Audited Financial Statements

June 30, 2016

Tuscarora School District

CONTENTS

Smith Elliott Kearns & Company, LLC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Tuscarora School District
Mercersburg, Pennsylvania

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 14, OPEB required schedule of funding progress on page 61, budgetary comparison schedule on pages 62 – 63, schedule of School District's proportionate share of the net pension liability – PSERS on page 64, and schedule of School District's contributions – PSERS on page 65 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 response 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 Tuscarora School District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates 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 schedule of expenditures of federal awards is 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 February 8, 2017 on our consideration of Tuscarora 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Tuscarora School District's internal control over financial reporting and compliance.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
February 8, 2017

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements, which present different views of the School District. The first two statements are government-wide financial statements that provide both short-term and long-term information about the School District's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the School District, reporting the School District's operations in more detail than the government-wide statements. The governmental funds statements indicate how basic services such as regular and special education were financed in the short term as well as indicate future spending plans. Proprietary funds statements offer short-term and long-term financial information about the activities the School District operates like a business, such as food services. Fiduciary funds statements provide information about the financial relationships in which the School District acts solely as a trustee or agent for the benefit of others, such as student activity funds and scholarship funds.

The financial statements also include notes that explain some of the information in the statements, as well as provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the School District's budget for the year. Figure A-1 (right) shows how the various parts of this annual report are arranged and relate to one another.

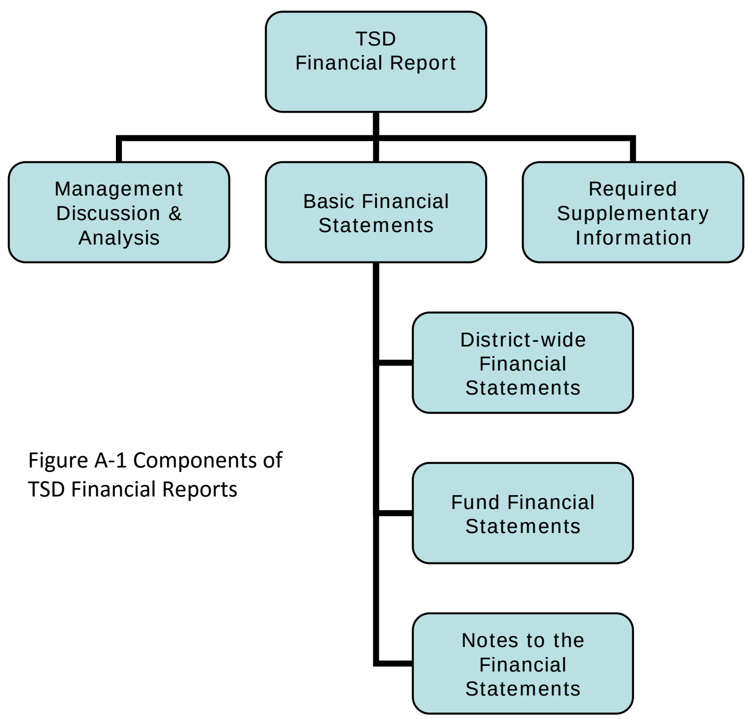


Figure A-1 Components of TSD Financial Reports

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

	Government-wide Statements	Fund Financial Statements		
		Government Funds	**Proprietary Funds**	**Fiduciary Funds**
Scope	Entire School District (except fiduciary funds)	Activities of the School District that are not proprietary or fiduciary, such as general operating and capital projects	Activities the School District operates similar to private businesses, such as food service.	Instances in which the School District administers resources on behalf of someone else, such as scholarship and student activities programs
Required Financial Statements	• Statement of net position • Statement of activities	• Balance Sheet • Statement of revenues, expenditures and changes in fund balance	• Statement of net position • Statement of revenues, expenses and changes in net position • Statement of cash flows	• Statement of fiduciary net position • Statement of changes in fiduciary net position
Accounting Basis & Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Types of assets/liability information	All assets and liabilities, both financial and capital, and short-term and long-term.	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included.	All assets and liabilities, both financial and capital, and short-term and long-term.	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can.
Types of revenue and expense/expenditure information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable.	All revenues and expenses during year, regardless of when cash is received or paid.	All additions and deductions during year, regardless of when cash is received or paid.

Figure A-2 - Major Features of Tuscarora School District's Government-wide and Fund 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 School District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. Net position, the difference between the School District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources are one way to measure the School District's financial health or position.

- Over time, increases or decreases in the School District's net position 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 and the condition or need for improvements or expansion of the existing school facilities.

The government-wide financial statements of the School District are divided into two categories. Governmental activities include most of the School District's basic services are included here, such as instruction, administration, and community services. Business-type activities (food service operation) charge fees to students, staff, and visitors to help cover the costs of the food service operation.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the School District's funds. These statements focus on the School District's most significant or "major" funds - not on the School District as a whole. Funds are accounting components that the School District uses to keep track of specific sources of funding and spending on particular programs.

The School District has three types of funds as follows:

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. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

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

Fiduciary funds - The School District is the trustee, or fiduciary, for assets that belong to others, such as scholarship funds or student activity funds. The School District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong -- the School District cannot use these assets to finance its operations.

FINANCIAL HIGHLIGHTS

- The School District's financial status continued to improve during the 2015-16 fiscal year. Total Fund Balances increased by $ 655,585 over the course of the year; primarily due to cost containment by the board. The Total Net Position increased by $ 1,736,349 over the course of the year; for the same reason as above, despite the recording of the School District's Net Pension Liability and related pension expense, according to the recently pronounced GASB 68 requirement.

- The School District budgeted the use of $ 224,700 of capital expenditures in the General Fund for 2015-16, for infrastructure improvements. However, the majority of capital improvements were paid for out of the Capital Reserve fund and only $ 96,624 was utilized out of the General Fund.

- Total General Fund revenue was $ 1,125,246 (3.21%) higher overall than 2014-15, primarily as a result of increased state basic education subsidy, state pension reimbursement and real estate taxes. Additional revenue comparisons include:

    - Real estate tax collections were up by $ 511,665 (net), compared to 2014-15. This was due primarily to increases in assessed valuations and tax millage, combined with natural growth in the real estate market. Included in the above net increase is an increase of $ 69,245 in delinquent real estate taxes revenues, compared to the previous year.

    - Interim real estate tax collections were up by $ 55,158 (106.60%) indicating slight economic growth.

- Total General Fund expenditures were $ 34,560,780 or $ 624,893 less than budgeted. This was primarily due to unfilled positions as well as continued focus by the School District on cost-cutting programs.

- At the end of the current fiscal year, unassigned fund balance of the General Fund decreased by $ 502,060, largely due to a transfer to the Capital Reserve Fund in the amount of $ 2,125,000 to fund future capital projects.

- The net position of business-type activities - food services - increased this year by $ 99,192 to $ 300,558. Revenues increased by 3.19% to $ 1,357,957 while expenses decreased by 0.99% to $ 1,304,367.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

The School District's combined net position is less on June 30, 2016 when compared to the prior fiscal year, primarily due to the accumulated recording of the School District's share of Net Pension Obligation in the total amount of $ 46,087,489 (See Table A-1).

Table A-1 - Condensed Statement of Net Position

	Governmental Activities			Business-Type Activities			Total		
as of June 30:	2014	2015	2016	2014	2015	2016	2014	2015	2016
Assets									
Current Assets	$ 10,155,388	$ 12,001,375	$ 13,438,256	$ 196,643	$ 231,074	$ 283,328	$ 10,352,031	$ 12,232,449	$ 13,721,584
Noncurrent Assets	49,543,964	48,173,756	47,861,940	153,425	128,508	163,914	49,697,389	48,302,264	48,025,854
Deferred Outflows of Resources	426,830	5,453,255	5,991,923	-	9,903	9,683	426,830	5,463,158	6,001,606
Total Assets and Deferred Outflows of Resources	60,126,182	65,628,386	67,292,119	350,068	369,485	456,925	60,476,250	65,997,871	67,749,044
Liabilities									
Current Liabilities	5,313,137	5,562,717	6,689,087	43,722	50,840	41,170	5,356,859	5,613,557	6,730,257
Long-term Liabilities	33,152,303	75,837,958	76,372,981	14,100	110,440	104,948	33,166,403	75,948,398	76,477,929
Deferred Outflows of Resources	-	3,102,861	1,468,044	-	6,839	10,249	-	3,109,700	1,478,293
Total Liabilities and Deferred Outflows of Resources	38,465,440	84,503,536	84,530,112	57,822	168,119	156,367	38,523,262	84,671,655	84,686,479
Net Position									
Net Investment in Capital Assets	15,439,270	15,582,342	16,527,619	153,425	128,508	163,914	15,592,695	15,710,850	16,691,533
Restricted	2,587,598	3,485,588	4,334,161	-	-	-	2,587,598	3,485,588	4,334,161
Unrestricted	3,633,874	(37,943,080)	(38,099,773)	138,821	72,858	136,644	3,772,695	(37,870,222)	(37,963,129)
Total Net Position	$ 21,660,742	$ (18,875,150)	$ (17,237,993)	$ 292,246	$ 201,366	$ 300,558	$ 21,952,988	$ (18,673,784)	$ (16,937,435)

Most of the School District's net position is invested in capital assets (buildings, land, and equipment). The remaining net position consists of restricted and unrestricted amounts. The results of this year's operations as a whole are reported in the Statement of Activities. 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 Basic Education Subsidy provided by the State of Pennsylvania, and the local taxes assessed to community taxpayers.

Table A-2 takes the information from that Statement, rearranges it slightly, so you can see our total revenues for the year. The table also presents the expenses of both the Governmental Activities and the Business-type Activities of the School District.

Table A-2 Changes in Net Position from Operating Results

	Governmental Activities			Business-Type Activities			Total		
as of June 30:	2014	2015	2016	2014	2015	2016	2014	2015	2016
Program Revenues:									
Charges for Services	$ 127,590	$ 146,960	$ 219,813	$ 624,271	$ 611,460	$ 609,708	$ 751,861	$ 758,420	$ 829,521
Operating Grants & Contributions	6,054,979	7,073,292	7,362,067	705,736	704,423	748,046	6,760,715	7,777,715	8,110,113
Capital Grants & Contributions	1,018,165	479,615	865,937	-	-	-	1,018,165	479,615	865,937
General Revenue:				-	-	-			
Property Taxes	17,961,468	18,701,696	19,287,744	-	-	-	17,961,468	18,701,696	19,287,744
Grants & Entitlements	8,487,771	8,488,180	8,655,472	-	-	-	8,487,771	8,488,180	8,655,472
Other	102,126	34,246	92,792	129	147	203	102,255	34,393	92,995
Total Revenue	**33,752,099**	**34,923,989**	**36,483,825**	**1,330,136**	**1,316,030**	**1,357,957**	**35,082,235**	**36,240,019**	**37,841,782**
Program Expense:									
Instruction	20,209,529	21,378,628	21,012,130	-	-	-	20,209,529	21,378,628	21,012,130
Support Services:				-	-	-			
Pupil & Instructional Staff	2,931,020	3,048,312	3,199,670	-	-	-	2,931,020	3,048,312	3,199,670
Administration, Business & Fiscal Services	2,988,159	3,278,112	3,638,665	-	-	-	2,988,159	3,278,112	3,638,665
Operation & Maintenance	3,059,951	2,924,580	3,078,612	-	-	-	3,059,951	2,924,580	3,078,612
Pupil Transportation	2,258,769	2,294,180	2,140,462	-	-	-	2,258,769	2,294,180	2,140,462
Community Services	63,272	90,039	89,426	-	-	-	63,272	90,039	89,426
Student Activities	529,844	603,865	645,234	-	-	-	529,844	603,865	645,234
Interest & Fiscal Charges	1,300,707	1,170,322	996,867	-	-	-	1,300,707	1,170,322	996,867
Food Service	-	-	-	1,307,778	1,317,383	1,304,367	1,307,778	1,317,383	1,304,367
Total Expenses	**33,341,251**	**34,788,038**	**34,801,066**	**1,307,778**	**1,317,383**	**1,304,367**	**34,649,029**	**36,105,421**	**36,105,433**
Transfers	-	-	(45,602)	-	-	45,602	-	-	-
Increase (Decrease) in Net Position	$ 410,848	$ 135,951	$ 1,637,157	$ 22,358	$ (1,353)	$ 99,192	$ 433,206	$ 134,598	$ 1,736,349

Financial Highlights of the School District Funds

The School District maintains three separate funds that it uses to provide services for the School District. Two of these funds are included in the governmental group: General and Capital Reserve. The third is the Proprietary Fund for food services. At June 30, 2016, the School District's governmental funds reported a combined fund balance of $ 8,751,236, an increase of $ 655,585. This was primarily a result of cost containment measures by the administration and board and bond refinancing savings.

During the fiscal year, the Board of School Directors authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the School District. All adjustments are again confirmed at the time the annual audit is accepted, which is after the end of the fiscal year, which is not prohibited by state law. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is shown in the financial statements.

a. **General Fund Highlights.** Historically, the School District continues to maintain expenditure increases as a result of building projects and pension costs.

Table A-4 - Budget Performance

	2015-16 General Fund			
	Budget	**Actual**	**$ Variance**	**% Variance**
Revenue				
Local Rev	$ 19,479,224	$ 19,815,886	$ 336,662	1.7%
State Rev	15,249,334	15,864,916	615,582	4.0%
Federal Rev	517,291	536,990	19,699	3.8%
	35,245,849	36,217,792	971,943	2.8%
Expenditures				
Instruction	20,580,978	19,485,227	1,095,751	5.3%
Support Services	10,820,948	11,287,291	(466,343)	-4.3%
Non-Instruct Srvcs	646,901	727,963	(81,062)	-12.5%
Facilities	224,700	96,624	128,076	57.0%
Debt Srvc	2,912,146	2,963,675	(51,529)	-1.8%
	$ 35,185,673	$ 34,560,780	$ 624,893	1.8%

b. **Capital Projects Fund Highlights**. Projects completed and placed into service in 2015-16 include various building and land improvements.

c. **Capital Reserve Fund Highlights**. The Board continues to review the Capital Reserve fund in relation to the 5-year capital plan, and approves transfers to the fund when possible. The Board may review additional assignment of funds for future building projects in light of the possible discontinuance of the state's PlanCon process.

d. **Proprietary / Food Service Highlights.** As stricter Federal guidelines for food service preparations are required to be put into place due to the Healthy Hunger Free Kids Act, the food service program sales can suffer. During 2015-16 the food service program experienced a slight decline in sales, as charges for services revenue decreased by $ 1,752. The cafeteria had an overall net surplus of $ 99,192; of which $ 45,602 of revenues was transferred in from the Capital Reserve Fund for purchase of a replacement walk-in cooler/freezer and $ 27,411 of expenditures is due to depreciation of food service equipment.

Capital Assets and Debt Administration

a. Capital Assets. At June 30, 2016, the School District had a net balance of $ 47,982,289 invested in a broad range of capital assets, including land, buildings, and furniture and equipment.

Table A-5 Capital Assets

	Governmental Activities		
as of June 30:	**2014**	**2015**	**2016**
Land & Improvements	$ 1,435,937	$ 1,525,429	$ 1,625,448
Bldgs & Improvements	46,801,942	45,425,363	44,110,990
Furniture & Equipment	1,158,454	1,082,797	1,010,382
Construction in process	-	66,502	1,071,555
Total	$ 49,396,333	$ 48,100,091	$ 47,818,375

	Business-Type Activities		
	2014	**2015**	**2016**
Land & Improvements	$ -	$ -	$ -
Bldgs & Improvements	-	-	-
Furniture & Equipment	153,425	128,508	163,914
Construction in process	-	-	-
Total	$ 153,425	$ 128,508	$ 163,914

	Total Activities		
	2014	**2015**	**2016**
Land & Improvements	$ 1,435,937	$ 1,525,429	$ 1,625,448
Bldgs & Improvements	46,801,942	45,425,363	44,110,990
Furniture & Equipment	1,311,879	1,211,305	1,174,296
Construction in process	-	66,502	1,071,555
Total	$ 49,549,758	$ 48,228,599	$ 47,982,289

b. **Debt Administration:** As of June 30, 2016, the School District had total outstanding bond principal of $ 31,917,256.

Table A-6 - Outstanding Debt at Year End as of June 30

	2014	**2015**	**2016**
Performance Contract lease	$ 2,647,511	$ 2,314,387	$ 1,967,256
GO Bonds	31,815,000	31,185,000	29,950,000
Total	$ 34,462,511	$ 33,499,387	$ 31,917,256

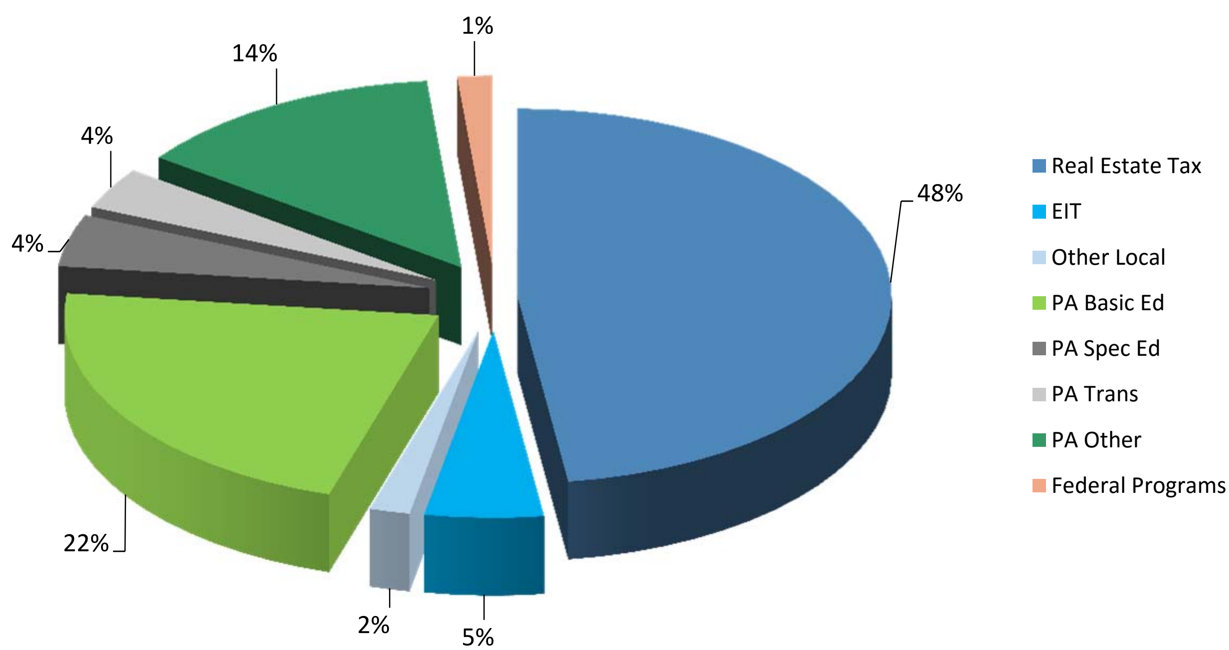
The School District issued a general obligation note in 2015-16: GON Series 2015. The issuance was used to advance refund the GOB Series 2011.

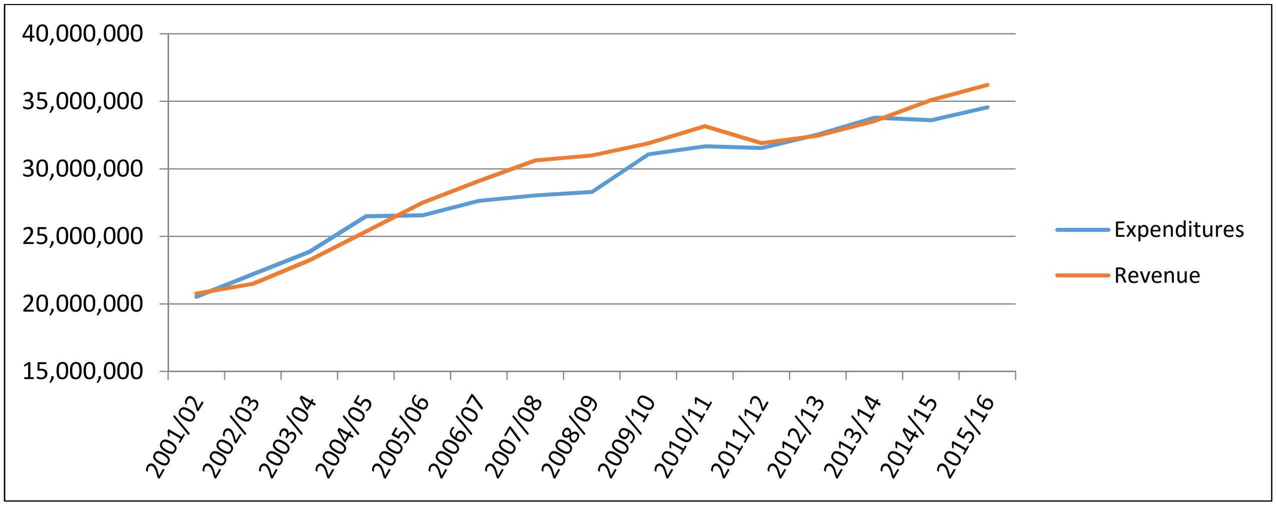
Other obligations include accrued vacation pay and sick leave for specific employees of the School District. More detailed information about our Long-term liabilities is included in Note 9 to the financial statements.

LOOKING BACK, THEN FORWARD

The School District relies principally on taxes and state subsidies to fund its programs. Looking at the future, real estate taxes are currently the major source of revenue (48%) with the total local contribution at 55%. The state share is 44% of all revenue, with federal revenue equating to 1%. As the Board struggles to meet the ever widening gap between increasing state and federal mandates and flat or decreasing state subsidies, they are forced to look to the taxpayer to fund steadily rising costs in pension obligations, energy, special education, cyber/charter tuition, collective bargaining agreements, health insurance, social services and PA Core requirements. The increases from the state are below the inflation rate, especially the cost of personnel, making this the biggest budget hurdle. On the tax side of the revenue picture, the Act 1 cap does not keep pace with inflation; as such, it places undue burden on the taxpayer to make up for the state's declining support – especially since the state is not reducing mandates. The bottom line is that under Act 1, any additional program costs will require an equivalent cut in another area to maintain budget parity.

2015-16 Revenues = $ 36,217,792

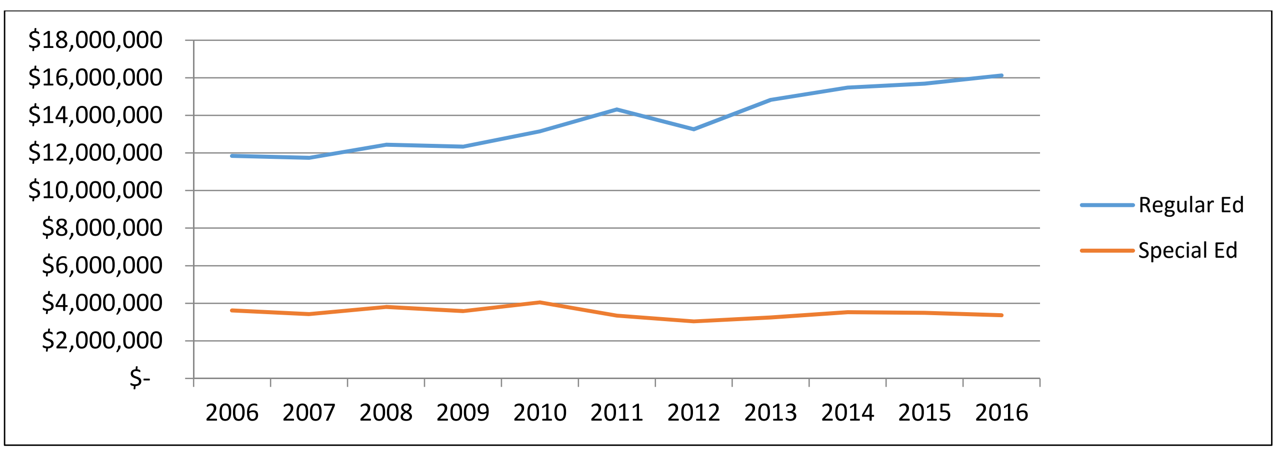


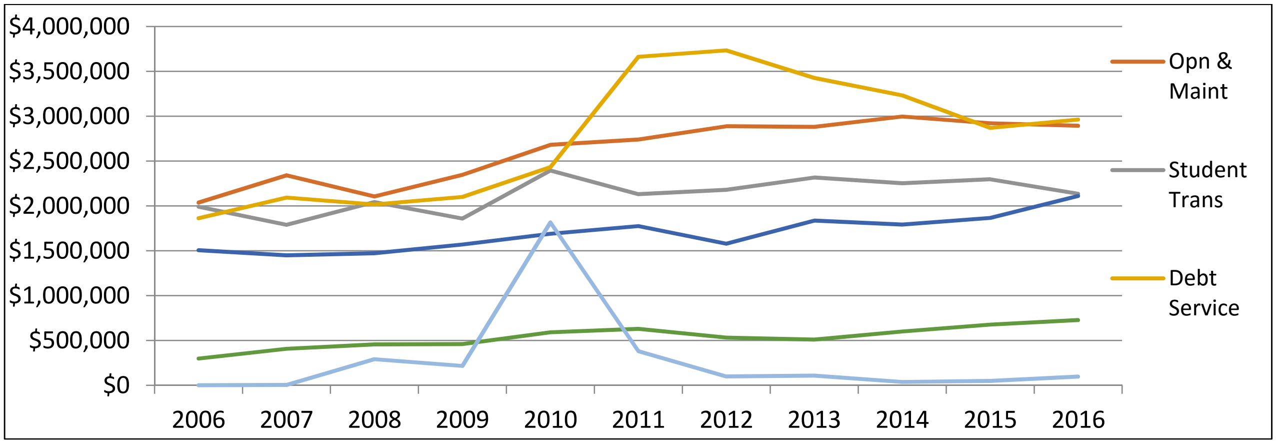


EXPENDITURES

Below are tables of expenditures, including a ten-year history for comparison. It is important to note that on June 30, 2005 the School District had approximately $ 116,000 of fund balance at year end and most of this was inventory. Over the next two fiscal years the School District made significant cuts in personnel and other expenditures. Furthermore, in 2011-12 the School District made significant post-ARRA (Federal Stimulus dollars) cuts to personnel, resulting in a reduction of 25 positions across the School District.

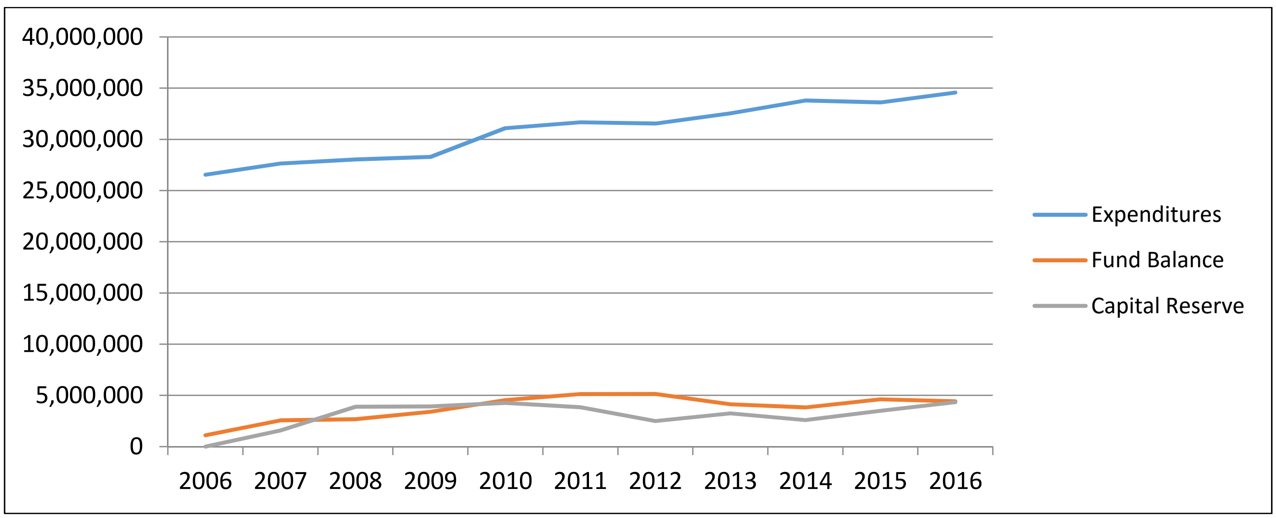
As of 2012, cost trend lines are increasing. These increases are due in large part to the School District's bond payments related to the $ 17 million high school renovation project and the $ 7 million Mercersburg elementary renovation project. More importantly, the increase in costs is primarily associated with the increasing pension obligations in PSERS.





RESERVE FUNDS

Tuscarora School District has added to Capital Reserve Fund from the General Fund fund balance, in order to cover future long-term capital needs. The buildup of the Capital Reserve Fund was made possible through continued efficiencies in spending on part of the School District.



Tuscarora School District has a strong fund balance (12.8% of expenditures) position in its General Fund at June 30, 2016 on the modified accrual basis of accounting. The $ 4,417,075 fund balance consists of approximately $ 42,055 in inventories (nonspendable), $ 1,196,064 committed for future retirement contributions, $ 250,000 committed for unforeseen utility expenses, $ 311,570 assigned for the 2016/2017 budget deficit, and $ 2,617,386 remaining as unassigned. The School District also maintains additional fund balance in the Capital Reserve Fund for future capital needs in the amount of $ 4,334,161.

CONTACTING THE SCHOOL 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 Board's accountability for the funding it receives. If you have questions about this report or wish to request additional financial information, please contact Anne Miller, Business Manager or Loretta Martin, Board Secretary, at Tuscarora School District, 100 West Seminary St., Mercersburg, PA 17236, (717) 328-3127.

TUSCARORA SCHOOL DISTRICT
Statement of Net Position
June 30, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	$ 6,151,866	$ 160,517	$ 6,312,383
Investments	2,940,000	-	2,940,000
Receivables:			
Taxes	1,530,575	-	1,530,575
Intergovernmental	2,672,082	80,103	2,752,185
Internal balances	1,880	(1,880)	-
Other	99,798	-	99,798
Inventories	42,055	44,588	86,643
Total current assets	13,438,256	283,328	13,721,584
Noncurrent Assets			
Prepaid bond insurance	43,565	-	43,565
Capital assets not being depreciated			
Construction in progress	1,071,555	-	1,071,555
Capital assets net of accumulated depreciation			
Land and improvements	1,625,448	-	1,625,448
Buildings and improvements	44,110,990	-	44,110,990
Furniture, fixtures and equipment	1,010,382	163,914	1,174,296
Total noncurrent assets	47,861,940	163,914	48,025,854
TOTAL ASSETS	61,300,196	447,242	61,747,438
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pension liability	4,884,649	9,683	4,894,332
Deferred charge on bond refunding	1,107,274	-	1,107,274
Total deferred outflows of resources	5,991,923	9,683	6,001,606
Total assets and deferred outflows of resources	$ 67,292,119	$ 456,925	$ 67,749,044
LIABILITIES			
Current liabilities			
Accounts payable	$ 749,945	$ 34,425	$ 784,370
Accrued salaries and benefits/withholdings	2,903,722	1,838	2,905,560
Accrued interest	221,304	-	221,304
Portion due or payable within one year:			
General obligation bonds and notes payable	2,375,120	-	2,375,120
Compensated absences	286,011	4,907	290,918
Retirement incentive	152,985	-	152,985
Total current liabilities	6,689,087	41,170	6,730,257
Noncurrent liabilities			
Portion due or payable after one year:			
General obligation bonds and notes payable	29,522,970	-	29,522,970
Compensated absences	564,705	13,628	578,333
Retirement incentive	55,000	-	55,000
Net pension obligation	45,996,169	91,320	46,087,489
OPEB obligation	234,137	-	234,137
Total noncurrent liabilities	76,372,981	104,948	76,477,929
TOTAL LIABILITIES	83,062,068	146,118	83,208,186
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pension liability	1,468,044	10,249	1,478,293
NET POSITION			
Net investment in capital assets	16,527,619	163,914	16,691,533
Restricted	4,334,161	-	4,334,161
Unrestricted	(38,099,773)	136,644	(37,963,129)
TOTAL NET POSITION	(17,237,993)	300,558	(16,937,435)
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 67,292,119	$ 456,925	$ 67,749,044

TUSCARORA SCHOOL DISTRICT
Statement of Activities
Year Ended June 30, 2016

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
Instruction	$ 21,012,130	$ 87,958	$ 4,922,258	$ -	$ (16,001,914)	$ -	$ (16,001,914)
Instructional student support	3,199,670	-	523,753	-	(2,675,917)	-	(2,675,917)
Administration and financial support services	3,638,665	-	305,028	-	(3,333,637)	-	(3,333,637)
Operation and maintenance of plant services	3,078,612	-	167,961	122,504	(2,788,147)	-	(2,788,147)
Pupil transportation	2,140,462	-	1,378,863	-	(761,599)	-	(761,599)
Student activities	645,234	131,855	54,543	-	(458,836)	-	(458,836)
Community services	89,426	-	9,661	-	(79,765)	-	(79,765)
Interest on long-term debt	996,867	-	-	743,433	(253,434)	-	(253,434)
Total governmental activities	34,801,066	219,813	7,362,067	865,937	(26,353,249)	-	(26,353,249)
Business-type activities:							
Food services	1,304,367	609,708	748,046	-	-	53,387	53,387
Total primary government	$ 36,105,433	$ 829,521	$ 8,110,113	$ 865,937	(26,353,249)	53,387	(26,299,862)
General revenues and transfers:							
Property taxes, levied for general purposes, public utility realty tax, earned income tax, real estate transfer tax					19,287,744	-	19,287,744
Grants, subsidies and contributions not restricted					8,655,472	-	8,655,472
Miscellaneous income					61,585	-	61,585
Investment earnings					31,207	203	31,410
Transfers					(45,602)	45,602	-
Total general revenues and transfers					27,990,406	45,805	28,036,211
Change in net position					1,637,157	99,192	1,736,349
Net position - beginning					(18,875,150)	201,366	(18,673,784)
Net position - ending					$ (17,237,993)	$ 300,558	$ (16,937,435)

Balance Sheet - Governmental Funds

June 30, 2016

	General Fund	Capital Reserve Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 3,413,206	$ 2,738,660	$ 6,151,866
Investments	2,940,000	-	2,940,000
Taxes receivable, net	1,530,575	-	1,530,575
Due from other funds	-	2,095,441	2,095,441
Due from other governments	2,672,082	-	2,672,082
Other receivables	99,798	-	99,798
Inventories	42,055	-	42,055
Total assets	$ 10,697,716	$ 4,834,101	$ 15,531,817
LIABILITIES			
Accounts payable	$ 249,678	$ 499,940	$ 749,618
Due to other funds	2,093,561	-	2,093,561
Retirement incentive	152,985	-	152,985
Accrued salaries and benefits/withholdings	2,903,722	-	2,903,722
Total liabilities	5,399,946	499,940	5,899,886
DEFERRED INFLOWS OF RESOURCES			
Unavailable tax revenue	880,695	-	880,695
Total deferred inflows of resources	880,695	-	880,695
FUND BALANCES			
Nonspendable	42,055	-	42,055
Restricted	-	4,334,161	4,334,161
Committed	1,446,064	-	1,446,064
Assigned	311,570	-	311,570
Unassigned	2,617,386	-	2,617,386
Total fund balances	4,417,075	4,334,161	8,751,236
Total liabilities, deferred inflows of resources, and fund balances	$ 10,697,716	$ 4,834,101	$ 15,531,817

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

June 30, 2016

Total fund balances - governmental funds		$ 8,751,236
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 in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.		
Cost of assets	71,385,101	
Accumulated depreciation	(23,566,726)	47,818,375
Certain receivables are not available to pay current period expenditures and therefore are not reported in the fund financial statements, but are reported in governmental activities of the Statement of Net Position.		880,695
Deferred charges on bond refundings are reported as a deferred outflow of resources in the Statement of Net Position.		1,107,274
Prepaid bond insurance is expensed in governmental funds when the debt is first issued. The Statement of Net Position reports prepaid bond insurance as an asset.		43,565
Long-term liabilities are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Position. Long-term liabilities and related deferred inflows and outflows of resources consist of:		
Bonds and notes payable, net of discount and premium	(31,898,090)	
Accrued interest on bonds	(221,304)	
Compensated absences	(850,716)	
Net Other Post Employment Benefits (OPEB) obligation	(234,137)	
Net pension liability	(45,996,169)	
Deferred outflows related to pension liability	4,884,649	
Deferred inflows related to pension liability	(1,468,044)	
Retirement incentive	(55,000)	
Incurred But Not Reported (IBNR) benefits liability	(327)	(75,839,138)
Net position of governmental activities in the Statement of Net Position		($ 17,237,993)

TUSCARORA SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds
Year Ended June 30, 2016

	General Fund	Capital Reserve Fund	Total Governmental Funds
REVENUES			
Local revenues			
Taxes	$ 19,179,864	$ -	$ 19,179,864
Investment earnings	23,488	7,719	31,207
Revenue from intermediate sources	359,066	-	359,066
Other	253,468	35,930	289,398
State sources	15,864,916	-	15,864,916
Federal sources	536,990	-	536,990
Total revenues	36,217,792	43,649	36,261,441
EXPENDITURES			
Instruction	19,485,227	-	19,485,227
Support services	11,287,291	-	11,287,291
Operation of noninstructional services	727,963	-	727,963
Facilities acquisition, construction and improvements	96,624	1,274,474	1,371,098
Debt service:			
Principal	1,857,131	-	1,857,131
Interest	1,106,544	-	1,106,544
Total expenditures	34,560,780	1,274,474	35,835,254
OTHER FINANCING SOURCES (USES)			
Issuance of long term financing	4,925,000	-	4,925,000
Payment to refund bonds	(4,650,000)	-	(4,650,000)
Interfund transfers	(2,125,000)	2,079,398	(45,602)
Total other financing sources and uses	(1,850,000)	2,079,398	229,398
Net change in fund balances	(192,988)	848,573	655,585
Fund balances - beginning	4,610,063	3,485,588	8,095,651
Fund balances - ending	$ 4,417,075	$ 4,334,161	$ 8,751,236

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Year Ended June 30, 2016

Net change in fund balances - total governmental funds		$ 655,585
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report capital outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays differed from depreciation expense in the current period.		
Depreciation expense	(1,745,798)	
Capital outlays	1,465,436	(280,362)
In the statement of activities, only the gain on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase other financing sources. Thus, the change in net position differs from the changes in the fund balance by the undepreciated cost of the capital assets sold.		(1,354)
Governmental funds do not present certain revenues unless they are "available" to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. Because certain taxes will not be collected for several months after the District's year end, they are not considered as "available" revenues in the governmental funds. Unavailable tax revenues changed by this amount this year.		107,880
The issuance of general obligation notes provides current financial resources to governmental funds, but has no effect on net position. Likewise, the payment to refund bonds uses current financial resources, but also has no effect on net position. Governmental funds report prepaid bond issuance, bond discounts, and other similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		
Series of 2015		
Issuance of general obligation note	(4,925,000)	
Payment to advance refund bonds	4,650,000	
Interest paid at refinancing that will be amortized over the life of the bonds	177,473	(97,527)
Governmental funds report repayment of principal on bonds and notes as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. Also, governmental funds report the effect of premium, discount, and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities:		
Repayment of long term obligations - principal		1,857,131
Amortization of bond premium, discounts and prepaid bond insurance		(97,327)
Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds. This is the difference between the amount incurred and the amount paid of:		
Accrued interest		29,531
Compensated absences		40,423
Net pension liability and related deferred outflows and inflows		(566,567)
Net Other Postemployment Benefits (OPEB) obligation		(66,171)
Retirement incentive		55,000
Incurred But Not Reported (IBNR) claims		915
Change in net position of governmental activities		$ 1,637,157

TUSCARORA SCHOOL DISTRICT
Statement of Net Position - Proprietary Fund
June 30, 2016

	Food Service
ASSETS	
Current Assets	
Cash and cash equivalents	$ 160,517
Intergovernmental receivables	80,103
Inventory	44,588
Total current assets	285,208
Noncurrent Assets	
Furniture and equipment	730,262
Accumulated depreciation	(566,348)
Total noncurrent assets	163,914
Total assets	449,122
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pension liability	9,683
Total assets and deferred outflows of resources	$ 458,805
LIABILITIES	
Current Liabilities	
Accounts payable	$ 34,425
Due to other funds	1,880
Accrued salaries and benefits	1,838
Compensated absences	4,907
Total current liabilities	43,050
Noncurrent Liabilities	
Compensated absences	13,628
Net pension liability	91,320
Total noncurrent liabilities	104,948
Total liabilities	147,998
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pension liability	10,249
NET POSITION	
Net investment in capital assets	163,914
Unrestricted	136,644
Total net position	300,558
Total liabilities, deferred inflows of resources and net position	$ 458,805

Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund
Year Ended June 30, 2016

	Food Service
OPERATING REVENUE	
Food service revenues	$ 609,708
Total operating revenues	609,708
OPERATING EXPENSES	
Purchased services	1,100,533
Food and milk purchases	89,757
Salaries	31,006
Employee benefits	22,075
Supplies	882
Depreciation	27,411
Repairs and maintenance	20,364
Traveling and training	3,537
Extermination	3,772
Other operating expense	5,030
Total operating expenses	1,304,367
Operating (loss)	(694,659)
NON-OPERATING REVENUES (EXPENSES)	
Federal subsidies	698,143
State subsidies	49,903
Interest income	203
Total non-operating revenue (expenses)	748,249
Income before transfers	53,590
TRANSFERS	
Transfer from other funds	45,602
Change in net position	99,192
Net position - beginning	201,366
Net position - ending	$ 300,558

Statement of Cash Flows - Proprietary Fund
Year Ended June 30, 2016

	Food Service
Cash flows from operating activities:	
Cash received from food sales	$ 606,897
Cash payments to and on behalf of employees	(48,047)
Cash payments for goods and services	(1,150,822)
Net cash (used) by operating activities	(591,972)
Cash flows from capital financing activities:	
Purchase of equipment	(17,215)
Cash flows from noncapital financing activities:	
Federal subsidies	617,670
State subsidies	51,082
Net cash provided by noncapital financing activities	668,752
Cash flows from investing activities:	
Earnings on investments	203
Net increase in cash and cash equivalents	59,768
Cash and cash equivalents - beginning	100,749
Cash and cash equivalents - ending	$ 160,517
Reconciliation of income (loss) from operations to net cash (used) by operating activities	
Operating (loss)	$ (694,659)
Adjustments to reconcile operating (loss) to net cash provided (used) by operating activities:	
Donated food used	89,757
Depreciation	27,411
(Increase) decrease in:	
Inventory	(4,829)
Increase (decrease) in:	
Interfund payables	1,880
Compensated absences	978
Net pension liability and related items	(711)
Accrued salaries and benefits	76
Accounts payable	(11,875)
Total adjustments	102,687
Net cash (used) by operating activities	$ (591,972)

Statement of Fiduciary Net Position

June 30, 2016

	Agency Funds	Private Purpose Trust Funds
ASSETS		
Cash and cash equivalents	$ 101,988	$ 142,082
Investments	-	2,080,000
Other Receivables	-	3,091
Total assets	$ 101,988	$ 2,225,173
LIABILITIES		
Due to student groups	$ 101,988	$ -
Total liabilities	101,988	-
NET POSITION		
Held in trust for scholarships	-	2,225,173
Total net position	-	2,225,173
Total liabilities and net position	$ 101,988	$ 2,225,173

	Private Purpose Trust Funds
ADDITIONS	
Donations	$ 1,857,275
Interest income	5,608
Total additions	1,862,883
DEDUCTIONS	
Scholarships and awards/grants	14,049
Total deductions	14,049
Change in net position	1,848,834
Net position - beginning	376,339
Net position - ending	$ 2,225,173

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Reporting Entity

Tuscarora School District (School District) operates a public school system which is comprised of the Borough of Mercersburg and Townships of Peters, Montgomery, Warren, and St. Thomas in Franklin County, Pennsylvania.

The School District consists of James Buchanan High School and Middle School; Mercersburg, Montgomery, Mountain View, and St. Thomas Elementary Schools; as well as the School District Administration Office.

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

The financial statements of the School District include all funds, functions, and activities to which the Board of Directors has oversight responsibility. The financial statements presented do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from Tuscarora School District.

Governmental Accounting Standards Board (GASB) statements define the criteria used to determine the composition of the reporting entity. These standards require the reporting entity to include (1) the primary government, (2) organizations for which the primary government is financially accountable, (3) organizations that are fiscally dependent on the primary government and a financial benefit or burden exists, and (4) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Based on the above criteria, the School District is not included in any other governmental reporting entity and there are no component units of the School District.

Joint Ventures

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

Franklin County Career and Technology Center - is a separate legal entity organized by five local school districts to provide services in Franklin County. Each of the participating school districts appoints members to serve on the joint operating committee, and each has an ongoing financial responsibility to fund the Center's operations.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Joint Ventures (Continued)

Franklin Learning Center - is a separate entity organized by four local school districts to provide special education services in Franklin County. Each of the participating school districts appoints members to serve on the joint operating committee, and each has an ongoing financial responsibility to fund the Center's operations.

Lincoln Intermediate Unit #12 - is a separate legal entity organized by constituent school districts in York, Adams, and Franklin counties to provide services to the school districts. Each member school district appoints members to serve on the Board of Directors of the Intermediate Unit. The School District contracts with the Intermediate Unit primarily for special education services and training.

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

Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental, proprietary, and fiduciary.

(A) Governmental Funds

Governmental Funds are those through which most governmental functions of the School District are financed. The measurement focus is on the flow of expendable resources, rather than on net earnings determination.

The School District reports the following major governmental funds:

a. General Fund

The General Fund is used to account for all financial transactions not accounted for in another fund. Revenues are primarily derived from local property and earned income taxes, and state and federal subsidies. Many of the more important activities of the School District, including instruction, administration of the School District, and certain noninstructional services are accounted for in this fund. This is a budgeted fund, and any unassigned fund balances are considered as resources available for use.

b. Capital Reserve Fund

This fund is authorized under Section 2932 and is authorized by Pennsylvania Law 145, Act of April 30, 1943, known as Section 2932. School Laws of Pennsylvania and accounts for (1) monies transferred during any fiscal year from appropriations made for any particular purpose which may not be needed, and (2) surplus monies in the General Fund of the School District at the end of any fiscal year.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting (Continued)

2. Proprietary Fund

Proprietary Funds are used to account for the School District's ongoing activities which are similar to those often found in the private sector. The focus of proprietary funds is on the determination of net earnings and capital maintenance. The following fund is utilized:

a. Food Service Fund – Enterprise Fund – Major Fund

This fund accounts for all revenues and expenses pertaining to cafeteria operations as authorized under Section 504 of the Public School Code of 1949. It is the intent of the governing body that the cost of providing food, goods or services to the students on a continuing basis be financed or recovered primarily through user charges or cost reimbursement plans.

3. Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's only trust fund is a private purpose trust which accounts for a scholarship program for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Student activity funds are classified as Agency Funds.

Basis of Presentation

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.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function or program of the School District's governmental 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 and grants and contributions that are restricted to meeting the operational or capital requirements of 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 segment or governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements - Fund financial statements report detailed information about the School District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds (if applicale) are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this 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 changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds are reported using the economic resources measurement focus.

Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) are used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased net position. Depreciation is charged as expense against current operations and accumulated depreciation is reported on the statement of net position.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Revenue from federal, state, and other grants designated for payment of specific School District expenditures is recognized when the related expenditures are incurred and the related revenue is available, which is generally 60 days; accordingly, when such funds are received, they are recorded as a liability until earned. If time eligibility requirements are not met, a deferred inflow of resources would be recorded. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

In the current year, due to budget issues at the state level, no rental subsidy payments were remitted to the School District, even though the School District earned the revenue by making its required debt payments. Despite the fact the funds were not available based on typical availability criterion, due to this unusual circumstance, the School District recorded the funds due from the state as revenue on the fund financial statements in order to maintain consistency in revenue recognition between years.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing food services, including charges for meals and the costs of food, salaries and benefits, depreciation, and other expenses, Federal and State subsidies are considered non-operating revenues as no exchange transaction occurs.

Cash, Cash Equivalents, and Investments

Cash and cash equivalents includes all demand deposits, petty cash, savings, money market accounts, and certificates of deposit with an original maturities of three months or less. Investments include certificates of deposit with original maturities greater than three months. Investments are stated at market value. Accrued interest is included with other receivables on the balance sheet and statement of net position.

The School District invests in funds with the Pennsylvania School District Liquid Asset Fund (PSDLAF) and the Pennsylvania Local Government Investments Trust (PGLIT). PSDLAF and PLGIT operate and are authorized under the Intergovernmental Cooperation Act of 1972. Investments in these funds have daily liquidity and are valued at cost which equals market value.

These funds invest in federal securities backed by the full faith and credit of the United States Government, in agencies, instrumentalities and subdivisions of the Commonwealth of Pennsylvania and backed by the full faith and credit of the Commonwealth, and certificates of deposit which are insured by the Federal Insurance Corporation or which are collateralized as provided by law of Act 72 of 1971.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Statement of Cash Flows

For purposes of the statement of cash flows, the proprietary fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Inventories

Inventory in the Food Service Fund consists of expendable supplies and food (valued at cost) held for consumption. Government-donated commodities are valued at estimated fair market value. The expendable supplies are recorded as an expenditure when used. The cost of governmental fund inventories are recorded as expenditures when purchased in the fund financial statements and the asset (valued at cost) at June 30 is offset by nonspendable fund balance. Governmental fund supplies inventories are capitalized at cost and expensed as used on the government-wide financial statements.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally 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 proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective fund financial statements.

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 market values as of the date received. The School District maintains a capitalization threshold of $ 1,500. The School District does not possess any infrastructure. 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 expensed. Interest incurred during the construction of capital assets is not capitalized unless it is incurred in the proprietary fund.

All reported capital assets are depreciated except for land and construction in process. 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:

	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Land improvements	20 years	N/A
Buildings and improvements	20 - 40 years	N/A
Furniture and equipment	3 - 20 years	12 years
Vehicles	10 years	N/A

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The School District has several items that qualify for reporting in this category, including the deferred charge on bond refunding and various amounts related to pension liabilities. These amounts will be amortized in future periods. A deferred charge on bond refunding results from the difference in carrying value of refunding debt and its reacquisition price. This amount is amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position and balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School's deferred inflows of resources at June 30, 2016 consist of various amounts related to pension liabilities (on the statement of net position) and unavailable tax revenue (on the balance sheet – governmental funds).

Interfund Activity/Internal Balances

Advances between funds are accounted for in the appropriate interfund receivable and payable accounts. Advances between funds which are not expected to be repaid are accounted for as transfers. Interfund balances and transactions are eliminated in the government-wide financial statements.

Exchange transactions, if any, between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

Budgets and Budgetary Accounting

An operating budget is adopted each year for the General Fund on a modified accrual basis of accounting. The General Fund is the only fund for which a budget is legally required.

The Pennsylvania School Code dictates specific procedures relative to adoption of the School District's budget and reporting of its financial statements, specifically:

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

2. The Board of School Directors may make transfers of funds appropriated to any particular item of expenditure by legislative action. An affirmative vote of two-thirds of all members of the Board is required. The final budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting (Continued)

3. Fund balances in budgetary funds may be appropriated based on resolutions passed by the Board of Directors, which authorize the School District to make expenditures. Appropriations lapse at the end of the fiscal period.

4. Supplemental budget appropriations to the General Fund budget are the result of program budgets as prescribed by the state and federal agencies funding the programs. These budgets are approved on a program-by-program basis by the state or federal funding agency, and frequently result in supplementary budget appropriations.

Capital budgets are not implemented for capital improvements and capital projects in the Capital Reserve Fund. All transactions of the Capital Reserve Fund are approved by the Board prior to commitment, thereby constructively achieving budgetary control.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, and the disclosure of those items, if any, 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.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activity columns in the statement of net position. This same treatment also applies to proprietary fund financial statements. Bond premiums and discounts, deferred charge on bond refunding, as well as prepaid bond insurance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. The deferred charge on bond refunding is reported as deferred outflows of resources and amortized over the term of the related debt. Prepaid bond insurance costs are reported as an asset and amortized over the term of the related debt. Other bond issuance costs are expensed at the time the debt is issued.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Postemployment Benefits Other Than Pensions

GASB establishes standards for the measurement, recognition, and display of other postemployment benefit expenditures and related liabilities, note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The School District's other postemployment benefits are accounted for in accordance with these standards.

Retirement Plans

The School District contributes to the Public School Employees Retirement System (PSERS), a cost-sharing multiple-employer defined benefit pension plan. The School District accounts for the plan under the provisions of GASB Standards, which establish standards for the measurement, recognition, and display of pension expense and related liabilities, assets, and note disclosures.

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

Compensated Absences

Liability for compensated absences is accounted for in accordance with the provisions of the GASB, which requires entities to accrue for employees' rights to receive compensation for vacation leave, or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable.

The estimate of the liability for the accumulated unpaid sick leave has been calculated using the vesting method. Under that method, the School District has identified the accrued sick leave benefit earned to date by each employee, determined the cost of that benefit by reference to the benefit provisions and the current rates paid by the School District, and estimated the probability of the payment of that benefit to employees upon retirement.

Liabilities for vested, unused vacation, sick pay, and personal leave are recorded in the proprietary funds and the government-wide financial statements, and are expensed as incurred.

Payments for vacation, sick pay, and personal leave are expensed as paid in the governmental fund financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position – Government-Wide/Proprietary Funds

In the government-wide financial statements and proprietary fund financial statements, net position is classified in the following categories:

Net Investment in Capital Assets: This component consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those capital assets. If there are significant unspent related debt proceeds at year-end, the portion of debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of debt is included in the same net position component as the unspent proceeds. Deferred outflows of resources and deferred inflows of resources attributable to acquisition, construction, or improvement of assets ore related debt also should be included in this component of net position.

Restricted Net Position: This component of net position consists of restricted assets and deferred outflows of resources reduced by liabilities and deferred inflows of resources related to those assets. These restrictions could include constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provision or enabling legislation.

Restricted net position as of June 30, 2016 consists of $ 4,334,161 for future capital improvements.

Unrestricted Net Position: This component of net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School District's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance – Governmental Funds

Governmental funds classify fund balance based on the relative strength of the spending constraints placed on the purpose for which resources can be used. The classifications are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact. This classification includes items such as prepaid amounts, inventories, and long term amount of loans and notes receivable. This also includes the corpus (or principal) of permanent funds.

Restricted: This classification includes amounts where the constraints placed on the use of resources are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, change or mandate payment and includes a legally enforceable requirement on the use of these funds.

Committed: This classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the School District's highest level of decision-making authority. This formal action is in the form of a resolution which is made by the School Board. Once an amount is committed, it cannot be used for any other purpose unless changed by the same type of formal action used to initially constrain the funds.

Assigned: This classification includes spendable amounts that are reported in governmental funds other than in the General Fund, that are neither restricted nor committed, and amounts in the General Fund that are intended to be used for a specific purpose. The intent of an assigned fund balance should be expressed by either the School Board, or a subordinate high-level body, such as the finance committee, superintendent, or business manager that is authorized to assign amounts to be used for specific purposes. As detailed in its Fund Balance Policy, the School Board has the authority to make assignments of fund balance. Thus these assignments would be made or changed by formal action of the Board. The assignment of fund balance cannot result in a negative unassigned fund balance.

Unassigned: This classification represents the portion of a spendable fund balance that has not been categorized as restricted, committed, or assigned. The general fund is the only fund which would include a positive unassigned fund balance as all other fund types must categorize amounts within the other classifications. A negative unassigned fund balance may occur in any fund when there is an over expenditure of restricted or committed fund balance. In this case, any assigned fund balance (and assigned fund balance in the general fund) would be eliminated prior to reporting a negative unassigned fund balance.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Minimum Fund Balance Policy

The School District will strive to maintain an unassigned fund balance level in the general fund of between 4% and 8% of budgeted expenditures for that fiscal year. If the unassigned portion of fund balance falls below the 4% threshold, the School District will pursue variations of increasing revenues and decreasing expenditures or a combination of both until a level of 6% is attained.

If the assigned and unassigned portion of fund balance exceeds 8% of budgeted expenditures, the School District may utilize a portion of fund balance by appropriating excess funds for nonrecurring expenditures.

Policy Regarding Order of Spending

When fund balance resources are available for a specific purpose in multiple classifications, the School District's policy is to use restricted resources first and then apply unrestricted resources in the following order: committed, assigned and unassigned. This order of spending may be altered per board approval.

Note 2 Cash and Investments

Section 440.1 of the Pennsylvania School Code and Act 10 of 2016 define allowable investments for school districts, which are summarized as follows:

- U.S. Treasury Bills
- Short-term obligations of the U.S. Government and Federal agencies
- Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation of the National Credit Union Share Insurance Fund to the extent that such accounts are so insured, and, for any amounts above the insured maximum, provided that approved collateral as provided by law 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 respective governmental entity.
- Shares of an investment company restricted under the Investment Company Act of 1940.
- Obligations, participations or other instruments of any Federal agency, instrumentality, or United States government-sponsored enterprise if the debt obligations are rated at least "A" or its equivalent.
- Commercial paper issued by corporations or other business entities organized in accordance with federal or state law, with a maturity not to exceed 270 days.
- Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances, if the bankers' acceptances do not exceed 180 days maturity.
- Negotiable certificates of deposit or other evidences of deposit, with a remaining maturity of three years or less.

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

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. As of June 30, 2016, the School District has a bank balance of $ 3,780,902 (including long-term certificates of deposit of $ 980,000, which are classified as investments in the basic financial statements). Of this balance, $ 1,987,678 is covered by FDIC insurance and the remaining balance of $ 1,925,037 was exposed to custodial credit risk because the collateral securities held by the bank's agents are not in the School District's name.

Pennsylvania Act 72 of 1971, as amended, is an act standardizing the procedures for pledges of assets to secure deposits of public funds with banking institutions pursuant to other laws; establishing a standard rule for the types, amounts and valuations of assets eligible to be used as collateral for deposits of public funds; permitting assets to be pledged against deposits on a pooled basis and authorizing the appointment of custodians to act as the pledger of the assets. Based on the standards outlined in Act 72, the various banks utilized by the School District have, pledged collateral on a pooled basis on behalf of the School District and all other governmental depositors in the respective financial institutions.

Credit Risk - Investments

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

	Carrying Value	Maturities	Standard and Poor's Credit Quality Rating
PA School District Liquid Asset Fund	$ 35,240	(A)	AAAm
PA Local Government Investment Trust I Class	1,759,825	(A)	AAAm
PA Local Government Investment Trust Term	1,100,000	< 1 year	AAAm
Negotiable CD's	4,900,000	< 1 year	Unrated
	$ 7,795,065		

The certificates of deposit were all covered by FDIC insurance.

Included in cash and cash equivalents on the statement of net position are pooled investments in the Pennsylvania School District Liquid Asset Fund (PSDLAF-MAX) of $ 35,240. The PSDLAF-MAX is essentially a mutual fund that consists of short-term money market instruments and seeks to maintain a constant net asset value of $ 1 per share. PSDLAF-MAX deposits are invested by PSDLAF directly in portfolios of securities held by a third party custodian and are collateralized with securities held by the PSDLAF agent in a collateral pool. The School District is exposed to custodial credit risk because the collateral securities held by PSDLAF agents are not in the School District's name.

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Credit Risk – Investments (Continued)

Included in cash and cash equivalents on the statement of net position are investments in Pennsylvania Local Government Investment Trust (PLGIT). PLGIT operates like a money market and seeks to maintain a stable net asset value of $ 1 per share. At June 30, 2016, the School District held $ 1,759,825 in the PLGIT-Class portfolio and $ 1,100,000 in the PLGIT Term portfolio. PLGIT portfolio funds are invested in United States Treasury bills; obligations, participations, or other instruments of any Federal agency, instrumentality or United States government-sponsored enterprise; deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund; obligations guaranteed or insured by the United States of America, obligations of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the Commonwealth; and repurchase agreements involving United States Government and agency obligations.

Investments in PSDLAF and PLGIT are subject to income, market and credit risk related to the potential for decline in current income, the potential for a decline in market value and the potential that an issuer of securities held in the investment portfolios of the fund would fail to make timely payments of principal and interest payments, respectively.

The School District does not have a formal written investment policy that limits its investment choices to certain credit ratings.

Interest Rate Risk - Investments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The School District does not have a formal written investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. See previous table for maturities where applicable.

(A) Investments in Pennsylvania School District Liquid Asset Fund (PSDLAF), Pennsylvania Local Government Investment Trust (PLGIT), and the U. S. Treasury Obligations are not subject to interest rate risk as the funds are accessible on a daily basis and the interest rates change daily based on market conditions.

Policies Followed at PSDLAF

Regulatory Oversight

The operation of PSDLAF is governed by an eleven member Board of Trustees, nine of whom are elected and two of whom serve ex officio. The Trustees have full, exclusive, and absolute control and authority over the business of the Fund and its assets, subject to rights of the Settlors, as provided in the Declaration of Trust.

PSDLAF is not registered with the Securities and Exchange Commission (SEC); however, PSDLAF follows investment procedures similar to those followed by SEC registered money market funds.

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Policies Followed at PSDLAF (Continued)

Regulatory Oversight (Continued)

The School District has no limitations or restrictions on withdrawals on accounts held at PSDLAF.

Policies Followed at PLGIT

Regulatory Oversight

Pennsylvania Local Government Investment Trust (PLGIT) was organized under an instrument of trust on February 1, 1981. An elected board of Trustees is responsible for the overall management of the Trust, including formation and implementation of its investment and operating strategies. The Trust is a non-taxable investment fund established for local governments and school districts in Pennsylvania under provisions of the Pennsylvania Intergovernmental Cooperation Act and related statutes.

The School District has no limitations or restrictions on withdrawals on accounts held at PLGIT.

Valuation of Investments at both PSDLAF and PLGIT

In accordance with the Government Accounting Standards Board, portfolio securities are valued at amortized cost, which approximates market value. The amortized cost method involves valuing a security at its cost on the date of purchase and recording a constant amortization or accretion to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of the investment.

Concentrations of Credit Risk - Investments

The School District places no limit on the amount it may invest in any one issuer. At June 30, 2016, 37% of the School District's investments are invested in PLGIT.

NOTE 3 TAXES

The School District collects property taxes, earned income taxes, and other taxes and fees primarily from taxpayers located in the borough of Mercersburg and Townships of Peters, Montgomery, Warren, and St. Thomas in Franklin County, Pennsylvania.

Real estate taxes are considered fully collectible since liens can be filed on properties.

Property taxes are levied as of July 1 on assessed property values. The tax bills are mailed by the Tax Collectors on August 1 and are payable as follows:

Discount	August 1 - September 30
Face	October 1 – November 30
Penalty	December 1 – December 31

After January 15, the bills are considered delinquent and turned over to the Franklin County Tax Claim Bureau for collection.

NOTE 4 TAXES RECEIVABLE AND DEFERRED INFLOWS OF RESOURCES

Taxes receivable and related deferred inflows of resources in the fund financial statements consist of the following as of June 30, 2016:

Real estate	$ 960,005
Earned income	570,570
Taxes receivable, net	1,530,575
Taxes collected within sixty days, recorded as revenues in governmental funds	(649,880)
Taxes estimated to be collected after sixty days, recorded as deferred inflows of resources - unavailable tax revenue in governmental funds	$ 880,695

NOTE 5 INTERFUND RECEIVABLE AND PAYABLES AND TRANSFERS

Net interfund receivables/payables consist of the following at June 30, 2016:

Funds	Due from Other Funds	Due to Other Funds
General	$ -	$ 2,093,561
Food Service	-	1,880
Capital Reserve	2,095,441	-
	$ 2,095,441	$ 2,095,441

The General Fund owes the Capital Reserve Fund for a transfer authorized after year end. The Food Service Fund owes the General Fund for reimbursements related to purchases made by the General Fund that were not paid back as of June 30, 2016.

Interfund transfers were as follows for the year ended June 30, 2016:

Funds	Transfer In	Transfer Out
General	$ -	$ 2,125,000
Food Service	45,602	-
Capital Reserve	2,125,000	45,602
	$ 2,170,602	$ 2,170,602

For the year ended June 30, 2016, transfers from the General Fund to the Capital Reserve Fund were made to fund various future improvements and acquisitions. There was also a transfer to the Food Service Fund from the Capital Reserve Fund for the purchase of a walk-in freezer.

NOTE 6 INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2016 consist of the following:

Local:	Deed transfer	$ 19,298
	Tuition receivable	125,554
	Other	63,910
State:	Social security	92,013
	Retirement	677,391
	Rental	1,177,972
	Ready to Learn Block Grant	48,917
	Transportation	8,690
	Pre-K program	25,500
Federal:	Various programs	432,837
		$ 2,672,082

NOTE 7 CAPITAL ASSETS

Capital asset activity for the School District consists of the following as of and for the year ended June 30, 2016:

	Beginning Balances	Additions	Retirements	Ending Balances
Governmental Activities				
Cost:				
Assets not being depreciated				
Construction in progress	$ 66,502	$ 1,122,973	$ (117,920)	$ 1,071,555
Assets being depreciated				
Land and improvements	1,768,993	141,031	-	1,910,024
Buildings and building improvements	64,377,607	113,305	-	64,490,912
Furniture, fixtures and equipment	3,711,563	206,047	(5,000)	3,912,610
Total cost	69,924,665	1,583,356	(122,920)	71,385,101
Less accumulated depreciation:				
Land improvements	(243,564)	(41,012)	-	(284,576)
Building and building improvements	(18,952,244)	(1,427,678)	-	(20,379,922)
Furniture, fixtures and equipment	(2,628,766)	(277,108)	3,646	(2,902,228)
Total accumulated depreciation	(21,824,574)	(1,745,798)	3,646	(23,566,726)
Capital assets, net	$ 48,100,091	$ (162,442)	$ (119,274)	$ 47,818,375

	Beginning Balances	Additions	Retirements	Ending Balances
Business-Type Activities				
Cost:				
Machinery and equipment	$ 667,445	$ 62,817	$ -	$ 730,262
Less accumulated depreciation:				
Furniture and equipment	(538,937)	(27,411)	-	(566,348)
Capital assets, net	$ 128,508	$ 35,406	$ -	$ 163,914

NOTE 7 CAPITAL ASSETS (CONTINUED)

Depreciation expense for the year ended June 30, 2016 was charged to governmental functions as follows:

Instruction	$	1,281,697
Instructional student support		137,799
Administrative and financial support services		272,539
Operation and maintenance of plant services		53,763
	$	1,745,798

The construction in progress consists of the following at June 30, 2016:

	Estimated Project Cost		Amount Expended Through June 30, 2016	
St. Thomas Elementary School	$	2,804,374	$	1,071,555

NOTE 8 ACCRUED SALARIES AND BENEFITS

Accrued salaries and benefits consist of the following as of June 30, 2016:

	General Fund	
Accrued salaries	$	1,441,520
Retirement		1,285,034
Social Security		107,855
Workers' Compensation Insurance		13,157
Payroll deductions and withholdings		56,156
	$	2,903,722

NOTE 9 LONG-TERM LIABILITIES

The changes in long-term liabilities during the year ended June 30, 2016 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Long-term Portion
Governmental Activities:						
A) Series of 2011 GO Bonds	$ 4,650,000	$ -	$ (4,650,000)	$ -	$ -	$ -
B) Series of 2011A GO Bonds	9,980,000	-	(5,000)	9,975,000	230,000	9,745,000
C) Series of 2013 GO Bonds	1,890,000	-	(1,030,000)	860,000	860,000	-
D) Series of 2014 GO Bonds	9,995,000	-	(10,000)	9,985,000	95,000	9,890,000
E) Series of 2015 GO Bonds	4,670,000	-	(460,000)	4,210,000	780,000	3,430,000
F) Series of 2015 GO Note	-	4,925,000	(5,000)	4,920,000	35,000	4,885,000
Unamortized bond premium/(discount)	(56,350)	(28,651)	65,835	(19,166)	13,394	(32,560)
G) Suntrust Loan	2,012,136	-	(301,798)	1,710,338	314,487	1,395,851
H) Suntrust Loan	302,251	-	(45,333)	256,918	47,239	209,679
Subtotal - bonds	33,443,037	4,896,349	(6,441,296)	31,898,090	2,375,120	29,522,970
Compensated absences:						
Vacation leave	433,690	175,351	(213,032)	396,009	217,805	178,204
Sick leave	457,449	736,661	(739,403)	454,707	68,206	386,501
Subtotal - compensated absences	891,139	912,012	(952,435)	850,716	286,011	564,705
Retirement incentive	254,351	-	(46,366)	207,985	152,985	55,000
Total governmental activities	$ 34,588,527	$ 5,808,361	$ (7,440,097)	$ 32,956,791	$ 2,814,116	$ 30,142,675
Business-Type Activities:						
Compensated absences:						
Vacation leave	$ 5,051	$ 2,204	$ (1,938)	$ 5,317	$ 2,924	$ 2,393
Sick leave	12,506	5,600	(4,888)	13,218	1,983	11,235
Subtotal - compensated absences	17,557	7,804	(6,826)	18,535	4,907	13,628
Total business-type activities	$ 17,557	$ 7,804	$ (6,826)	$ 18,535	$ 4,907	$ 13,628

Bonds and Notes

The School District uses the General Fund to pay for principal and interest payments related to the bonds and notes.

(A) On April 1, 2011, the School District issued general obligation bonds (Series 2011) in the amount of $ 4,670,000. The proceeds were used to finance various capital projects of the School District and pay the cost of issuing and insuring the bonds. The bonds bear interest at rates ranging from 1.00% to 4.25%. The bonds were refunded during the year ended June 30, 2016, with the issuance of the Series 2015 Note.

(B) On September 29, 2011, the School District issued general obligation bonds (Series 2011A) in the amount of $ 10,000,000. The proceeds were used to currently refund a portion of the general obligation bonds (Series 2005) and pay the cost of issuing and insuring the bonds. The bonds are due in varying amounts on April 1, 2012 to 2024. The bonds bear interest at rates ranging from 1.00% to 3.00%.

(C) On February 5, 2013, the School District issued general obligation bonds (Series 2013) in the amount of $ 4,625,000. The proceeds were used to currently refund the outstanding general obligation bonds (Series 2003) and pay the cost of issuing and insuring the bonds. The bonds are due in varying amounts on April 1, 2013 to 2017. The bonds bear interest at rates ranging from 0.26% to 3.00%.

NOTE 9 LONG-TERM LIABILITIES (CONTINUED)

Bonds and Notes (Continued)

(D) On July 31, 2014, the School District issued general obligation bonds (Series 2014) in the amount of $ 9,995,000. The proceeds were used to advance refund a portion of the 2009 Series general obligation bonds and pay the related costs of issuing the bonds. The bonds are due in varying amounts on April 1, 2016 to 2030. The bonds bear interest at rates ranging from 1.00% to 3.50%.

(E) On February 25, 2015, the School District issued general obligation bonds (Series of 2015) in the amount of $ 4,670,000. The proceeds were used to currently refund a portion of the 2009 Series general obligation bonds and pay the related costs of issuing the bonds. The bonds are due in varying amounts on April 1, 2016 to 2022. The bonds bear interest at rates ranging from 0.57% to 2.00%.

(F) On October 15, 2015, the School District issued the Series of 2015 General Obligation Note in the amount of $ 4,925,000. The proceeds were used to advance refund the outstanding general obligation bonds (Series 2011) and pay the cost of issuing and insuring the bonds. The bonds are due in varying amounts on April 1, 2016 to 2027. The bonds bear interest at a rate of 2.40%. The defeased balance of the 2011 general obligation bonds as of June 30, 2016 is $4,645,000.

As a result of the refunding, the School District will have the following benefits:

(1) Cash flow gain	$ 525,318
(2) Economic gain	$ 460,638

(1) Represents the difference between the cash flows required to service the old debt and the new debt, less bond issue costs.
(2) Represents the difference in present values of the old debt and new debt, less bond issue costs.

On each of the above bond issues (A-F), the School District covenants to pay the debt service on the bonds by including these payments in its annual budget, and pledging its full faith, credit, and taxing power.

(G) During 2004, SunTrust Leasing Corporation loaned $ 4,070,032 to the School District to pay for an energy performance contract. The loan will be repaid over 15 years, which began in August 2006, at an interest rate of 4.2%.

(H) During 2005, SunTrust Leasing Corporation loaned $ 622,275 in additional funds to the School District to pay for an energy performance contract. The loan will be repaid over 15 years, which began in August 2006, at an interest rate of 4.2%.

NOTE 9 LONG-TERM LIABILITIES (CONTINUED)

Subsequent event

On September 9, 2016, the School District issued $ 3,060,000 of General Obligation Bond - Series of 2016 A. The proceeds are to be applied for and toward a project consisting of acquiring, designing, constructing, furnishing and equipping alterations, additions and renovations to the Saint Thomas Elementary School and the James Buchanan Middle School, and other such improvements to the School District's existing school buildings and facilities and to pay the costs of issuance of the Bond.

On September 29, 2016, the School District issued $ 10,000,000 of General Obligation Note - Series of 2016 B. The proceeds were used to currently refund the 2011 A Series general obligation bonds and pay the related costs of issuing the bonds.

The annual debt requirements for future general obligation bonds and notes as of June 30, 2016 are as follows:

Fiscal Year Ended	GO Bonds - 2011A		GO Bonds - 2013		GO Bonds - 2014	
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2017	$ 230,000	$ 258,568	$ 860,000	$ 25,800	$ 95,000	$ 299,675
2018	1,290,000	254,658	-	-	100,000	298,725
2019	1,315,000	228,858	-	-	100,000	297,225
2020	1,360,000	189,408	-	-	105,000	295,725
2021	1,390,000	157,106	-	-	105,000	293,625
2022-2026	4,390,000	252,944	-	-	4,870,000	1,229,288
2027-2030	-	-	-	-	4,610,000	603,525
	$ 9,975,000	$ 1,341,542	$ 860,000	$ 25,800	$ 9,985,000	$ 3,317,788

Fiscal Year Ended	GO Bonds - 2015		GO Note - 2015		SunTrust Leasing Corp. - 2004		SunTrust Leasing Corp. - 2005		Totals	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	$ 780,000	$ 76,200	$ 35,000	$ 118,080	$ 314,487	$ 67,933	$ 47,239	$ 10,208	$ 2,361,726	$ 856,464
2018	795,000	60,600	35,000	117,240	327,710	54,710	49,227	8,221	2,596,937	794,154
2019	805,000	48,675	35,000	116,400	341,488	40,932	51,297	6,151	2,647,785	738,241
2020	820,000	36,600	35,000	115,560	355,846	26,574	53,454	3,993	2,729,300	667,860
2021	840,000	20,200	35,000	114,720	370,807	11,612	55,701	1,745	2,796,508	599,008
2022-2026	170,000	3,400	3,365,000	522,720	-	-	-	-	12,795,000	2,008,352
2027-2030	-	-	1,380,000	105,720	-	-	-	-	5,990,000	709,245
	$ 4,210,000	$ 245,675	$ 4,920,000	$ 1,210,440	$ 1,710,338	$ 201,761	$ 256,918	$ 30,318	$ 31,917,256	$ 6,373,324

Compensated Absences

Compensated absences represent the earned vacation and vested sick pay as of June 30, 2016 for applicable employees. To be eligible for payment, employees must meet the eligibility provisions set by the Public School Employees' Retirement System.

In accordance with the School District's use of the vesting method for recording the sick leave liability, for employees who have vested in PSERS and have reached age 40 as of June 30, 100% of their sick leave balance is accrued. For employees who have not met these thresholds, no sick leave liability is recorded.

NOTE 9 LONG-TERM LIABILITIES (CONTINUED)

Retirement Incentive

In the 2013/2014 fiscal year, a retirement incentive was offered to employees, which offered $ 20,000 being available in increments up to $ 5,000 annually over a four year period, through a health reimbursement account. In addition, employees who accepted the retirement incentive were also required to utilize their sick/personal leave balance through the health reimbursement account. These funds are available to the retired employee for up to 10 years, at which time, the unused balance is no longer available.

Operating Leases

The School District is leasing several printers and postage machines through operating leases with a vendor. Rent expense for the year was $ 77,489. Total future payments are as follows at June 30, 2016:

Operating Lease:		
2017	$	59,485
2018		54,213
2019		54,213
2020		53,588
	$	221,499

NOTE 10 GOVERNMENTAL FUNDS - FUND BALANCE

The following table provides detail of the fund balance classifications which are aggregated on the governmental funds balance sheet:

	General Fund	Capital Reserve Fund	Total Governmental Funds
FUND BALANCES			
Nonspendable:			
Inventories	$ 42,055	$ -	$ 42,055
Restricted for:			
Future capital projects	-	4,334,161	4,334,161
Committed for:			
Future retirement expenses	1,196,064	-	1,196,064
Future increases in utility costs	250,000	-	250,000
	1,446,064	-	1,446,064
Assigned for:			
2016-2017 budgeted use of fund balance	311,570	-	311,570
Unassigned	2,617,386	-	2,617,386
Total fund balances	$ 4,417,075	$ 4,334,161	$ 8,751,236

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The School District has a healthcare plan for retired employees of the School District, which is a single employer defined benefit healthcare plan administered by the School District. The plan provides medical and prescription drug coverage for both the retiree and spouse. To continue coverage upon retirement, the retiree must reimburse the School District 102% of the premium. The coverage shall discontinue when the retiree qualifies for Medicare coverage.

Retirees opting to participate pay a premium amount that is less than the School District's actual cost to provide health care coverage to retirees. The premium amount for retirees is based on a blended rate for covering both active and retired Plan members. The fact that the blended rate that retirees pay is less than the cost of covering retired members and their beneficiaries results in what is known as the "implicit rate subsidy" provided by the School District, which gives rise to the benefit to be recorded under generally accepted accounting principles.

Funding Policy

The contribution requirements of plan members and the School District are established and may be amended by the School District. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined by the School District. For the fiscal year 2015-2016, the School District's estimated contributions were $ 122,796 in the form of additional premiums for active employees based on implicit rates for retired employees to the plan. Plan members receiving benefits also contributed $ 289,604.

Annual OPEB Cost and Net OPEB Obligation

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 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) over a period not to exceed thirty years.

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The following table shows the components of 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 to the plan:

	Governmental Activities
Annual required contribution (ARC)	$ 191,721
Estimated interest on net OPEB obligation	7,558
Estimated adjustment to ARC	(10,312)
Annual OPEB cost	188,967
Estimated employer contributions made	(122,796)
Increase in net OPEB obligation	66,171
Net OPEB obligation - beginning of the year	167,966
Net OPEB obligation - end of the year	$ 234,137

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2016 and the preceding two years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2016	$ 188,967	65%	$ 234,137
2015	$ 189,925	69%	$ 167,966
2014	$ 120,634	84%	$ 109,542

Funded Status of Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the plan had the following funding status and progress:

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
01/01/14	$ -	$ 1,606,182	$ 1,606,182	$ -	$ 13,162,198	12.20%

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include 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 the continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements 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 the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2014 actuarial valuation, the entry age normal cost method was used. The actuarial assumption included a 4.50 percent investment rate of return (net of administrative expenses), annual salary increase of 3.5 percent, and for teachers and administrators a merit increase which varies by age from 2.75 percent to .25 percent, and an annual healthcare cost trend rate of 6.5 percent in 2014, decreasing .5 percent to an ultimate rate of 5.5 percent in 2016. Rates gradually decrease from 5.3% in 2017 to 4.2% in 2089 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. The actuarial value of assets was based on the fair value of assets, of which there are none. The UAAL is being amortized based on a level dollar 30 year open period.

Other Postemployment Benefits – Public School Employees' Retirement System (PSERS)

In addition to the other postemployment benefit detailed above, the Public School Employees' Retirement System (PSERS) also provides a health insurance premium assistance program for all eligible employees, which is a cost-sharing multiple employer defined benefit plan. The PSERS Retirement Board is established by state law as an independent administrative board of the Commonwealth. The plan benefits and contributions are specified in the Pennsylvania Public School Employees' Code. Changes in benefit and contribution provisions must be made by legislation. Pursuant to state law, all legislative bills and amendments proposing to change the plan are to be accompanied with an actuarial note prepared by an enrolled actuary from the Public Employee Retirement Commission providing an estimate of the cost and actuarial effect of the proposed change. Under this program, School District 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. The PSERS issues a publicly available financial report that includes financial statements and required supplementary information that can be obtained from their website at http://www.psers.state.pa.us/.

NOTE 11 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Other Postemployment Benefits – Public School Employees' Retirement System (PSERS) (Continued)

Participating eligible employees 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 employees must obtain their health insurance through the School District. The contribution rate is set at a level necessary to establish reserves sufficient to provide premium assistance for the subsequent fiscal year. The portion of the total contribution rate for the School District and the Commonwealth used to fund the premium assistance was 0.84% for the year ended June 30, 2016.

The information below summarizes the required contributions, the percentage of required contribution contributed and the contribution rate for the current year and two preceding years:

Fiscal Year Ended	Required Contribution	Percentage of Required Contribution Contributed	Contribution Rate
2016	$ 116,960	100.00%	0.84%
2015	$ 120,384	100.00%	0.90%
2014	$ 128,005	100.00%	0.93%

NOTE 12 PENSION PLAN

General Information About the Pension Plan

Plan Description

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

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (C) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35

NOTE 12 PENSION PLAN (CONTINUED)

General Information About the Pension Plan (Continued)

Benefits Provided (Continued)

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 by the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the rights 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 by the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefits 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.

Contributions

Member contributions:

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

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

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

Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

NOTE 12 PENSION PLAN (CONTINUED)

General Information About the Pension Plan (Continued)

Contributions (Continued)

Employer Contributions:

The School District's contractually required contribution rate for fiscal year ended June 30, 2016 was 25.00% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School District were $ 3,480,962 for the year ended June 30, 2016.

State Funding:

The Commonwealth of Pennsylvania generally reimburses the School District for 50% of its retirement expense. This arrangement does not meet the criteria of a special funding situation in accordance with GASB standards. Therefore, the net pension liabilities and related pension expense represent 100% of the School District's share of these amounts. During the year ended June 30, 2016, the School District recognized revenue of $ 2,012,339 as reimbursement for its current year pension payments.

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

At June 30, 2016, the School District reported a liability of $ 46,087,489 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2014 to June 30, 2015. The School District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2015, the School District's proportion was 0.1064 percent, which was a decrease of 0.0035 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the School District recognized pension expense as follows:

Governmental Activities	$ 4,110,762
Business-Type Activities	6,324

NOTE 12 PENSION PLAN (CONTINUED)

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

At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 190,000
Changes in assumptions	-	-
Net difference between projected and actual investment earnings	-	93,471
Changes in proportions - plan	1,226,895	1,187,488
Changes in proportions - governmental activities/business-type activities	7,334	7,334
Difference between employer contributions and proportionate share of total contributions	108,872	-
Contributions subsequent to the measurement date	3,551,231	-
	$ 4,894,332	$ 1,478,293

The deferred outflows of resources related to pension of $ 3,551,231 resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	$ (135,313)
2018	(135,313)
2019	(135,313)
2020	270,747
Total	$ (135,192)

NOTE 12 PENSION PLAN (CONTINUED)

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

Actuarial Assumptions

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

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.50%, includes inflation at 3.00%
- Salary increases – Effective average of 5.50% , which reflects an allowance for inflation of 3.00%, real wage growth of 1%, and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-200 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-200 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

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

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 expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

NOTE 12 PENSION PLAN (CONTINUED)

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

Actuarial Assumptions (Continued)

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

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

Discount Rate

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

NOTE 12 PENSION PLAN (CONTINUED)

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

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50%) or 1-percentage point higher (8.50%) than the current rate:

	1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
District's proportionate share of the net pension liability	$ 56,807,000	$ 46,087,489	$ 37,078,000

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

As of June 30, 2016, the School District had $ 1,285,390 included in accrued wages liability, of which $ 915,730 is for the contractually required contribution for the second quarter of 2016 and $ 369,660 is related to the accrued payroll liability for wages incurred as of June 30, 2016.

NOTE 13 RISK MANAGEMENT

The School District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The School District has purchased commercial insurance to cover general liability, directors' and officers' liability, unemployment compensation and employees' health coverage. For these insured programs there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or three prior years.

NOTE 13 RISK MANAGEMENT (CONTINUED)

Lincoln Benefit Trust

The School District became a member of the Lincoln Benefit Trust during 2011-12. The Trust is a public entity risk pool currently operating as a claims-servicing pool which pays claims for hospital benefits, medical coverage for physicians' services, certain dental coverage, major medical coverage, and certain other benefits submitted by employees of the 20 participating school districts and Lincoln Intermediate Unit. Each participating employer contributes to the trust amounts determined by actuarial principles which will be adequate to cover annual claim costs, operating costs, and reserves sufficient to provide stated benefits. Since each district is responsible for its own risk, additional assessments would be charged to make up any deficiency; thus this functions like a retrospectively rated program.

Because Lincoln Benefit Trust acts as a claim-servicing pool, the School District remains responsible for the economic risk of providing stated benefits to employees. However, claims incurred between $ 150,000 and $ 300,000 are paid from the Trust mini-pool. Claims incurred over $ 300,000 are paid from a stop loss insurance policy purchased by the Trust.

Changes in net position for the School District's account at Lincoln Benefit Trust (based on audited financial statements of Lincoln Benefit Trust) were as follows for the year ended June 30, 2016:

Net position - June 30, 2015	$ 760,160
Contributions and interest income	3,312,790
Stop-loss pool reimbursement	311,547
PA Trust reimbursements	118,427
Claims paid	(3,291,405)
Stop-loss insurance	(182,221)
Minipool premium	(73,202)
Administrative fees	(146,444)
Other	(3,405)
Net position - June 30, 2016	$ 806,247

Overall, the Lincoln Benefit Trust has net position of $ 89,793,144 as of June 30, 2016 and showed an increase in net position of $ 3,779,251 for the year ended. Financial statements of the Trust are available at the School District.

The School District self-insures a portion of its workers' compensation insurance through the School District Insurance Consortium (SDIC). The School District must maintain a retention account and must cover approximately the first $ 20,000 of claims. At June 30, 2016 the balance in the retention account was $ 149. Actual claims paid by SDIC on behalf of Tuscarora School District in 2015/2016 were $ 36,137. There were no significant unpaid claims or estimated claims incurred but not reported that would exceed insurance coverage at June 30, 2016.

The School District also utilizes a "claims-based" funding plan for vision benefits. Under this plan, the School District pays the insurance company based on actual claims paid, or in essence, self-insures.

NOTE 13 RISK MANAGEMENT (CONTINUED)

Changes in the vision benefits claims liability amounts for the year ended June 30, 2016 was:

Year Ended June 30	Liability Beginning	Current Year Expense	Payments	Liability Ending
2016	$ 1,242	$ 24,305	$ 25,220	$ 327

All expenditures for the School District's risk management are recorded in the general fund or food service fund.

NOTE 14 AFFILIATES

Payments to fund the operating costs of affiliated entities for 2015/2016 were as follows:

Franklin County Career and Technology Center	$ 497,959
Franklin Learning Center	97,191
	$ 595,150

During the year ended June 30, 2011, the Franklin County Career and Technology Center issued a note in the amount $ 2,360,000 to refinance a previous note that was issued for building improvements. The Center also issued bonds during that year in the amount of $ 14,090,000 to finance building additions and renovations. Each member district adopted resolutions approving the project and the related debt issues and is responsible for their individual share of the Center's debt. Under the Articles of Agreement, each member district's share of rental (debt) payments is based on the district's ratio of market valuation of real estate to the total market valuation of real estate of all participating school districts. The Tuscarora School District's share of rental payments for 2015/2016 was $ 136,089. Based on the latest market valuation available, Tuscarora's School District's share is 11.32%, which represents $ 1,554,236 of the outstanding debt of the Tech Center as of June 30, 2016.

NOTE 15 COMMITMENTS AND CONTINGENCIES

The School District is subject to real estate tax assessment appeals on an ongoing basis. If tax appeals are successful, the result is a loss of tax revenue to the School District. It is anticipated that any material loss of tax revenue on individual tax appeals will be offset with additional revenues from other properties or other sources of revenue and would not create a financial hardship to the School District.

At times, the School District is involved with various lawsuits in the normal course of operations. Management cannot predict the outcome of the lawsuits or estimate the amount of any loss that may result. Accordingly, no provision for any contingent liabilities that may result have been made in the financial statements. Management believes that losses resulting from these matters, if any, would be substantially covered under the School District's professional liability insurance policy and would not have a material effect on the financial position of the School District.

NOTE 15 COMMITMENTS AND CONTINGENCIES (CONTINUED)

The School District participates in numerous state and federal programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School District has not complied with rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2016 may be impaired. In the opinion of the School District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

The School District entered into a contract for the service and maintenance of a chiller in the amount of $ 115,000, none of which was incurred as of June 30, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
01/01/14	$ -	$ 1,606,182	$ 1,606,182	$ -	$ 13,162,198	12.20%
01/01/12	-	1,117,349	1,117,349	-	12,927,208	8.64%
01/01/10	-	1,647,267	1,647,267	-	13,049,040	12.62%

TUSCARORA SCHOOL DISTRICT
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2016

	BUDGET ORIGINAL	BUDGET FINAL	ACTUAL (BUDGETARY/ GAAP BASIS)	VARIANCE WITH FINAL BUDGET
REVENUES				
Local Sources				
Taxes	$ 18,970,968	$ 18,970,968	$ 19,179,864	$ 208,896
Investment earnings	35,000	35,000	23,488	(11,512)
Federal revenue from intermediate sources	390,684	390,684	359,066	(31,618)
Other	82,572	82,572	253,468	170,896
State sources	15,249,334	15,249,334	15,864,916	615,582
Federal sources	517,291	517,291	536,990	19,699
Total revenues	35,245,849	35,245,849	36,217,792	971,943
EXPENDITURES				
INSTRUCTION				
Regular programs	15,455,451	15,431,371	14,723,934	707,437
Special programs	3,837,260	3,837,118	3,356,365	480,753
Vocational education programs	634,960	634,960	657,374	(22,414)
Other instructional programs	676,231	677,529	747,554	(70,025)
Total Instruction	20,603,902	20,580,978	19,485,227	1,095,751
SUPPORT SERVICES				
Pupil personnel	1,131,561	1,132,469	1,143,283	(10,814)
Instructional staff	1,029,653	1,028,290	1,455,689	(427,399)
Administration	1,867,652	1,865,235	2,111,840	(246,605)
Pupil health	422,091	422,091	426,997	(4,906)
Business	405,005	405,005	467,028	(62,023)
Operation and maintenance of plant	2,957,123	2,957,123	2,893,053	64,070
Student transportation	2,418,193	2,418,193	2,136,969	281,224
Central	556,570	567,690	626,797	(59,107)
Other support services	24,852	24,852	25,635	(783)
Total support services	$ 10,812,700	$ 10,820,948	$ 11,287,291	$ (466,343)

	BUDGET ORIGINAL	BUDGET FINAL	ACTUAL (BUDGETARY/ GAAP BASIS)	VARIANCE WITH FINAL BUDGET
OPERATION OF NONINSTRUCTIONAL SERVICES				
Student activities	$ 59,150	$ 73,826	$ 93,164	($ 19,338)
School sponsored athletics	504,153	504,153	543,468	(39,315)
Community services	68,922	68,922	91,331	(22,409)
Total operation of noninstructional services	632,225	646,901	727,963	(81,062)
FACILITIES ACQUISITION AND CONSTRUCTION				
Improvements	224,700	224,700	96,624	128,076
DEBT SERVICE				
Principal	1,949,900	1,949,900	1,857,131	92,769
Interest	962,246	962,246	1,106,544	(144,298)
Total debt service	2,912,146	2,912,146	2,963,675	(51,529)
Total expenditures	35,185,673	35,185,673	34,560,780	624,893
OTHER FINANCING SOURCES (USES)				
Issuance of long term financing	-	-	4,925,000	4,925,000
Payment to refund bonds	-	-	(4,650,000)	(4,650,000)
Interfund transfers	(60,176)	(60,176)	(2,125,000)	(2,064,824)
Total other financing sources (uses)	(60,176)	(60,176)	(1,850,000)	(1,789,824)
Net change in fund balances	$ -	$ -	(192,988)	($ 192,988)
Fund balance - beginning			4,610,063	
Fund balance - ending			$ 4,417,075	

Schedule of School District's Proportionate Share of Net Pension Liability - Public School Employees' Retirement System

Last 10 Fiscal Years

For the Fiscal Year Ended June 30	School District's Proportion of the Net Pension Liability (Asset)	School District's Proportionate Share of the Net Pension Liability (Asset)	School District's Covered Payroll - measurement period	School District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.1064%	$ 46,087,489	$ 13,687,902	336.70%	54.36%
2015	0.1099%	$ 43,499,208	$ 14,025,860	310.14%	57.24%

NOTES

The amounts presented for each fiscal year were determined as of the measurement period year-end that was used for the fiscal year. For PSERS, the measurement period year-end is one year prior to the fiscal year-end.

This schedule will be expanded to show 10 fiscal years once information becomes available in the future.

Schedule of School District's Contributions - Public School Employees' Retirement System
Last 10 Fiscal Years

For the Fiscal Year Ended June 30	Contractually Required Contribution	Contributions in Relation to the Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll - Fiscal Year	Contributions as a Percentage of Covered Employee Payroll
2016	$ 3,480,962	$ 3,480,962	$ -	$ 14,168,300	24.57%
2015	$ 2,742,071	$ 2,742,071	$ -	$ 13,687,902	20.03%
2014	$ 2,202,237	$ 2,202,237	$ -	$ 14,025,860	15.70%

NOTES

This schedule will be expanded to show 10 fiscal years once information becomes available in the future.

OTHER SUPPLEMENTARY INFORMATION

TUSCARORA SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Grantor Program Title	Source Code	Federal CFDA Number	Pass Through Grantor's Number	Grant Period Beginning/ Ending Date	Program or Award Amount	Total Received for the Year	Receivable (Payable) July 1, 2015	Revenue Recognized	Expenditures Recognized	Receivable (Payable) June 30, 2016	Total Passed-Through to Subrecipients
U.S. Department of Education											
Passed through the Pennsylvania Department of Education											
ESEA Title I	I	84.010	013-15-0437	7/1/14-9/30/15	$ 414,254	$ 144,176	$ 144,176	$ -	$ -	$ -	$ -
ESEA Title I	I	84.010	013-16-0437	7/1/15-9/30/16	394,773	263,944	-	354,321	354,321	90,377	-
Total Title I						408,120	144,176	354,321	354,321	90,377	-
Title II - Improving Teacher Quality	I	84.367	020-15-0437	7/1/14-9/30/15	101,581	72,524	311	67,393	67,393	(4,820)	-
Title II - Improving Teacher Quality	I	84.367	020-16-0437	7/1/15-9/30/16	101,702	67,256	-	90,854	90,854	23,598	-
Total Title II						139,780	311	158,247	158,247	18,778	-
Total passed through Pennsylvania Department of Education						547,900	144,487	512,568	512,568	109,155	-
Passed through Lincoln Intermediate Unit											
Special Education Cluster (IDEA)											
I.D.E.A.	I	84.027	N/A	7/1/15-6/30/16	355,230	35,384	-	355,230	355,230	319,846	-
I.D.E.A. - Preschool	I	84.173	N/A	7/1/15-6/30/16	3,836	-	-	3,836	3,836	3,836	-
Total Special Education Cluster						35,384	-	359,066	359,066	323,682	-
Total U.S. Department of Education						**583,284**	**144,487**	**871,634**	**871,634**	**432,837**	**-**
U.S. Department of Agriculture											
Passed through Pennsylvania Department of Education											
School Breakfast Program	I	10.553	N/A	7/1/14-6/30/15	N/A	15,156	15,156	-	-	-	-
School Breakfast Program	I	10.553	N/A	7/1/15-6/30/16	N/A	99,988	-	114,106	114,106	14,118	-
Total School Breakfast Program						115,144	15,156	114,106	114,106	14,118	-
Summer Food Program	I	10.559	N/A	7/1/14-6/30/15	N/A	2,150	2,150	-	-	-	-
Summer Food Program	I	10.559	N/A	7/1/15-6/30/16	N/A	6,552	-	10,152	10,152	3,600	-
Total Summer Food Program						8,702	2,150	10,152	10,152	3,600	-
National School Lunch Program - cash	I	10.555	N/A	7/1/14-6/30/15	N/A	66,778	66,778	-	-	-	-
National School Lunch Program - cash	I	10.555	N/A	7/1/15-6/30/16	N/A	427,047	-	484,129	484,129	57,082	-
Passed through Pennsylvania Department of Agriculture											
National School Lunch Program - commodities	I(B)	10.555	N/A	7/1/15-6/30/16	N/A	89,757	-	89,757	89,757	-	-
Total National School Lunch Program						583,582	66,778	573,886	573,886	57,082	-
Total Child Nutrition Cluster						707,428	84,084	698,144	698,144	74,800	-
Total U.S. Department of Agriculture						**707,428**	**84,084**	**698,144**	**698,144**	**74,800**	**-**
Total Federal Expenditures						**$ 1,290,712**	**$ 228,571**	**$ 1,569,778**	**$ 1,569,778**	**$ 507,637**	**$ -**

NOTE 1 REFERENCES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

(I) Indirect funding

(B) Based on USDA valuation

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The schedule of expenditures of federal awards is presented using the modified accrual basis in accordance with accounting principles prescribed by the Pennsylvania Department of Education, which conform to generally accepted governmental accounting principles. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable. Revenues designated for payment of specific School District expenditures are recognized when the related expenditures are incurred. Any excess of revenues or expenditures at the fiscal year end is recorded as a liability or a receivable, respectively.

Indirect Cost Rate

The School District has not elected to use the 10% de minimus indirect cost rate for its federal programs.

Smith Elliott Kearns & Company, LLC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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
Tuscarora School District
Mercersburg, Pennsylvania

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Tuscarora School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Tuscarora School District's basic financial statements, and have issued our report thereon dated February 8, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
February 8, 2017

Smith Elliott Kearns & Company, LLC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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

Board of Directors
Tuscarora School District
Mercersburg, Pennsylvania

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

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

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
February 8, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	**Unmodified**	
Internal control over financial reporting:		
• Material weakness(es) identified?	☐ Yes	☒ No
• Significant deficiencies identified?	☐ Yes	☒ None Reported
Noncompliance material to financial statements noted?	☐ Yes	☒ No

Federal Awards

Internal control over major programs:		
• Material weakness(es) identified?	☐ Yes	☒ No
• Significant deficiencies identified?	☐ Yes	☒ None Reported
Type of auditor's report issued on compliance for the major programs:	**Unmodified**	
• Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516?	☐ Yes	☒ No

Identification of the major programs:

CFDA Number(s)	Name of Federal Program
	Child Nutrition Cluster:
10.553	National School Breakfast Program
10.555	National School Lunch Program - Cash
10.555	National School Lunch Program - Commodities
10.559	Summer Food Program

Dollar threshold used to distinguish between type A and type B programs	$ 750,000	
Auditee qualified as low-risk auditee?	☐ Yes	☒ No

Section II - Financial Statement Findings

A. Material Weaknesses or Significant Deficiencies in Internal Control

None noted

B. Compliance Findings

None noted

Section III - Federal Award Findings and Questioned Costs

B. Internal Control Over Compliance Findings

None noted

C. Compliance Findings

None noted

Finding 2015-001 – Lack of Rental Reimbursement Submissions

Condition: We noted that during the 2014/2015 fiscal year, there were debt payments made for which the rental reimbursement submission was not completed and remitted to the State. In addition, there was an audit adjustment required to properly account for the amounts owed to the School District as of June 30, 2015.

Status: Corrective action was taken. There were no findings related to this matter identified in the current year.