
| Total operating expenses | <u>1,711,512</u> | <u>25,840</u> | <u>1,737,352</u> |
| Net Operating Income (Loss) | <u>(474,745)</u> | <u>(6,644)</u> | <u>(481,389)</u> |
| Non-Operating Revenues (Expenses): | | | |
| Earnings on investments | 440 | - | 440 |
| State sources | 38,177 | - | 38,177 |
| Federal sources | 289,003 | - | 289,003 |
| Total non-operating revenues (expenses) | <u>327,620</u> | <u>-</u> | <u>327,620</u> |
| Income (loss) before operating transfers | (147,125) | (6,644) | (153,769) |
| Operating Transfers: | | | |
| Operating transfer in | <u>2,760</u> | <u>-</u> | <u>2,760</u> |
| Change in Net Position | (144,365) | (6,644) | (151,009) |
| Net Position: | | | |
| Beginning of year | <u>824,315</u> | <u>19,780</u> | <u>844,095</u> |
| End of year | <u>\$ 679,950</u> | <u>\$ 13,136</u> | <u>\$ 693,086</u> |

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

PINE-RICHLAND SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2015

| | Food Service | Non-Major Fund | Total Proprietary Funds |
|--|--------------|-------------------|----------------------------|
| Cash Flows From Operating Activities: | | | |
| Cash received from users | \$ 1,205,841 | \$ 16,907 | \$ 1,222,748 |
| Cash payments for purchased professional and technical service | (929,402) | - | (929,402) |
| Cash payments to suppliers for goods and services | (707,704) | (26,353) | (734,057) |
| Cash payments for other operating expenses | (5,396) | - | (5,396) |
| Net cash provided by (used in) operating activities | (436,661) | (9,446) | (446,107) |
| Cash Flows From Noncapital Financing Activities: | | | |
| State sources | 51,205 | - | 51,205 |
| Federal sources | 289,003 | - | 289,003 |
| Operating transfers in | 2,760 | - | 2,760 |
| Net cash provided by (used in) noncapital financing activities | 342,968 | - | 342,968 |
| Cash Flows From Investing Activities: | | | |
| Earnings on investments | 440 | - | 440 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (93,253) | (9,446) | (102,699) |
| Cash and Cash Equivalents: | | | |
| Beginning of year | 529,918 | 20,293 | 550,211 |
| End of year | \$ 436,665 | \$ 10,847 | \$ 447,512 |
| Reconciliation of Net Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities: | | | |
| Net operating income (loss) | \$ (474,745) | \$ (6,644) | \$ (481,389) |
| Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities: | | | |
| Depreciation | 84,801 | - | 84,801 |
| Change in assets and liabilities: | | | |
| Inventories | 8,994 | - | 8,994 |
| Accounts receivable | (30,926) | (2,289) | (33,215) |
| Accounts payable | (24,785) | (513) | (25,298) |
| Net cash provided by (used in) operating activities | \$ (436,661) | \$ (9,446) | \$ (446,107) |
| Non-Cash, Non-Capital Financing Transactions: | | | |
| Pine-Richland School District received donated commodities of \$87,743 from the Department of Agriculture. | | | |

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

PINE-RICHLAND SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2015

| | <u>Agency Fund</u> |
|----------------------------------|------------------------|
| Assets: | |
| <u>Cash and cash equivalents</u> | <u>\$ 79,163</u> |
| Liabilities: | |
| <u>Due to student groups</u> | <u>\$ 79,163</u> |

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

PINE-RICHLAND SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND

YEAR ENDED JUNE 30, 2015

| | Budget | | Actual | Variance with Final Budget |
|--|---------------|---------------|---------------|-------------------------------|
| | Original | Final | | |
| Revenues: | | | | |
| Local sources | \$ 57,573,632 | \$ 57,573,632 | \$ 60,045,941 | \$ 2,472,309 |
| State sources | 15,095,842 | 15,095,842 | 15,189,652 | 93,810 |
| Federal sources | 409,497 | 409,497 | 360,744 | (48,753) |
| Total revenues | 73,078,971 | 73,078,971 | 75,596,337 | 2,517,366 |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular programs | 29,168,730 | 29,784,851 | 30,591,187 | (806,336) |
| Special programs | 9,619,498 | 9,839,890 | 9,716,967 | 122,923 |
| Vocational programs | 2,167,634 | 2,182,301 | 2,436,257 | (253,956) |
| Other instructional programs | 182,635 | 185,635 | 478,835 | (293,200) |
| Total instruction | 41,138,497 | 41,992,677 | 43,223,246 | (1,230,569) |
| Support services: | | | | |
| Pupil personnel services | 2,457,157 | 2,457,157 | 2,280,685 | 176,472 |
| Instructional staff services | 1,084,529 | 1,080,529 | 999,437 | 81,092 |
| Administrative services | 3,586,156 | 3,586,537 | 3,446,021 | 140,516 |
| Pupil health | 729,121 | 803,127 | 838,510 | (35,383) |
| Business services | 976,411 | 945,840 | 878,806 | 67,034 |
| Operation and maintenance of plant | 4,973,801 | 4,973,801 | 4,810,117 | 163,684 |
| Student transportation | 4,306,468 | 4,330,668 | 4,394,850 | (64,182) |
| Central and other support services | 1,985,330 | 1,716,309 | 1,871,341 | (155,032) |
| Total support services | 20,098,973 | 19,893,968 | 19,519,767 | 374,201 |
| Operation of non-instructional services: | | | | |
| Student activities and athletics | 1,535,001 | 1,535,001 | 1,542,432 | (7,431) |
| Community services | 118,500 | 84,300 | 64,800 | 19,500 |
| Athletics - officials | 52,000 | 52,000 | 73,849 | (21,849) |
| Total operation of non-instructional services | 1,705,501 | 1,671,301 | 1,681,081 | (9,780) |
| Capital outlay | 780,418 | 840,954 | 868,762 | (27,808) |
| Debt service: | | | | |
| Principal and interest | 9,339,154 | 9,290,763 | 9,317,544 | (26,781) |
| Total expenditures | 73,062,543 | 73,689,663 | 74,610,400 | (920,737) |
| Excess (Deficiency) of Revenues over Expenditures | 16,428 | (610,692) | 985,937 | 1,596,629 |
| Other Financing Sources (Uses): | | | | |
| Proceeds from issuance of debt | - | - | 54,475,000 | 54,475,000 |
| Bond premium (discount) | - | - | 274,430 | 274,430 |
| Payments to refunding bond escrow | - | - | (54,318,676) | (54,318,676) |
| Refund of prior year receipts | (10,000) | (6,685) | - | 6,685 |
| Interfund transfers | 27,000 | 27,000 | (2,760) | (29,760) |
| Budgetary reserve | (623,805) | - | - | - |
| Total other financing sources (uses) | (606,805) | 20,315 | 427,994 | 407,679 |
| Net Change in Fund Balance | (590,377) | (590,377) | 1,413,931 | 2,004,308 |
| Fund Balance: | | | | |
| Beginning of year | 16,099,921 | 16,099,921 | 16,099,921 | - |
| End of year | \$ 15,509,544 | \$ 15,509,544 | \$ 17,513,852 | \$ 2,004,308 |

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

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

1. REPORTING ENTITY

The Pine-Richland School District (School District) is organized under Title 24 of the Pennsylvania Statutes. The School District provides educational services as authorized by state statute and/or federal guidelines.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For the School District, this includes general operations, food service, and student-related activities of the School District.

In evaluating the School District as a primary government, management has addressed all potential component units. Component units are to be included within the financial reporting entity of the School District based upon the significance of their operational or financial relationships with the School District. No potential component units meet the criteria for inclusion in the School District reporting entity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the 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 School District are described below:

Basis of Presentation

The School District's basic financial statements consist of government-wide financial statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide financial statements - The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

The statement of net position presents the financial condition of the governmental and business-type activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business activity or governmental function is self-financing or draws from the general revenues of the School District.

Fund financial statements - During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The fiduciary funds are reported by type. A break out of all funds that are aggregated for reporting purposes is shown as supplementary information after the notes to financial statements.

Measurement Focus and Basis of Accounting*Fund Accounting*

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, early retirement, arbitrage rebates, and postemployment benefits, are recorded only when payment

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

is due. Property taxes and interest associated with past and current fiscal periods are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period if they are collected within 60 days of the end of the current fiscal period. All other property taxes associated with past and current fiscal periods are unavailable in the governmental fund financial statements.

The School District reports the following major governmental funds:

General Fund – The General Fund is the School District’s primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund - The Capital Projects Fund accounts for resources accumulated and payments made for the acquisition and improvement of sites, construction and remodel of facilities, and procurement of equipment necessary for providing educational programs for all students within the School District.

Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. Enterprise funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. Operating revenues and expenses generally result from providing services and producing goods in connection with the enterprise fund's principal ongoing operations. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its enterprise activities.

The School District reports the following major enterprise fund:

Food Service Fund - The Food Service Fund accounts for the financial transactions related to the food service operations of the School District.

The School District reports the following non-major enterprise fund:

Concession Stand Fund - The Concession Stand Fund accounts for the financial transactions related to concessions operations of the School District.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. These funds are custodial in nature and do not involve measurement of results of operations. Accordingly, the only statement shown for the School District is the statement

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

of fiduciary net position. There is no statement required for the changes in fiduciary net position. The School District reports the following fiduciary funds:

Middle-School Activity Fund and High-School Activity Fund - These funds are agency funds which are used to account for assets held in a purely custodial capacity for specific clubs and organizations within the School District.

Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Budgetary Process

The School District passed an appropriated budget for the fiscal year ending June 30, 2015 with revenues totaling \$73.1 million and expenditures and other financing uses totaling \$73.1 million. The resulting variance was an estimated utilization of fund balance in the amount of approximately \$600,000 for one-time capital improvements.

The School District is required by state law to adopt an annual budget for the General Fund only. The budget is presented on the modified accrual basis of accounting, which is consistent with GAAP. The state does not require any other funds to have an annual budget adopted; therefore, no budgetary comparisons schedules are shown except for the General Fund.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

Preliminary Budget - The preliminary budget for each year must be adopted (via Board of Directors (Board) vote) 90 days prior to the primary election, unless the School District adopts a resolution indicating that it will not raise the rate of any tax by more than its index. The resolution must be adopted 110 days prior to the primary election and the School District must adopt a resolution that follows traditional budget guidelines.

A *proposed* version must be prepared at least 20 days before adoption; this work-in-progress budget, defined as the *proposed preliminary budget*, must be made available for public inspection no later than 110 days prior to the primary election. Public notice of the intent to

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

adopt the preliminary budget must be published no later than 10 days before adoption of the preliminary budget (100 days before primary election).

Final Budget - The final budget for each year must be adopted (via Board vote) by June 30 of the preceding School District fiscal year.

A *proposed* version must be prepared and adopted (via Board vote) no later than May 30 of the preceding School District fiscal year (at least 30 days before adoption); this work-in-progress budget, defined as the *proposed final budget*, must be made available for public inspection no later than June 10 of the preceding school fiscal year (20 days before adoption on June 30). Public notice of the intent to adopt the final budget must be published no later than June 20 of the preceding school fiscal year (10 days before adoption on June 30).

Note: For the adopted preliminary budget to become the proposed final budget, the Board must take action.

Once the budget is approved, it can be amended at the function and fund level only by approval of a majority of the members of the Board. Amendments are presented to the Board at their regular meetings. Each amendment must have Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year-end, unless the School District chooses to utilize encumbrance accounting.

Deposits and Investments

The School 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, including investments in the Pennsylvania Local Government Investment Trust (PLGIT) and Pennsylvania School District Liquid Asset Fund (PSDLAF).

The School District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments, which have a remaining term of one year or less at

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

the time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

Restricted Assets

Certain proceeds of debt of the School District are classified as restricted cash on the statement of net position and the governmental funds balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

Receivables and Payables

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are offset against each other in the governmental and business-type activities columns of the statement of net position and reported as internal balances.

All tax receivables are shown net of an allowance for uncollectible amounts.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories

Inventories are stated at cost using the purchase method. The purchase method means that food products, materials, and supplies are charged as expenditures when acquired. Inventory on hand at the end of the period is then recorded as an asset by offsetting the appropriate expense account.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds and result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the enterprise funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

market values as of the date received. The School District maintains a capitalization threshold of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the School District during the current fiscal year was \$5,630,154. However, this interest expense related to construction for governmental activities and, therefore, none of this interest was included as part of the cost of capital assets under construction.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

| <u>Assets</u> | <u>Governmental Activities Estimated Lives</u> | <u>Business-type Activities Estimated Lives</u> |
|-------------------------------------|--|---|
| Site improvements | 15 Years | N/A |
| Buildings and building improvements | 20 Years | N/A |
| Furniture and equipment | 5-15 Years | 5-15 Years |

The School District has elected not to prorate portions of buildings utilized by the cafeteria to the Cafeteria Fund. All buildings are capitalized and included as a governmental activity on the statement of net position.

Compensated Absences

School District employees who have certain years of service in the School District, and who retire under the provisions of the Public School Employees' Retirement System of Pennsylvania (PSERS) shall receive the following: Each day of unused sick days will be reimbursed at amounts in the range of \$60 through \$100 per day and the employee shall also receive amounts in the range of \$75 through \$200 per year for each year of employment under the PSEA contract.

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements and all payables, accrued liabilities, and long-term obligations payable from enterprise funds are also reported on the enterprise fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. Bonds and capital leases are recognized as a liability on the governmental fund financial statements when due.

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts and deferred charge on refunding are amortized over the life of the bonds using the effective interest method. Bonds are reported at gross amount outstanding.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of the 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.

In both the fund and government-wide financial statements issue costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Interest Rate Swap Transactions

The School District's interest rate swap transactions are reported on the statement of net position as either swap investments or swap liabilities based on their market value as of the end of the fiscal year. The change in market value from one reporting period to the next is either reported on the statement of net position as deferred outflows/inflows of resources or is recognized as investment income depending on if the interest rate swap transaction qualifies for hedge accounting. Additional discussion of the School District's derivative transactions may be found in Note 10.

Fund Balance

In the fund financial statements, governmental funds report fund balance in categories based on the level of restriction placed upon the funds. These levels are as follows:

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

- Nonspendable – This category represents funds that are not in spendable form and includes such items as prepaid expenses.
- Restricted – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending that are legally enforceable by outside parties. This category includes funds that are legally restricted for construction costs.
- Committed – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending imposed by the Board. Such commitment is made via a Board resolution and must be made prior to the end of the fiscal year. Removal of this commitment requires a Board resolution. This category includes funds committed for the Public School Employees' Retirement System.
- Assigned – This category represents intentions of the Board to use General Fund resources for specific purposes. This category also includes the residual balance in the Capital Projects Fund.
- Unassigned – This category represents all other funds not otherwise defined.

The School District's policy is to use funds in the order of the most restrictive to the least restrictive.

Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Unrestricted net position represents that which does not qualify as net investment in capital assets or restricted.

The School District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Deferred Inflows and Outflows of Resources Related to Pensions

In conjunction with pension accounting requirements, the effect of the change in the School District's proportion, the difference between expected and actual investment earnings, and payments made to PSERS subsequent to the measurement date are recorded as a deferred inflow or outflow of resources related to pensions on the government-wide financial statements. These amounts are determined based on the actuarial valuation performed for the PSERS plan. The effect of the change in the School District's proportion is recognized over the average expected remaining service lives of active and inactive members, which was 5.15 years as of June 30, 2013. The difference between expected and actual investment earnings is recognized over five years. Payments subsequent to the measurement date will be recorded as a reduction to the pension liability in the next fiscal year. Note 11 presents additional information about the PSERS plan.

Adoption of Accounting Pronouncements

Governmental Accounting Standards Board (GASB) Statement No. 68, *"Accounting and Financial Reporting for Pensions,"* and GASB Statement No. 71, *"Pension Transition for Contributions Made Subsequent to the Measurement Date,"* were adopted in the current year by the School District. As a result of this implementation, the government-wide net position as of July 1, 2014 was restated with a decrease of \$81,054,000 to record the School District's proportionate share of the PSERS total pension liability. The proportionate share is calculated utilizing the School District's one-year reported covered payroll as it relates to PSERS' total one-year reported covered payroll. The pension liability and its related components are described more fully in Note 11.

Pending Pronouncements

GASB has issued the following statements that will become effective in future years as shown below. Management has not yet determined the impact of these statements on the School District's financial statements:

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

GASB Statement No. 72, *“Fair Value Measurement and Application,”* effective for fiscal years beginning after June 15, 2015 (the School District’s financial statements for the year ending June 30, 2016). This statement addresses accounting and financial reporting issues related to fair value measurements.

GASB Statement No. 73, *“Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,”* effective for fiscal years beginning after June 15, 2015 (the School District’s financial statements for the year ending June 30, 2016) – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for financial statements for fiscal years beginning after June 15, 2016 (the School District’s financial statements for the year ending June 30, 2017). This statement establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (those not covered by GASB Statements No. 67 and 68).

GASB Statement No. 74, *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,”* effective for fiscal years beginning after June 15, 2016 (the School District’s financial statements for the year ending June 30, 2017). This statement addresses reporting by OPEB plans that administer benefits on behalf of governments. This statement replaces GASB Statement No. 43.

GASB Statement No. 75, *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,”* effective for fiscal years beginning after June 15, 2017 (the School District’s financial statements for the year ending June 30, 2018). This statement addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. This statement replaces the requirements of GASB Statement No. 45.

GASB Statement No. 76, *“Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,”* effective for fiscal years beginning after June 15, 2015 (the School District’s financial statements for the year ending June 30, 2016). This statement identifies the hierarchy of generally accepted accounting principles (GAAP), reduces this hierarchy to two categories of authoritative GAAP, and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement supersedes GASB Statement No. 55.

GASB Statement No. 77, *“Tax Abatement Disclosures,”* effective for fiscal years beginning after December 15, 2015 (the School District’s financial statements for the year ending June 30, 2017). This statement requires state and local governments for the first time to disclose

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

information about tax abatement agreements, and is designed to provide financial statement users with essential information about these agreements and the impact that they have on a government's finances.

3. DEPOSITS AND INVESTMENTSStatutory Authority

School districts are to adopt local investment policies. The local investment policy must be written, primarily emphasize the safety of principal and liquidity, and address investment diversification, yield, maturity, and the quality and capability of investment management. Each school district should customize its policies to meet board and administrative objectives as defined. School districts should review their investment policies and investment strategies annually.

According to Section 440.1(c) of the Pennsylvania School Code, authorized types of investments school districts may have are as follows:

- United States Treasury bills.
- Short-term obligations of the United States Government or its agencies or instrumentalities. Short-term obligations usually refer to investments of less than 13 months.
- Deposits in savings accounts or time deposits or share accounts of institutions insured by:
 - The Federal Deposit Insurance Corporation (FDIC), or
 - The Federal Savings and Loan Insurance Corporation, or
 - The National Credit Union Share Insurance Fund to the extent that such accounts are so insured, and for any amounts above maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository.
- Obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, the Commonwealth of Pennsylvania, or any of its agencies or instrumentalities. Full faith and credit means the obligation is backed by the government's ability to levy taxes to repay debt. These investments include any bonds issued by the Commonwealth of Pennsylvania or any municipality or school district carrying the backing of the taxation powers of the governmental unit issuing the debt. Some investments of the federal government do not have full faith and credit backing. Fannie-Mae (FNMA) and Freddie-Mac (FHLMC) bonds do not. Ginnie-Mae (GNMA) bonds do have full faith and credit backing.

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

- Shares of an investment company registered under the Investment Company Act of 1940 whose shares are registered under the Securities Act of 1933 provided that the following are met:
 - Only investments of that company are in the authorized investments for School District funds listed in the categories above and repurchase agreements fully collateralized by such investments.
 - The investment company is managed so as to maintain its shares as a constant net asset value in accordance with 17 CFR 270 2a-7 (relating to money market funds).
 - The investment company is rated in the highest category by a nationally recognized rating agency. This classification includes pooled investments such as the Pennsylvania School District Liquid Asset Fund, Pennsylvania Local Government Investment Trust, and the Pennsylvania State Treasurer's Invest Program.

The deposit and investment policy of the School District adheres to state statutes and prudent business practices. There were no deposits or investments made during the year which violated either the state statutes or the policy of the School District.

At June 30, 2015, the School District's deposits and investments were as follows:

| | <u>Deposits</u> | <u>Pooled Funds</u> | <u>Total</u> |
|---------------------|---------------------|----------------------|----------------------|
| Governmental Funds: | | | |
| General | \$ 1,969,986 | \$ 20,242,903 | \$ 22,212,889 |
| Capital Projects | 3,683,807 | 1,370,584 | 5,054,391 |
| Proprietary Funds: | | | |
| Food Service | (73,726) | 510,391 | 436,665 |
| Non-Major | 10,847 | - | 10,847 |
| Fiduciary Fund | 79,163 | - | 79,163 |
| | <u>\$ 5,670,077</u> | <u>\$ 22,123,878</u> | <u>\$ 27,793,955</u> |
| Bank Balance | <u>\$ 6,831,060</u> | <u>\$ 26,195,873</u> | <u>\$ 33,026,933</u> |

Pooled Funds – PLGIT and PSDLAF

As of June 30, 2015, the School District had deposits in the Pennsylvania Local Government Investment Trust (PLGIT) and the Pennsylvania School District Liquid Asset Fund (PSDLAF), which were established as common law trusts, organized under laws of the Commonwealth of Pennsylvania. Shares of the funds are offered to certain Pennsylvania

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

school districts, intermediate units, area vocational-technical schools, and municipalities. The purpose of these funds is to enable such governmental units to pool their available funds for investments authorized by Section 440.1 of the Pennsylvania Public School Code of 1949, as amended. The funds have the characteristics of an open-end mutual fund and are not subject to custodial credit risk. The funds are governed by elected boards of trustees (trustees) who are responsible for the overall management of the funds. The trustees are elected from the several classes of local governments participating in the funds. The funds are audited annually by independent auditors. The funds operate in a manner consistent with the SEC's Rule 2(a)7 of the Investment Company Act of 1940. The funds use amortized cost to report net assets to compute share prices. The funds maintain a net asset value of \$1 per share. Accordingly, the fair value of the position of PLGIT and PSDLAF is the same as the value of PLGIT and PSDLAF shares.

At June 30, 2015, the School District's pooled investments consisted of:

| | |
|------------------|-----------------------------|
| PLGIT | \$ 25,482,561 |
| PSDLAF | <u>713,312</u> |
| Total bank value | <u><u>\$ 26,195,873</u></u> |

Deposit and Investment Risks

The following is a description of the School District's deposit and investment risks:

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a formal policy for custodial credit risk; however, one of the primary objectives of the School District's investment policy is the preservation of capital through the mitigation of such risk. As of June 30, 2015, \$6,299,149 of the School District's bank balance of \$6,831,060 was not covered by FDIC insurance. However, all deposits were collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name.

Credit Risk - Investments

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The School District's investment policy does not place specific limits on the credit ratings of its investments; however, one of the primary objectives of the School

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

District's investment policy is the preservation of capital through the mitigation of such risk. As of June 30, 2015, the School District's investments with PLGIT and PSDLAF were rated as AAA by Standard & Poor's.

Interest Rate Risk – Investments

The School District's investment policy does not place limits on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates; however, one of the primary objectives of the School District's investment policy is to ensure investments remain sufficiently liquid to meet all operating requirements that are reasonably anticipated. The School District's investments with PLGIT and PSDLAF have a maturity of less than one year.

As further described in Note 10, the School District has derivative instruments that are accounted for as investments. Investment risks related to these investments are described in Note 10.

4. REAL ESTATE TAXES

Based upon assessed valuations provided by the County, the municipal tax collector bills and collects property taxes on behalf of the School District.

The schedule for property taxes levied for fiscal year 2015 is as follows:

| | |
|----------------------------|---------------------|
| July 1, 2014 | Tax levy date |
| Through August 31, 2014 | 2% discount period |
| Through October 31, 2014 | Face payment period |
| Beginning November 1, 2014 | 10% penalty period |

The School District tax rate for all purposes in fiscal year 2015 was 19.2083 mills (\$19.2083 per \$1,000 assessed valuation). Collections, at face, for fiscal year 2015 were \$49.5 million.

As of June 30, 2015, property taxes receivable by the School District includes uncollected taxes assessed as of July 1, 2014 or earlier net of an allowance for doubtful accounts of approximately \$2.7 million.

Delinquent property tax receivable is recognized as revenue in the government-wide financial statements. Only the portion of property taxes receivable that meets the revenue recognition criteria is reported as revenue in the fund financial statements.

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

5. CAPITAL ASSETS

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

| | Balance at July 1, 2014 | Adjustments/ Additions | Transfers/ Deletions | Balance at June 30, 2015 |
|---|----------------------------|---------------------------|-------------------------|-----------------------------|
| Governmental Activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 1,544,645 | \$ - | \$ (2,000) | \$ 1,542,645 |
| Construction in progress | 17,154 | - | (17,154) | - |
| Total capital assets, not being depreciated | 1,561,799 | - | (19,154) | 1,542,645 |
| Capital assets, being depreciated: | | | | |
| Site improvements | 18,408,544 | 1,235,871 | (6,258,634) | 13,385,781 |
| Buildings and building improvements | 143,221,494 | 458,522 | 6,277,788 | 149,957,804 |
| Furniture and equipment | 5,567,662 | 1,268,297 | - | 6,835,959 |
| Total capital assets, being depreciated | 167,197,700 | 2,962,690 | 19,154 | 170,179,544 |
| Less: accumulated depreciation for: | | | | |
| Site improvements | (9,855,874) | (654,553) | 2,203,663 | (8,306,764) |
| Buildings and building improvements | (48,342,918) | (1,009,819) | (2,203,663) | (51,556,400) |
| Furniture and equipment | (3,142,741) | (1,829,507) | - | (4,972,248) |
| Total accumulated depreciation | (61,341,533) | (3,493,879) | - | (64,835,412) |
| Capital assets being depreciated, net | 105,856,167 | (531,189) | 19,154 | 105,344,132 |
| Governmental activities capital assets, net | \$ 107,417,966 | \$ (531,189) | \$ - | \$ 106,886,777 |

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

| | <u>Balance at July 1, 2014</u> | <u>Additions</u> | <u>Balance at June 30, 2015</u> |
|--|------------------------------------|--------------------|-------------------------------------|
| Business-Type Activities: | | | |
| Capital assets, being depreciated: | | | |
| Furniture and equipment | \$ 714,110 | \$ - | \$ 714,110 |
| Less: accumulated depreciation for: | | | |
| Furniture and equipment | <u>(390,168)</u> | <u>(84,801)</u> | <u>(474,969)</u> |
| Business-type activities capital assets, net | <u>\$ 323,942</u> | <u>\$ (84,801)</u> | <u>\$ 239,141</u> |

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

| | | |
|---|--|---------------------|
| Governmental activities: | | |
| Instructional services: | | |
| Regular instruction | | \$ 58,915 |
| Special instruction | | 5,549 |
| Support services: | | |
| Instructional staff | | 5,812 |
| Administration | | 27,526 |
| Operation of plant and maintenance services | | 6,628 |
| Central administration | | 333,605 |
| Non-instructional services: | | |
| Student activities and athletics | | 85,758 |
| Unallocated depreciation expense** | | <u>2,970,086</u> |
| Total depreciation expense, governmental activities | | <u>\$ 3,493,879</u> |
| Business-type activities: | | |
| Food services | | <u>\$ 84,801</u> |

** Unallocated depreciation expense represents assets or portions of assets that are not able to be identified with any particular function (e.g., building hallways, certain computer labs, etc.)

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

6. INVESTMENT IN JOINT VENTURE

The School District is a participant with eight other member school districts in a joint venture for the operation of the A.W. Beattie Career Center (Center). The Center was created for the operation of certain vocational and alternative educational programs for the benefit of the member school districts. On dissolution of the Center, its net position will be distributed to the member school districts based upon the total payments made by each member school district since July 1, 1990, divided by the total payments of all member school districts since that time. The Center is governed by an eighteen-member Joint Committee composed of two appointees from each member school district.

In July 2008, the Center issued revenue bonds of \$20,890,000 to fund capital improvements to the Center. The repayment of the principal and interest on these bonds was funded proportionately by the member school districts, with the scheduled payments to be made to the Center based upon general obligation notes issued by each member school district establishing yearly amounts to be paid to the Center.

As noted in Note 9, the School District issued a general obligation note in the amount of \$2,352,214 to fund their proportionate share of the Center's debt issuance. The School District's share of the capital improvements to the Center is reported as an investment in joint venture on the government-wide financial statements of the School District.

The School District's combined proportionate share of funding for the year ended June 30, 2015 was \$628,247 for operations, capital expenditures and debt service.

Other than for the capital project described above, the School District's proportionate share of capital assets of the Center has not been determined, and excess operating results are retained by the Center for future periods. Accordingly, the School District's net investment and share of operating results are not included in the School District's financial statements. The most recent available Center unassigned governmental fund type fund balance at June 30, 2014 is \$397,188. Complete financial statements of the Center can be obtained from the Center's administrative offices.

7. RISK MANAGEMENT

The School District is a member of the Allegheny County Schools Health Insurance Consortium (Consortium). This Consortium was formed in 1987 in order to purchase health benefits on behalf of participating public school districts in Allegheny County, Pennsylvania. The School District pays an annual premium to the Consortium for its health and medical insurance coverage. The formation agreement of the Consortium provides that the Consortium will be self-sustaining through annually determined member premiums and will

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

reinsure through commercial companies for excess claims of amounts as defined in the insurance contract. Additionally, during fiscal year 2005, the Consortium designated a portion of the net assets for rate stabilization and catastrophic claims. The net assets designated for rate stabilization was \$24,430,999 as of June 30, 2015, while the net assets designated for catastrophic claims was \$17,173,742.

The School District's agreement permits withdrawal from the Consortium only as of the last day of a fiscal year and after having given all participating entities and the Trustees written notice by April 30th of such fiscal year. If the School District were to withdraw, the School District would be entitled to receive a pro rata share of the net assets or would be required to reimburse the Consortium for their pro rata share of any deficiency in net assets.

The Consortium's net assets attributable to the School District were \$1,393,010 as of June 30, 2015 (audited) and at this time the School District has no plans on withdrawing from the Consortium. The financial statements of the Consortium for the year ended June 30, 2015 are on file with the School District.

The School District paid approximately \$8.2 million to the Consortium during fiscal year 2015.

8. INTERFUND BALANCES AND TRANSFERS

Receivables and Payables

Interfund balances at June 30, 2015 consisted of the following fund receivables and payables:

| | <u>Receivables</u> | <u>Payables</u> |
|----------------------------------|--------------------|------------------|
| General Fund - Food Service Fund | \$ - | \$ 32,601 |
| Food Service Fund - General Fund | 32,601 | - |
| | <u>\$ 32,601</u> | <u>\$ 32,601</u> |

Balances resulted from a time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All the balances above are expected to be collected in the subsequent year.

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

Transfers

Transfers between funds were made to cover various costs of the associated funds. The School District's interfund transfers during the year ended June 30, 2015 amounted to the following:

| | <u>Transfer To</u> | <u>Transfer From</u> |
|-------------------------------|--------------------|----------------------|
| General Fund - Cafeteria | \$ 2,760 | \$ - |
| Athletics Fund - General Fund | 47,464 | - |
| Cafeteria - General Fund | - | 2,760 |
| General Fund - Athletics | - | 47,464 |
| | <u>\$ 50,224</u> | <u>\$ 50,224</u> |

9. LONG-TERM OBLIGATIONS

Long-term liabilities for the year ended June 30, 2015 are as follows:

| | <u>Balance at July 1, 2014</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance at June 30, 2015</u> | <u>Amounts Due Within One Year</u> |
|--|------------------------------------|----------------------|------------------------|-------------------------------------|--|
| Bonds and notes payable: | | | | | |
| Bonds and notes | \$ 138,509,227 | \$ 55,556,999 | \$ (57,840,147) | \$ 136,226,079 | \$ 4,808,525 |
| Deferred amounts for issuance premium/discount | <u>722,851</u> | <u>274,430</u> | <u>(21,503)</u> | <u>975,778</u> | <u>-</u> |
| Total bonds and notes payable, net | <u>139,232,078</u> | <u>55,831,429</u> | <u>(57,861,650)</u> | <u>137,201,857</u> | <u>4,808,525</u> |
| Other postemployment benefit obligation payable | 2,491,897 | - | (746,745) | 1,745,152 | - |
| Compensated absences | 1,027,429 | - | (60,872) | 966,557 | - |
| Loan payable - swap | <u>1,279,120</u> | <u>-</u> | <u>(69,327)</u> | <u>1,209,793</u> | <u>70,487</u> |
| | <u>\$ 144,030,524</u> | <u>\$ 55,831,429</u> | <u>\$ (58,738,594)</u> | <u>\$ 141,123,359</u> | <u>\$ 4,879,012</u> |

Bonds and Notes Payable

Payments on general obligation bonds and notes are made by the General Fund. Swap payments are made by the Capital Projects Fund.

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

Bonds and notes outstanding at June 30, 2015 consist of the following:

| Description | Original Issue Amount | Maturity Date | Interest Rate | Balance at June 30, 2015 |
|--|--------------------------|---------------|------------------|-----------------------------|
| 1993 Capital Appreciation Bonds | \$ 6,244,427 | 9/1/2018 | 6.150% to 6.450% | \$ 6,043,683 |
| 1996 Capital Appreciation Bonds | 3,961,252 | 9/1/2025 | 6.000% to 6.030% | 12,041,024 |
| 2007 General Obligation Bonds | 8,975,000 | 9/1/2027 | 3.500% to 4.100% | 8,070,000 |
| 2008 State Public School Authority School Revenue Bonds | 2,352,214 | 10/15/2028 | 3.000% to 4.600% | 1,826,372 |
| 2010 General Obligation Bonds | 28,915,000 | 3/1/2039 | 3.375% to 5.000% | 28,735,000 |
| 2011 General Obligation Refunding Bonds | 7,175,000 | 7/15/2030 | 0.750% to 4.500% | 6,610,000 |
| 2011A General Obligation Bonds | 4,480,000 | 9/1/2019 | 0.650% to 5.000% | 3,935,000 |
| 2011B General Obligation Refunding Bonds | 11,280,000 | 3/1/2030 | 0.650% to 4.250% | 10,510,000 |
| 2012 General Obligation Bonds | 4,380,000 | 3/1/2039 | 0.750% to 3.800% | 4,480,000 |
| 2014A General Obligation Refunding Bonds | 8,365,000 | 9/1/2028 | 0.200% to 3.125% | 8,065,000 |
| 2014B General Obligation Refunding Bonds | 17,880,000 | 9/1/2033 | 0.200% to 3.550% | 17,680,000 |
| 2015A General Obligation Refunding Bonds | 9,935,000 | 7/15/2034 | 0.350% to 3.750% | 9,935,000 |
| 2015B General Obligation Refunding Bonds | 9,515,000 | 7/15/2034 | 0.300% to 3.900% | 9,515,000 |
| 2015 Variable Rate Revenue Note | 2,800,000 | 9/1/2018 | 5.558%* | 2,800,000 |
| 2015A Variable Rate Revenue Note | 5,980,000 | 7/15/2031 | 5.001%** | 5,980,000 |
| | | | | <u>\$ 136,226,079</u> |

* Rate represents the synthetic fixed rate applied under the 2015 swap agreement

** Rate represents the synthetic fixed rate applied under the 2015A swap agreement

The annual requirements to amortize all bonds and notes outstanding as of June 30, 2015, including interest payments, are as follows:

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

| Bonds | | | |
|--------------------------------|-----------------------|----------------------|-----------------------|
| Fiscal Year Ending June 30, | Principal Payment | Interest Payment | Total Payment |
| 2016 | 4,293,525 | 3,937,436 | \$ 8,230,961 |
| 2017 | 4,077,466 | 4,172,378 | 8,249,844 |
| 2018 | 4,126,407 | 4,115,155 | 8,241,562 |
| 2019 | 3,615,348 | 4,047,480 | 7,662,828 |
| 2020 | 8,395,415 | 3,899,606 | 12,295,021 |
| 2021-2025 | 27,979,769 | 17,922,914 | 45,902,683 |
| 2026-2030 | 26,853,442 | 14,493,516 | 41,346,958 |
| 2031-2035 | 28,725,000 | 9,546,536 | 38,271,536 |
| 2036-2039 | 26,635,000 | 3,555,883 | 30,190,883 |
| | 134,701,372 | 65,690,904 | 200,392,276 |
| Less: unaccreted bonds | (7,255,293) | - | (7,255,293) |
| | <u>\$ 127,446,079</u> | <u>\$ 65,690,904</u> | <u>\$ 193,136,983</u> |

| Notes | | | |
|--------------------------------|-----------------------|----------------------|-----------------------|
| Fiscal Year Ending June 30, | Principal Payment | Interest Payment | Total Payment |
| 2016 | 515,000 | 227,344 | \$ 742,344 |
| 2017 | 530,000 | 426,148 | 956,148 |
| 2018 | 570,000 | 396,718 | 966,718 |
| 2019 | 1,230,000 | 365,092 | 1,595,092 |
| 2020 | 15,000 | 296,610 | 311,610 |
| 2021-2025 | 80,000 | 1,472,047 | 1,552,047 |
| 2026-2030 | 60,000 | 1,453,294 | 1,513,294 |
| 2031-2035 | 5,780,000 | 450,091 | 6,230,091 |
| | <u>\$ 8,780,000</u> | <u>\$ 5,087,344</u> | <u>\$ 13,867,344</u> |
| Total Bonds and Notes | <u>\$ 136,226,079</u> | <u>\$ 70,778,248</u> | <u>\$ 207,004,327</u> |

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

Bond Refundings

During 2015, the School District currently refunded the following bonds:

| Refunded Debt | Refunding Debt | Cash Flow Savings | Economic Gain* |
|--|--|----------------------|-------------------|
| 2003 General Obligation Bonds | 2014B General Obligation Refunding Bonds | \$ 3,481,184 | \$ 2,307,499 |
| 2005 General Obligation Bonds | 2015A and B General Obligation Refunding Bonds | 5,049,173 | 2,486,095 |
| 2006 General Obligation Refunding Bonds | 2014 A General Obligation Refunding Bonds | 959,222 | 697,196 |
| 2006 Variable Rate Demand Revenue Bonds | 2015 Variable Rate Revenue Note | - | - |
| 2011C Variable Rate Demand Revenue Bonds | 2015A Variable Rate Revenue Note | - | - |

*Economic gain - difference between the present value of the debt service payments of the refunded and refunding debt

The refunding of the 2006 and 2011C Variable Rate Demand Revenue Bonds did not result in a material cash flow savings or economic gain. The bonds were refunded with variable rate notes to reduce administration costs associated with the related swap agreements as discussed in Note 10.

The refunding of the 2003, 2005, and 2006 General Obligation Bonds resulted in a deferred charge on refunding in the amounts of \$523,913, \$208,853, and \$194,143, respectively. The deferred charge on refunding is being amortized over the life of the 2014 and 2015 bonds.

Loan Payable - Swap

In conjunction with their derivative instrument transactions described in Note 10, the School District received various up-front cash payments. Total cumulative up-front cash received by the School District related to these transactions was \$1,758,195. The up-front cash payments received by the School District are considered to be borrowings at rates that range from 11.38% to 39.28%. As of June 30, 2015, the borrowings had a cumulative outstanding balance of \$1,209,793. Principal and interest payments are made on the borrowings as a component of the payments required to be made by the School District per their interest rate swap agreements and will continue until the borrowings' final maturity in fiscal year 2034, as summarized in the table below. In 2015, the School District recognized approximately \$270,000 of interest expense related to these borrowings.

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

| Fiscal Year Ending June 30, | Principal Payment | Interest Payment | Total Payment |
|--------------------------------|----------------------|---------------------|---------------------|
| 2016 | \$ 70,487 | \$ 250,237 | \$ 320,724 |
| 2017 | 70,555 | 230,133 | 300,688 |
| 2018 | 69,467 | 210,374 | 279,841 |
| 2019 | 66,207 | 191,453 | 257,660 |
| 2020 | 38,034 | 174,273 | 212,307 |
| 2021-2025 | 248,933 | 772,639 | 1,021,572 |
| 2026-2030 | 382,646 | 501,696 | 884,342 |
| 2031-2034 | 263,464 | 88,604 | 352,068 |
| | <u>\$ 1,209,793</u> | <u>\$ 2,419,409</u> | <u>\$ 3,629,202</u> |

10. DERIVATIVE INSTRUMENTS

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2015, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the financial statements are as follows:

| | Original Notional | Fair Value at June 30, 2015 | | Changes in Fair Value at June 30, 2015 | |
|--|----------------------|-----------------------------|-----------------------|--|---------------------|
| | | Classification | Amount | Classification | Amount |
| Governmental activities: | | | | | |
| Cash flow hedges: | | | | | |
| 2015A pay fixed interest rate swap | \$ 5,995,000 | Debt | \$ (2,129,123) | Deferred Outflow | \$ (273,194) |
| 2015 pay fixed interest rate swap | 5,950,000 | Debt | <u>(163,406)</u> | Deferred Outflow | <u>132,927</u> |
| | | | <u>\$ (2,292,529)</u> | | <u>\$ (140,267)</u> |
| Investment derivatives: | | | | | |
| Swap investment assets: | | | | | |
| Pay floating rate constant maturity swap | \$ 17,880,000 | Investment | \$ 940,486 | Investment Revenue | \$ (89,909) |
| Pay SIFMA Index constant maturity swap | 8,835,000 | Investment | <u>216,198</u> | Investment Revenue | 98,478 |
| | | | <u>\$ 1,156,684</u> | | |
| Swap investment liabilities: | | | | | |
| Pay BMA index basis swap | \$ 17,995,000 | Investment | <u>\$ (527,910)</u> | Investment Revenue | <u>503,062</u> |
| | | | | | <u>\$ 511,631</u> |

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

The School District determined the 2015A pay-fixed, receive-variable interest rate swap (2015A Swap) and the 2015 pay-fixed, receive-variable interest rate swap (2015 Swap) to be effective hedging derivatives. Accordingly, the accumulated change in fair value of these hedging derivatives is reported as a deferred outflow of resources on the statement of net position. The School District determined the \$17.880 million Constant Maturity Swap (CMS) Basis swap, the \$8.835 million CMS Basis swap, and the \$17.995 million Basis Swap to be derivative investments. Accordingly, the change in fair value is shown as a component of investment income in the statement of activities.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the derivative, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Objective and Terms of Hedging Derivative Instruments2015 Swap

During 2015, the School District refunded the Series 2006 Variable Rate Demand Revenue Bonds by issuance of the 2015 Variable Rate Revenue Note and entered into the 2015 Swap. The intention of the 2015 Swap is to effectively change the School District's 2015 Variable Rate Revenue Note to a synthetic fixed rate of 5.558%.

The note will accrue interest at a weekly rate that is determined by a remarketing agent on each effective rate date. The interest rate on the bonds may not exceed 24%. Per the interest rate swap agreement, the School District will receive 68% of 1 month LIBOR while paying a fixed rate of 5.558%.

The interest payments on the 2015 Swap are calculated based on the notional amount, which reduces so that the notional amount approximates the principal outstanding on the respective bonds. The 2015 Swap expires consistent with the final maturity of the respective note.

2015A Swap

In February 2004, the School District entered into a swaption contract that provided the School District an up-front payment of \$251,000. As a synthetic refunding of its 2001D Bonds, this payment represents the risk-adjusted, present-value savings of a refunding as of July 15, 2011 for the 2001D Bonds, without issuing refunding bonds at February 2004. The swaption gave the counterparty the option to make the School District enter into a pay-fixed,

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

receive-variable interest rate swap. In July 2011, the counterparty exercised their option and the School District issued \$5,995,000 Butler County General Authority Variable Rate Demand Revenue Bonds (Pine Richland School District Project), Series 2011C Bonds (2011C Bonds). At that same time, the School District and the Counterparty entered into a pay-fixed, receive-variable interest rate swap (2011 Swap). The fixed swap rate (5.001%) was set at a rate that, when added to an assumption for remarketing and liquidity costs, will approximate the coupons of the "refunded" bonds. During 2015, the School District refunded the Series 2011C Bonds by issuance of the 2015A Variable Rate Revenue Note and entered into the 2015A Swap, for which the terms noted above remained the same.

The intention of the 2015A Swap is to effectively change the School District's variable interest rate on the 2015A Bonds to a synthetic fixed rate of 5.001%.

The note will accrue interest at a weekly rate that is determined by a remarketing agent on each effective rate date. Per the interest rate swap agreement, the School District will receive 68% of 1 month LIBOR while paying a fixed rate of 5.001%.

The following table displays the objective and terms of all the School District's derivative instruments outstanding at June 30, 2015, along with the credit rating of the associated counterparty:

| Type | Objective | Up Front Payment Received | Current Notional Amount | Effective Date | Maturity Date | Terms | Counterparty Credit Rating |
|------------------------------|--|---------------------------------|-------------------------------|-------------------|------------------|--|-------------------------------|
| Pay fixed interest rate swap | Hedge of changes in cash flows on the 2015 note | \$ 440,000 | \$ 2,800,000 | 4/1/2015 | 9/1/2018 | Pay 5.558%; Receive 68% of 1-month LIBOR | AA- |
| Pay-fixed interest rate swap | Hedge of changes in cash flows on the 2015A note | \$ 251,000 | \$ 5,980,000 | 4/1/2015 | 7/15/2031 | Pay 5.001%; Receive 68% of 1-month LIBOR | AA- |
| CMS Basis Swap | Investment | \$ 902,300 | \$ 17,375,000 | 6/21/2007 | 11/1/2033 | Pay 64% of 1-month LIBOR + 30 basis points; Receive 63.105% of the ISDA Swap Rate | A- |
| CMS Basis Swap | Investment | \$ 164,895 | \$ 8,070,000 | 9/13/2007 | 9/1/2027 | Pay SIFMA index; Receive 63.1% of the 5-year ISDA swap rate | BBB+ |
| Basis Swap | Investment | \$ - | \$ 17,375,000 | 4/28/2005 | 11/1/2033 | Pay BMA; Receive 64% of 1-month LIBOR + 30 basis points | AA- |

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

The upfront cash payments received by the School District at the time the various derivative instruments were entered into are considered to be borrowings. As of June 30, 2015, the borrowings had a cumulative outstanding balance of \$1,209,793 and are disclosed in more detail in Note 9.

The interest payments on the interest rate swaps are calculated based on notional amounts, all of which reduce, so that the notional amounts approximate the principal outstanding on the respective associated notes (the notes). The interest rate swaps expire on dates consistent with the final maturity of the notes.

Accounting and Risk Disclosures

During the year ended June 30, 2015, the School District received approximately \$35,000 and was not required to make any payments related to their outstanding swap agreements.

As noted in the tables above, current period changes in market value for the interest rate swaps that are accounted for as hedges are recorded on the statement of net position as changes to deferred outflows of resources. Additionally, current period changes in market value derivatives that do not qualify for hedge accounting are accounted for as investments and are recorded on the statement of activities as a component of investment income.

The School District has the ability to early terminate the interest rate swaps and to cash settle the transaction on any business day by providing at least two business days written notice to the counterparty. Evidence that the School District has sufficient funds available to pay any amount payable to the counterparty must be provided at the time notice is given. At early termination, the School District will be required to pay or receive a settlement amount which is comprised of the market value of the terminated transaction(s) based on market quotations and any amounts accrued under the contract(s).

Through the use of derivative instruments such as interest rate swaps, the School District is exposed to a variety of risks, including credit risk, interest rate risk, termination risk, basis risk, and rollover risk.

- Credit risk is the risk that a counterparty will not fulfill its obligations. The credit ratings by Moody's Investors Service, Inc., a nationally recognized statistical rating organization for the respective counterparties, are listed in the table above. If a counterparty failed to perform according to the terms of the interest rate swap agreement, there is some risk of loss to the School District, up to the fair market value of the swaps.

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

At June 30, 2015, the School District had \$1,156,684 of derivatives with positive fair market values. There was no collateral posted by the counterparties related to these transactions. These transactions that have a positive fair market value at year-end are with counterparties that only have one transaction outstanding each so there is no impact of master netting arrangements.

The School District currently has master netting arrangements with its counterparties; however, there is only one counterparty with multiple transactions outstanding at year-end, all of these transactions have a negative fair market value to the School District at June 30, 2015.

Concentration of credit risk: The School District currently has three counterparties, two of the counterparties each only have one transaction with the School District. The School District's outstanding market value as of June 30, 2015 is (\$2,820,439) with the one counterparty that has three transactions outstanding. All of the School District's counterparties operate in the same markets and could be similarly impacted by changes in economic or other conditions.

It is the School District's policy to require counterparty collateral posting provisions for its non-exchange traded derivative instruments. Their terms require collateral to be posted if the respective counterparty's credit rating falls below BBB by Standard & Poor's or Baa2 by Moody's, or the ratings are withdrawn or suspended by either agency. The amount of collateral to be posted is calculated based on derivatives in asset positions to the School District. As of year-end, the counterparties had not and were not required to post collateral for these transactions.

- Termination risk is the risk that a derivative's unscheduled end will affect the School District's asset/liability strategy or will present the School District with potentially significant unscheduled termination payments to the counterparty. The counterparties to the derivative transactions do not have the ability to voluntarily terminate the interest rate swap; however, the School District is exposed to termination risk in the event that the one or more of the counterparties default.
- Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of a government's financial instruments or cash flows. The interest rate swaps that are accounted for as investments expose the School District to interest rate risk. These interest rate swaps are highly sensitive to changes in interest rates; changes in the variable rates will have a material effect on the swaps' fair market value. As noted in the table above, these interest rate swaps will terminate in 2033, 2027, and 2033, respectively.

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

- Basis risk is the risk that arises when variable interest rates on a derivative and an associated note or other interest-paying financial instrument are based on different indexes. The School District is subject to basis risk as the interest index on the variable rate arm of the pay-fixed-receive-variable interest rate swaps is based on 68% of 1 month LIBOR and the variable interest rate on the underlying notes is based on a different index, a weekly rate that is determined by a remarketing agent. Although expected to correlate, the relationships between different indexes vary and that variance could adversely affect the School District's calculated payments, and as a result cost savings or synthetic interest rates may not be realized.
- Rollover risk is the risk that a derivative associated with the School District's debt does not extend to the maturity of that debt. When the derivative terminates, the associated debt will no longer have the benefit of the derivative. The School District is not exposed to rollover risk as the interest rate swap agreements terminate on the same day the last payment is due on the respective bonds.

Contingencies

The School District's derivative instruments include provisions that it would be considered to be an additional termination event if a) the State Intercept Program does not apply to the School District or does not result in the School District having an S&P rating of at least BBB or a Moody's rating of at least Baa2, or both ratings are withdrawn or suspended and b) the School District having an S&P rating of at least BBB or a Moody's rating of at least Baa2, or both ratings are withdrawn or suspended.

11. PENSION PLANSummary of Significant Accounting Policies

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' 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. The net pension liability is recorded as a governmental activity expected to be paid from the General Fund.

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

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 include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.state.pa.us.

Benefits Provided

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

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

Health Insurance Premium Assistance Program

In addition, PSERS provides a Health Insurance Premium Assistance Program (Premium Assistance) for all eligible annuitants who qualify and elect to participate. Under this program, employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible annuitants are entitled to receive Premium Assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive Premium Assistance, eligible annuitants must obtain their health insurance through either their school employer or the PSERS' Health Options Program. Premium Assistance is not included in the calculation of the net pension liability as it does not qualify under the provisions of GASB Statement No. 68.

Contributions

Member Contributions:

The following illustrates the member's contribution as a percent of the member's qualifying compensation:

Active members who joined PSERS prior to July 22, 1983:

| | |
|----------------------|-------|
| Membership Class T-C | 5.25% |
| Membership Class T-D | 6.50% |

Members who joined PSERS on or after July 22, 1983, and who were active or inactive as of July 1, 2001:

| | |
|----------------------|-------|
| Membership Class T-C | 6.25% |
| Membership Class T-D | 7.50% |

Members who joined PSERS after June 30, 2001, and before July 1, 2011:

| | |
|----------------------|-------|
| Membership Class T-D | 7.50% |
|----------------------|-------|

Members who joined PSERS after June 30, 2011:

| | |
|------------------------|--------|
| Membership Class T-E* | 7.50% |
| Membership Class T-F** | 10.30% |

* Shared risk program could cause future contribution rates to fluctuate between 7.50% and 9.50%.

** Shared risk program could cause future contribution rates to fluctuate between 10.30% and 12.30%.

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

Employer Contributions:

The School District's contractually required pension contribution rate for the fiscal year ended June 30, 2015 was 20.50% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. In addition, the School District was required to contribute 0.90% of covered payroll to Premium Assistance.

The contribution rate will increase to 25.84% in fiscal year 2016 and is projected to grow to 31.83% by fiscal year 2025.

The School District contributed approximately \$6.6 million to PSERS for the year ended June 30, 2015, which represents its contribution towards pension benefits and Premium Assistance. Approximately \$2.6 million is owed to PSERS as of June 30, 2015, which represents the School District's required contribution for the end of year payroll. Contributions are remitted quarterly.

In accordance with Act 29, the Commonwealth of Pennsylvania reimburses school districts for at least one-half of contributions made to PSERS. The School District recorded reimbursements from the Commonwealth approximating \$3.1 million during the current year. Because the Commonwealth payments are received as a reimbursement, and are not made directly to PSERS, they do not qualify as a special funding situation.

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

At June 30, 2015, the School District reported a liability of \$83,120,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward PSERS' total pension liability as of June 30, 2013 to June 30, 2014. The School District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to PSERS' total one-year reported covered payroll. At June 30, 2014, the School District's proportion was 0.2100%, which was an increase of 0.0010% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the School District recognized pension expense of \$7,678,000. At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Net differences between projected and actual earnings on pension plan investments | \$ - | \$ 5,942,000 |
| Changes in proportion | 330,000 | - |
| School District contributions subsequent to the measurement date | <u>6,576,786</u> | <u>-</u> |
| Total | <u>\$ 6,906,786</u> | <u>\$ 5,942,000</u> |

\$6,576,786 is reported as deferred outflows of resources resulting from the School District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ended June 30:</u> | |
|----------------------------|---------------------|
| 2016 | \$ 1,406,000 |
| 2017 | 1,406,000 |
| 2018 | 1,406,000 |
| 2019 | 1,406,000 |
| 2020 | <u>(12,000)</u> |
| Total | <u>\$ 5,612,000</u> |

Actuarial Assumptions

The total pension liability as of June 30, 2014 was determined by rolling forward PSERS' total pension liability as of the June 30, 2013 actuarial valuation to June 30, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.50%, 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 1.0%, and merit or seniority increases of 1.50%

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back three years for both males and females. For disabled annuitants, the RP-2000 Combined Disabled Tables (male and female) with age set back seven years for males and three years for females.

The actuarial assumptions used in the June 30, 2013 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the PSERS Board at its March 11, 2011 Board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

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

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|------------------------------|--------------------------|---|
| Public markets global equity | 19% | 5.0% |
| Private markets (equity) | 21% | 6.5% |
| Private real estate | 13% | 4.7% |
| Global fixed income | 8% | 2.0% |
| U.S. long treasuries | 3% | 1.4% |
| TIPS | 12% | 1.2% |
| High yield bonds | 6% | 1.7% |
| Cash | 3% | 0.9% |
| Absolute return | 10% | 4.8% |
| Risk parity | 5% | 3.9% |
| MLPs/infrastructure | 3% | 5.3% |
| Commodities | 6% | 3.3% |
| Financing (LIBOR) | -9% | 1.1% |
| | <u>100%</u> | |

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 the contributions from plan members will be made at the current contribution rate and that the 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 School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the School District's proportionate share of the net pension liability calculated using the discount rates described above, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|------------------------|----------------------------------|------------------------|
| School District's proportionate share of the net pension liability | \$ 103,680,000 | \$ 83,120,000 | \$ 65,566,000 |

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the PSERS Comprehensive Annual Financial Report, which can be found on the PSERS' website at www.psers.state.pa.us.

12. OTHER POSTEMPLOYMENT BENEFITS

Post-Retirement Benefits

From an accrual accounting perspective, the cost of post-employment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. The School District recognizes the cost of postemployment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the School District's future cash flows. Recognition of the liability accumulated from prior years will be phased in over thirty years, commencing with the fiscal year 2009 liability.

Plan Description

The School District provides post-retirement benefits for certain retirees for current and future health, pharmacy, dental, vision, and life insurance benefit expenses through a single-employer defined benefit plan. The benefit limits are established through employee contracts and past practices. As of June 30, 2012, no future retirees from any employee class are eligible for post-employment benefits.

A bi-annual actuarial valuation is made to determine whether the contributions are sufficient to meet the plan obligations. The latest actuarial valuation was made January 1, 2015.

The plan is not accounted for as a trust fund, an irrevocable trust has not been established, the plan does not issue a separate report, and activity of the plan is reported in the School District's General Fund.

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

Funding Policy

The School District has not advanced-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation. For 2015, the obligations were based on the January 1, 2015 census, which included 63 retirees and beneficiaries receiving benefits. The School District provided required contributions of approximately \$770,000 toward annual OPEB costs, comprised of benefit payments made on behalf of retirees for claims expenses and retention costs, and net of retiree contributions totaling approximately \$99,000. Required contributions are based on projected pay-as-you-go financing.

The contribution requirements of plan members and the School District are established and may be amended by the School District. The School District determines the required contribution using the Entry Age Normal Actuarial Cost Method.

Annual OPEB Cost and Net OPEB Obligations

The following table shows the School District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the School District's net OPEB obligation:

| <u>Description</u> | <u>June 30, 2015</u> |
|--|----------------------------|
| Annual required contribution | \$ 367,088 |
| Interest on net OPEB obligation | 112,135 |
| Adjustment to annual required contribution | <u>(377,796)</u> |
| Annual OPEB cost (expense) | 101,427 |
| Projected contributions made | <u>(848,172)</u> |
| Estimated decrease in net OPEB obligation | (746,745) |
| Net OPEB obligation, beginning of year | <u>2,491,897</u> |
| Net OPEB obligation, end of year | <u><u>\$ 1,745,152</u></u> |

The School District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess)

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

over a period not to exceed thirty years. The actuarial accrued liability as of January 1, 2015 is estimated to be \$2,421,272. The School District's contributions represent payments made for premiums for insured individuals.

The schedule of funding progress as of January 1, 2015, the date of the last actuarial valuation, is as follows:

| Actuarial Value of Assets (a) | Actuarial Liability (AAL)-PUC (b) | Unfunded Actuarial Liability (UAAL) (b)-(a) | Funded Ratio (a)/(b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll {(b)-(a)}/(c) |
|----------------------------------|--------------------------------------|--|-------------------------|------------------------|--|
| \$ - | \$ 2,421,272 | \$ 2,421,272 | 0.0% | \$ - | 0.0% |

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation were approximately as follows:

| Year Ending | Annual OPEB Cost | Contribution | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------|------------------|--------------|--|---------------------|
| 6/30/2015 | \$ 101,000 | \$ 848,000 | 839.6% | \$ 1,745,000 |
| 6/30/2014 | 290,000 | 1,125,000 | 387.9% | 2,492,000 |
| 6/30/2013 | 209,000 | 1,212,000 | 579.9% | 3,327,000 |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress included as Required Supplementary Information presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

assumptions used included 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.

The annual OPEB cost was determined as part of the actuarial valuation. Additional information as of the last actuarial valuation follows:

| | |
|---------------------------|--|
| Actuarial valuation date | January 1, 2015 |
| Actuarial cost method | Entry Age Normal |
| Amortization method | Level Dollar |
| Asset valuation method | n/a (no plan assets) |
| Amortization period | Eight years |
| Actuarial assumptions: | |
| Investment rate of return | n/a (no investments; discount rate for actuarial costs is 4.50%) |
| Inflation rate | 3.0% |
| Health cost trend rates | Medical and pharmacy costs and premium rates are assumed to increase as shown in the following table (selected years shown): |

| Fiscal Year Ending June 30, | Increase in Health Cost over Prior Year | Increase in Dental/Vision Cost over Prior Year |
|--------------------------------|---|--|
| 2015 | 6.50% | 3.00% |
| 2016 | 6.25% | 3.00% |
| 2017-2018 | 6.00% | 3.00% |
| 2019 | 5.75% | 3.00% |
| 2020-2021 | 5.50% | 3.00% |
| 2022 | 5.25% | 3.00% |
| 2023 and later | 5.00% | 3.00% |

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

13. CONTINGENCIESLitigation

The School District is potentially liable for any expenditure that may be disallowed pursuant to the terms of grant programs. Management is not aware of any material items of noncompliance, which would result in the disallowance of program expenditures.

Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2015.

Insurance

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The School District maintains insurance through an independent insurance carrier for these types of business losses. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years. There have been no significant changes in insurance coverage since the prior fiscal year. Management believes the insurance coverage is sufficient to cover the School District against potential losses.

**Required Supplementary
Information**

PINE-RICHLAND SCHOOL DISTRICT

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

Last 10 Fiscal Years*

| | <u>2015</u> |
|--|---------------|
| School District's proportion of the net pension liability | 0.2100% |
| School District's proportionate share of the net pension liability | \$ 83,120,000 |
| School District's covered-employee payroll | \$ 26,800,329 |
| School District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 310.1454% |
| PSERS' plan fiduciary net position as a percentage of PSERS' total pension liability | 57.2382% |

* The amounts presented for each fiscal year were determined as of the measurement date, which is June 30 of the immediately preceding fiscal year. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the School District is presenting information for those years only for which information is available.

SCHEDULE OF SCHOOL DISTRICT CONTRIBUTIONS

Last 10 Fiscal Years**

| | <u>2015</u> |
|---|---------------|
| Contributions recognized by PSERS | \$ 5,781,418 |
| School District's covered employee payroll | \$ 29,094,802 |
| Contributions as a percentage of covered-employee payroll | 19.8710% |

** The amounts presented for each fiscal year were determined as of the fiscal year-end date. This schedule is intended to illustrate information for 10 years. However, until a full 10-year trend is compiled, the School District is presenting information for those years only for which information is available.

PINE-RICHLAND SCHOOL DISTRICT

POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEBs) SCHEDULE OF FUNDING PROGRESS

YEAR ENDED JUNE 30, 2015

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|--------------------------------|---------------------------------|---|--|-----------------|--------------------|--|
| 1/1/2015 | \$ - | \$ 2,421,000 | \$ 2,421,000 | 0% | \$ - | 0.0% |
| 1/1/2013* | - | 4,440,000 | 4,440,000 | 0% | - | 0.0% |
| 1/1/2011 | - | 16,151,000 | 16,151,000 | 0% | 28,280,485 | 57.1% |

N/A - information is not available

* As of June 30, 2012, no future retirees from any employee class are eligible for post-employment benefits other than pension

PINE-RICHLAND SCHOOL DISTRICT

**POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEBs)
FACTORS AND TRENDS USED IN ACTUARIAL VALUATION**

YEAR ENDED JUNE 30, 2015

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

| | |
|------------------------------|------------------|
| Actuarial valuation date | January 1, 2015 |
| Actuarial cost method | Entry Age Normal |
| Amortization method | Level Dollar |
| Amortization period | 8 years |
| Actuarial assumptions: | |
| Discount rate | 4.50% |
| Healthcare cost trend rates: | |

| <u>Year</u> | <u>Medical/Rx</u> |
|----------------|-------------------|
| 2015 | 6.500% |
| 2016 | 6.250% |
| 2017-2018 | 6.000% |
| 2019 | 5.750% |
| 2020-2021 | 5.500% |
| 2022 | 5.250% |
| 2023 and later | 5.000% |

Supplementary Information

PINE-RICHLAND SCHOOL DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2015

| | Middle School Activity Fund | High School Activity Fund | Total |
|---------------------------|--------------------------------|------------------------------|-----------|
| Assets: | | | |
| Cash and cash equivalents | \$ 25,658 | \$ 53,505 | \$ 79,163 |
| Liabilities: | | | |
| Due to student groups | \$ 25,658 | \$ 53,505 | \$ 79,163 |

PINE-RICHLAND SCHOOL DISTRICT

COMBINING BALANCE SHEET - ALL CAPITAL PROJECT FUNDS

JUNE 30, 2015

| | Capital Reserve Fund | 2003 Swaption Proceeds Fund | High School Projects Fund | Total |
|---|----------------------------|-----------------------------------|---------------------------------|---------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 485,522 | \$ 3,198,285 | \$ - | \$ 3,683,807 |
| Cash and cash equivalents - restricted | - | - | 1,370,584 | 1,370,584 |
| Total Assets | \$ 485,522 | \$ 3,198,285 | \$ 1,370,584 | \$ 5,054,391 |
| Liabilities and Fund Balance | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 84,879 | \$ - | \$ - | \$ 84,879 |
| Accounts payable from restricted assets | - | - | 119,471 | 119,471 |
| Total Liabilities | 84,879 | - | 119,471 | 204,350 |
| Fund Balance: | | | | |
| Restricted | - | - | 1,251,113 | 1,251,113 |
| Assigned | 400,643 | 3,198,285 | - | 3,598,928 |
| Total Fund Balance | 400,643 | 3,198,285 | 1,251,113 | 4,850,041 |
| Total Liabilities and Fund Balance | \$ 485,522 | \$ 3,198,285 | \$ 1,370,584 | \$ 5,054,391 |

PINE-RICHLAND SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - ALL CAPITAL PROJECT FUNDS

YEAR ENDED JUNE 30, 2015

| | Capital Reserve Fund | 2003 Swaption Proceeds Fund | High School Projects Fund | Total |
|--|----------------------------|-----------------------------------|---------------------------------|--------------|
| Revenues: | | | | |
| Local sources | \$ 198 | \$ 293,923 | \$ 96,178 | \$ 390,299 |
| Expenditures: | | | | |
| Capital outlay | 158,505 | - | 223,701 | 382,206 |
| Debt service | - | 204,335 | - | 204,335 |
| Total expenditures | 158,505 | 204,335 | 223,701 | 586,541 |
| Excess (Deficiency) of Revenues over Expenditures | (158,307) | 89,588 | (127,523) | (196,242) |
| Change in Fund Balance | (158,307) | 89,588 | (127,523) | (196,242) |
| Fund Balance: | | | | |
| Beginning of year | 558,950 | 3,108,697 | 1,378,636 | 5,046,283 |
| End of year | \$ 400,643 | \$ 3,198,285 | \$ 1,251,113 | \$ 4,850,041 |

PINE-RICHLAND SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2015

| <u>Federal Grantor / Pass-Through Grantor / Project Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Grantor's Number/ Grant Number</u> | <u>Grant Period Beginning/ Ending Dates</u> | <u>Program or Award Amount</u> | <u>Total Received for the Year</u> | <u>Accrued (Deferred) Revenue at July 1, 2014</u> | <u>Revenue Recognized</u> | <u>Expenditures</u> | <u>Accrued (Deferred) Revenue at June 30, 2015</u> |
|---|----------------------------|--|---|--------------------------------|------------------------------------|---|---------------------------|---------------------|--|
| <u>U.S. Department of Education</u> | | | | | | | | | |
| Passed Through the Pennsylvania Department of Education: | | | | | | | | | |
| Title I Grants to Local Educational Agencies | 84.010 | 013-140339 | 7/29/2013 - 9/30/2014 | \$ 107,596 | \$ 85,997 | \$ 85,997 | \$ - | \$ - | \$ - |
| Title I Grants to Local Educational Agencies | 84.010 | 013-150339 | 8/4/2014 - 9/30/2015 | 117,685 | 117,685 | - | 117,685 | 117,685 | - |
| Subtotal 84.010 | | | | | 203,682 | 85,997 | 117,685 | 117,685 | - |
| Improving Teacher Quality State Grants | 84.367 | 020-140339 | 7/29/2013 - 9/30/2014 | 49,377 | 39,491 | 39,491 | - | - | - |
| Improving Teacher Quality State Grants | 84.367 | 020-150339 | 8/4/2014 - 9/30/2015 | 49,245 | 49,245 | - | 49,245 | 49,245 | - |
| Subtotal 84.367 | | | | | 49,245 | - | 49,245 | 49,245 | - |
| Passed Through the Allegheny County Intermediate Unit: | | | | | | | | | |
| English Language Acquisition Grants | 84.365 | RA-010-14-0603 | 7/1/2013 - 9/30/2014 | 1,785 | 1,331 | 1,331 | - | - | - |
| English Language Acquisition Grants | 84.365 | FA-999-15-0603 | 7/16/2014 - 9/30/2015 | 2,509 | 2,509 | - | 2,509 | 2,509 | - |
| Immigrant Allocation | 84.365 | FA-999-15-0603 | 7/16/2014 - 9/30/2015 | 4,807 | 4,807 | - | 4,807 | 4,807 | - |
| Subtotal 84.365 | | | | | 8,647 | 1,331 | 7,316 | 7,316 | - |
| Special Education - Grants to States | 84.027 | RA 062-14-0-003 | 7/1/2013 - 9/30/2014 | 531,129 | 191,409 | 191,409 | - | - | - |
| Special Education - Grants to States | 84.027 | RA 062-15-0-003 | 7/1/2014 - 9/30/2015 | 618,825 | 618,825 | - | 618,825 | 618,825 | - |
| Subtotal 84.027 | | | | | 810,234 | 191,409 | 618,825 | 618,825 | - |
| Special Education - Preschool Grants | 84.173 | RA-131-14-0-003 | 7/1/2014 - 9/30/2015 | 4,111 | 4,111 | - | 4,111 | 4,111 | - |
| Total Special Education Cluster | | | | | 814,345 | 191,409 | 622,936 | 622,936 | - |
| Total U.S. Department of Education | | | | | 1,115,410 | 318,228 | 797,182 | 797,182 | - |
| <u>U.S. Department of Agriculture</u> | | | | | | | | | |
| Passed Through Pennsylvania Department of Education: | | | | | | | | | |
| National School Breakfast Program | 10.553 | n/a | 7/1/2013 - 6/30/2014 | n/a | 684 | 684 | - | - | - |
| National School Breakfast Program | 10.553 | n/a | 7/1/2014 - 6/30/2015 | n/a | 12,704 | - | 12,704 | 12,704 | - |
| Subtotal 10.553 | | | | | 13,388 | 684 | 12,704 | 12,704 | - |
| National School Lunch Program | 10.555 | n/a | 7/1/2013 - 6/30/2014 | n/a | 10,168 | 10,168 | - | - | - |
| National School Lunch Program | 10.555 | n/a | 7/1/2014 - 6/30/2015 | n/a | 188,556 | - | 188,556 | 188,556 | - |
| Subtotal 10.555 | | | | | 198,724 | 10,168 | 188,556 | 188,556 | - |
| Passed Through Pennsylvania Department of Agriculture: | | | | | | | | | |
| Value of USDA Commodities | 10.555 | n/a | 7/1/2014 - 6/30/2015 | n/a | 87,743 | - | 87,743 | 87,743 | - |
| Total Child Nutrition Cluster | | | | | 299,855 | 10,852 | 289,003 | 289,003 | - |
| Total U.S. Department of Agriculture | | | | | 299,855 | 10,852 | 289,003 | 289,003 | - |
| Total Expenditures of Federal Awards | | | | | \$ 1,415,265 | \$ 329,080 | \$ 1,086,185 | \$ 1,086,185 | \$ - |

See accompanying notes to the schedule of expenditures of federal awards.

PINE-RICHLAND SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2015

1. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Pine-Richland School District and is presented in the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the U.S. Office of Management and Budget Circular A-133, *"Audits of States, Local Governments, and Non-Profit Organizations."*

2. BUDGETARY DATA

The Pine-Richland School District passed, and had approved by the appropriate agency, budgets for the fiscal year ending June 30, 2015 for all federal programs.

3. RECONCILIATION TO FEDERAL SUBSIDY CONFIRMATION

| | |
|--|-------------------|
| Total received for the year | \$ 1,415,265 |
| Less amounts received from other grantor agencies: | |
| Donated commodities | (87,743) |
| Passed through the Allegheny County Intermediate Unit | (822,992) |
| Plus amounts included on confirmation not required to be reported on the Schedule of Expenditures of Federal Awards: | |
| Food Nutrition Services | 40,353 |
| Medical Assistance - Access | 166,347 |
| | <hr/> |
| Total receipts per confirmation | <u>\$ 711,230</u> |

Pine-Richland School District

Independent Auditor's Reports
Required by OMB Circular A-133

Year Ended June 30, 2015

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 Directors
Pine-Richland School District

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 Pine-Richland School District (School District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated **DATE XX**, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Board of Directors
Pine-Richland School District
Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters

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.

Pittsburgh, Pennsylvania
DATE XX, 2015

Independent Auditor's Report on Compliance for its Major Program and on Internal Control over
Compliance Required by OMB Circular A-133

Board of Directors
Pine-Richland School District

Report on Compliance for its Major Federal Program

We have audited Pine-Richland School District's (School District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on the School District's major federal program for the year ended June 30, 2015. The School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the School District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 the major federal program. However, our audit does not provide a legal determination of the School District's compliance.

Opinion on its Major Federal Program

In our opinion, the School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of the 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 School District's internal control over compliance with the types of

Board of Directors
Pine-Richland School District
Independent Auditor's Report on Compliance
for its Major Program

requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Pittsburgh, Pennsylvania
DATE XX, 2015

PINE-RICHLAND SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2015

I. Summary of Audit Results

1. Type of auditor’s report issued: Unmodified

2. Internal control over financial reporting:

Material weakness(es) identified? yes no

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

3. Noncompliance material to financial statements noted? yes no

4. Internal control over major programs:

Material weakness(es) identified? yes no

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

5. Type of auditor’s report issued on compliance for major programs: Unmodified

6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes no

7. Major Programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|----------------------------|---|
| Special Education Cluster: | |
| 84.027 | Special Education - Grants to States |
| 84.173 | Special Education – Preschool Grants |

8. Dollar threshold used to distinguish between type A and type B programs: \$300,000

9. Auditee qualified as low-risk auditee? yes no

II. Findings related to the financial statements which are required to be reported in accordance with GAGAS.

No matters were reported.

III. Findings and questioned costs for federal awards.

No matters were reported.

PINE-RICHLAND SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2015

NONE