

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
FINANCIAL STATEMENTS AND SINGLE AUDIT REPORTS
FOR THE YEAR ENDED JUNE 30, 2017

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INDEPENDENT AUDITORS' REPORT

Board of School Directors
Loyalsock Township School District
Williamsport, Pennsylvania:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Loyalsock Township School District (District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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, and each major fund of the District as of June 30, 2017, 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 page 5, budgetary comparison schedule - General Fund on page 41, schedule of funding progress - other postemployment benefits on page 42, schedule of the District's proportionate share of the net pension liability on page 43, and schedule of District contributions on page 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Larson, Kellett & Associates, P.C.

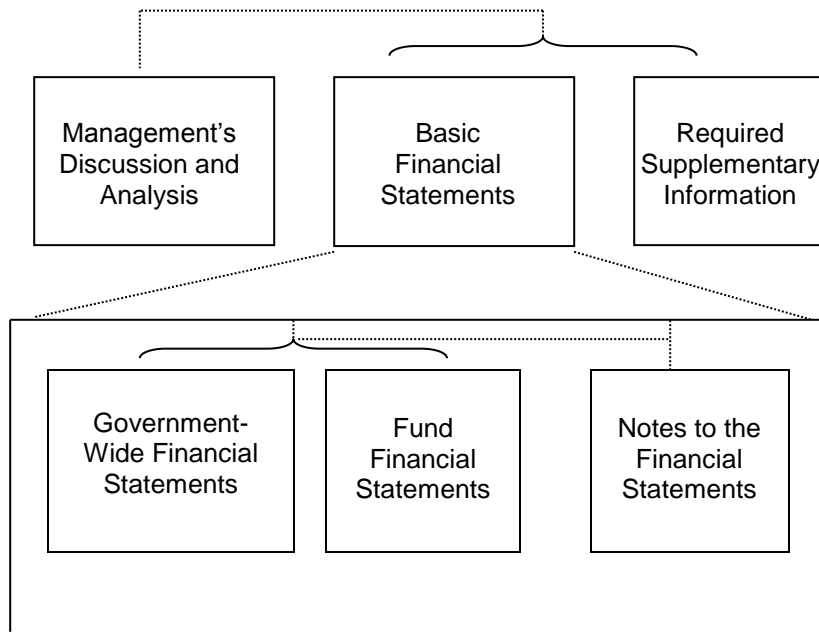
Montoursville, Pennsylvania
January 4, 2018

**LOYALSOCK TOWNSHIP SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

The Management's Discussion and Analysis (MD&A) of the Loyalsock Township School District's (District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2017. The intent of the MD&A is to provide user-friendly insight into management's analysis of the District's financial performance as a whole. Readers should also review the independent auditors' report, notes to the basic financial statements, and financial statements to increase their understanding of the District's financial performance.

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

**FIGURE A-1
Required Components of
LOYALSOCK TOWNSHIP SCHOOL DISTRICT'S
Financial Report**



**LOYALSOCK TOWNSHIP SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2017**

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

Figure A-2
Major Features of Loyalsock Township School District's
Government-Wide and Fund Financial Statements

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

**LOYALSOCK TOWNSHIP SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2017**

Analysis of Overall Financial Position and Results of Operations Over the Past Fiscal Year

Governmental Activities – On **June 30, 2017**, the District's total net position from governmental activities was \$(9,980,372). At year end, the District's total net position of Governmental Activities decreased by approximately \$201,500 from the previous year end.

The District continued to experience increases in the costs for regular instruction, healthcare, retirement and special education instruction. Healthcare increases and projected retirement rate increases to the Pennsylvania School Employees Retirement System (PSERS) continue to be a long term concern for the District. The Board of School Directors was able to balance the budget by increasing real estate taxes as the final millage rate increased to 14.17 mills, (\$14.17 on each \$1,000 assessment) to the taxpayers.

Business - Type Activities - Food Service had total net position of \$(151,133) as of **June 30, 2017**. At year end, the District's total net position of the business-type activities decreased by approximately \$47,000 from the previous year end.

- The General Fund did not make any transfers to the Food Service Fund.

Table 1 summarizes the assets, liabilities, and net assets of the District at **June 30, 2017**, and June 30, 2016

	2017			2016		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Assets						
Current & other assets	\$ 11,362,453	\$ 459,538	\$ 11,821,991	\$ 11,269,772	\$ 453,806	\$ 11,723,578
Capital assets, net	30,685,664	249,186	30,934,850	30,893,198	267,005	31,160,203
Total assets	<u>\$ 42,048,117</u>	<u>\$ 708,724</u>	<u>\$ 42,756,841</u>	<u>\$ 42,162,970</u>	<u>\$ 720,811</u>	<u>\$ 42,883,781</u>
Deferred outflows of resources	\$ 7,201,177	\$ 192,515	\$ 7,393,692	\$ 3,737,786	\$ 87,920	\$ 3,825,706
Liabilities						
Current liabilities	\$ 4,634,277	\$ 34,970	\$ 4,669,247	\$ 4,136,872	\$ 31,224	\$ 4,168,096
Long-term liabilities	54,218,394	1,006,541	55,224,935	51,181,729	870,897	52,052,626
Total liabilities	<u>\$ 58,852,671</u>	<u>\$ 1,041,511</u>	<u>\$ 59,894,182</u>	<u>\$ 55,318,601</u>	<u>\$ 902,121</u>	<u>\$ 56,220,722</u>
Deferred outflows of resources	\$ 376,995	\$ 10,861	\$ 387,856	\$ 361,032	\$ 10,400	\$ 371,432
Net Position						
Invested in capital assets net of related debt	\$ 10,616,020	\$ 249,186	\$ 10,865,206	\$ 9,456,109	\$ 267,005	\$ 9,723,114
Restricted for other purposes	1,479,140		1,479,140	2,392,057		2,392,057
Unrestricted	(22,075,532)	(400,319)	(22,475,851)	(21,627,043)	(370,795)	(21,997,838)
Total net position	<u>\$ (9,980,372)</u>	<u>\$ (151,133)</u>	<u>\$ (10,131,505)</u>	<u>\$ (9,778,877)</u>	<u>\$ (103,790)</u>	<u>\$ (9,882,667)</u>

**LOYALSOCK TOWNSHIP SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2017**

Table 2 summarizes the revenues, expenses, and changes in net position of the District for the years ended **June 30, 2017** and 2016.

	2017			2016		
	Governmental Activities	Business - Type Activities	Total	Governmental Activities	Business - Type Activities	Total
Program Revenues:						
Charges for services	\$ 237,862	\$ 462,507	\$ 700,369	\$ 258,584	\$ 461,922	\$ 720,506
Operating grants and contributions	4,163,020	517,758	4,680,778	3,122,452	490,960	3,613,412
Capital grants and contributions						-
General Revenues:						
Property taxes	10,371,282		10,371,282	10,105,971		10,105,971
Other taxes levied	4,134,854		4,134,854	4,337,851		4,337,851
Grants and entitlements	3,463,127		3,463,127	3,333,449		3,333,449
Investment earnings	37,530	1,211	38,741	27,798	915	28,713
Miscellaneous	37,837		37,837	44,485		44,485
Total Revenues	22,445,512	981,476	23,426,988	21,230,590	953,797	22,184,387
Program Expenses:						
Instruction	13,480,727		13,480,727	12,561,044		12,561,044
Support Services:						
Instructional student support	2,049,344		2,049,344	2,080,234		2,080,234
Administrative and financial	2,405,008		2,405,008	2,335,106		2,335,106
Operation and maintenance	2,948,015		2,948,015	2,975,517		2,975,517
Pupil transportation	515,467		515,467	490,559		490,559
Community services	85,157		85,157	86,817		86,817
Student activities	571,409		571,409	480,084		480,084
Depreciation, unallocated	22,410		22,410	29,909		29,909
Interest on long-term debt	600,902		600,902	612,387		612,387
Food service		1,025,717	1,025,717		1,017,417	1,017,417
Total Expenses	22,678,439	1,025,717	23,704,156	21,651,657	1,017,417	22,669,074
Excess (deficiency) before transfers	(232,927)	(44,241)	(277,168)	(421,067)	(63,620)	(484,687)
Interfund transfers and capital contributions						
Gain (loss) on sale of capital assets	31,432	(3,102)	28,330	15,646		15,646
Change in Net Position	\$ (201,495)	\$ (47,343)	\$ (248,838)	\$ (405,421)	\$ (63,620)	\$ (469,041)

**LOYALSOCK TOWNSHIP SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2017**

Budgetary Variances

- ◆ Total General Fund Revenues and other financing sources exceeded the final budgeted revenues by \$1,666,733 or 7.83%.
 - Budgetary estimates differed in the following areas:
 - Local revenues - The revenue from local sources exceeded the final budget by approximately \$680,000. Budget estimates vary in the following areas:
 - Real Estate Taxes – approximately \$136,000 over budget as new construction increased our total taxes collected.
 - Earned Income Taxes – this amount exceeded our budget estimate by approximately \$132,500 as the economy and employment are steady and have been bolstered by the additions of businesses within Loyalsock Township. Additionally, the collector continued to work diligently to ensure that all municipalities received funds due and reduced the backlog of distribution of funds.
 - Real Estate Transfer Taxes – approximately \$214,500 over budget mainly due to a nursing home being sold during the 2016-2017 fiscal year.
 - State revenues - The Revenue from state sources was more than the final budget by approximately \$514,000. Budget estimates vary in the following areas:
 - Section 1305 & 1306 – resulted in increased revenues of approximately \$10,000 over the final budget.
 - Basic Instruction Subsidy – the state increased the District's final allocation after the final budget was approved which resulted in an increase of approximately \$115,000.
 - Transportation Subsidy Payments – resulted in increased revenues of approximately \$11,000 over the final budget.
 - Social Security & Retirement Payments – was less than our final budget by approximately \$30,000. This was due to retirements and hiring of new employees.
 - Ready to Learn Block Grant – it was unclear whether or not the state would support this program when our final budget was approved. Therefore the District did not budget any revenue for this grant. Upon the adoption of the state's 2016-2017 budget, the state chose to support this program resulting in revenues of \$164,160.
 - Rent and Sinking Fund Payments – due to the state budget impasse in 2015-2016, the rent and sinking fund payments for that year were delayed until 2016-2017 which resulted in an increase of approximately \$346,000.
 - Federal revenues - The Revenue from federal sources was less than our final budget by approximately \$59,000 as a result of an unanticipated decrease in med assistance money.
- ◆ Total General Fund Expenditures and Other Financing Uses exceeded the final budgeted expenditures by \$483,302 or 2.22 %.

**LOYALSOCK TOWNSHIP SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2017**

- The District entered into a lease with Apple Computer in 2015. The total cost of the lease was \$217,940 and \$72,647 of the expenditure was recorded for the capitalized equipment. The lease will end in 2017-2018.
- The District entered into another lease with Apple Computer in 2016. The total cost of the lease was \$466,914 and \$158,576 was paid in the current year. The lease will end in 2018-2019.
- The majority of the variances in expenditures occurred in the salary and benefits portion of the District's budget. Salaries and benefits are approximately 69% of the District's expenditures.

Significant Capital Activity

During the **2016-2017** school year, the District had the following capital activity:

- ◆ The District purchased two used school buses at a total cost of \$137,982.
- ◆ The District purchased new server and Ethernet switches at a total cost of \$29,959.
- ◆ The District purchased a new PA System at a total cost of \$11,263.
- ◆ Renovations were completed at the high school office at a cost of \$11,600.
- ◆ A maintenance building at the high school/middle school complex was completed at a cost of \$428,530. The project was financed through a 2014 issued bond.
- ◆ During the 2017-2018 school year, the District will continue to evaluate the need for capital projects. The District plans to complete the improvements to the existing bus garage currently located at the high school/middle school complex. The District will also buy new equipment for the high school/middle school auditorium. The District will use the remaining 2014 issued bond to finance both of these projects.
- ◆ During the 2016-2017 school year, the District will continue the lease agreement for its property located at 1720 Sycamore Road, Montoursville, PA 17754 with a gas and oil company and will continue to generate an additional \$156,450 in revenue.

Currently Known Facts, Decisions or Conditions:

Governmental Activities - The District approved a budget that will increase taxes for the 2017-2018 school year. The real estate millage will increase to 14.42 The District continues to benefit from growth and refinancing of bond issues during times of historically low interest rates. The Loyalsock Township School District continues to be financially stable and the Board of Education and administration continue to provide quality education to our students at an affordable cost to our taxpayers.

The District has settled a contract with the professional staff through June 30, 2018 and our support staff contract has been ratified and is in place through June 30, 2021.

The Public School Employees Retirement System (PSERS) continues to project increased rates in employer contributions over the next several years. The District contributed a rate of 30.03% for the 2016-2017 school year. The rate for the 2017-2018 school year is 32.57%. The rate increases for future years have the potential for a significant impact on the Loyalsock Township School District and all schools in the Commonwealth of Pennsylvania. The District has prepared for the rate increases and has currently committed \$2,595,000 of fund balance for future retirement rate expenditures.

**LOYALSOCK TOWNSHIP SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2017**

Other than those issues listed in the MD&A or in the notes to the basic financial statements, there are no facts currently known to management that would materially impact the financial statements either favorably or unfavorably at this time.

Contacting The District Financial Management

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the District's finances and show the Board and administration's accountability for the money it receives. If you have questions regarding this report or wish to request additional financial information, please contact Dan Egly, Business Manager, Loyalsock Township School District, 1605 Four Mile Drive, Williamsport, PA, 17701. (570) 326-6508.

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
GOVERNMENT-WIDE
STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 8,715,312	\$ 442,941	\$ 9,158,253
Investments	1,255,382		1,255,382
Taxes receivable, net	266,829		266,829
Due from other governments	908,786	13,689	922,475
Inventories		2,908	2,908
Other receivables	5,165		5,165
Prepaid expenses	<u>210,979</u>		<u>210,979</u>
Total current assets	<u>11,362,453</u>	<u>459,538</u>	<u>11,821,991</u>
NONCURRENT ASSETS,			
Capital assets, net	<u>30,685,664</u>	<u>249,186</u>	<u>30,934,850</u>
TOTAL ASSETS	<u>\$ 42,048,117</u>	<u>\$ 708,724</u>	<u>\$ 42,756,841</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred loss on refunding debt, net	\$ 518,200		\$ 518,200
Pension changes of assumptions	1,258,895	\$ 36,265	1,295,160
Pension net difference between projected and actual investment earnings	1,944,122	56,004	2,000,126
Pension changes in proportions	826,394	23,806	850,200
Pension contributions subsequent to the measurement date	<u>2,653,566</u>	<u>76,440</u>	<u>2,730,006</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 7,201,177</u>	<u>\$ 192,515</u>	<u>\$ 7,393,692</u>
LIABILITIES:			
CURRENT LIABILITIES:			
Internal balances	\$ (14,446)	\$ 14,446	
Due to other governments	180,190		\$ 180,190
Accounts payable	187,890	956	188,846
Accrued salaries and benefits	2,108,635	3,561	2,112,196
Accrued interest	94,165		94,165
Payroll deductions and withholdings	7,243		7,243
Current portion of noncurrent liabilities	2,028,720	577	2,029,297
Unearned revenue	21,540	15,430	36,970
Other current liabilities	<u>20,340</u>		<u>20,340</u>
Total current liabilities	<u>4,634,277</u>	<u>34,970</u>	<u>4,669,247</u>
NONCURRENT LIABILITIES:			
Bonds payable, net	18,279,695		18,279,695
Capital leases, net	185,267	1,928	187,195
Net other postemployment benefit obligation	879,044		879,044
Net pension liability	<u>34,874,388</u>	<u>1,004,613</u>	<u>35,879,001</u>
Total noncurrent liabilities	<u>54,218,394</u>	<u>1,006,541</u>	<u>55,224,935</u>
TOTAL LIABILITIES	<u>\$ 58,852,671</u>	<u>\$ 1,041,511</u>	<u>\$ 59,894,182</u>
DEFERRED INFLOWS OF RESOURCES:			
Pension difference between employer contributions and proportionate share of total contributions	\$ 86,173	\$ 2,483	\$ 88,656
Pension difference between expected and actual experience	<u>290,822</u>	<u>8,378</u>	<u>299,200</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 376,995</u>	<u>\$ 10,861</u>	<u>\$ 387,856</u>
NET POSITION:			
Invested in capital assets, net of related debt	\$ 10,616,020	\$ 249,186	\$ 10,865,206
Restricted for capital projects	1,479,140		1,479,140
Unrestricted	<u>(22,075,532)</u>	<u>(400,319)</u>	<u>(22,475,851)</u>
TOTAL NET POSITION	<u>\$ (9,980,372)</u>	<u>\$ (151,133)</u>	<u>\$ (10,131,505)</u>

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES:						
Instruction	\$13,480,727	\$ 24,281	\$ 2,439,823	\$(11,016,623)		\$(11,016,623)
Instructional student support	2,049,344		498,481	(1,550,863)		(1,550,863)
Administrative and financial support	2,405,008		245,132	(2,159,876)		(2,159,876)
Operation and maintenance of plant services	2,948,015	156,450	91,085	(2,700,480)		(2,700,480)
Pupil transportation	515,467		170,792	(344,675)		(344,675)
Student activities	571,409	54,600	41,300	(475,509)		(475,509)
Community services	85,157	2,531	5,644	(76,982)		(76,982)
Interest on long-term debt	600,902		670,763	69,861		69,861
Depreciation, unallocated *	<u>22,410</u>			<u>(22,410)</u>		<u>(22,410)</u>
Total governmental activities	22,678,439	237,862	4,163,020	(18,277,557)		(18,277,557)
BUSINESS-TYPE ACTIVITIES,						
Food service	<u>1,025,717</u>	<u>462,507</u>	<u>517,758</u>		\$ (45,452)	<u>(45,452)</u>
TOTAL	<u>\$23,704,156</u>	<u>\$700,369</u>	<u>\$4,680,778</u>	<u>(18,277,557)</u>	<u>(45,452)</u>	<u>(18,323,009)</u>
GENERAL REVENUES AND SPECIAL ITEMS:						
Property taxes, levied for general purposes, net				10,371,282		10,371,282
Other taxes levied, net				4,134,854		4,134,854
Grants and entitlements not restricted to specific programs				3,463,127		3,463,127
Investment earnings				37,530	1,211	38,741
Miscellaneous income				37,837		37,837
Gain (loss) on sale of capital assets				<u>31,432</u>	<u>(3,102)</u>	<u>28,330</u>
Total general revenues and special items				<u>18,076,062</u>	<u>(1,891)</u>	<u>18,074,171</u>
CHANGE IN NET POSITION				(201,495)	(47,343)	(248,838)
NET POSITION, BEGINNING				<u>(9,778,877)</u>	<u>(103,790)</u>	<u>(9,882,667)</u>
NET POSITION, ENDING				<u>\$ (9,980,372)</u>	<u>\$(151,133)</u>	<u>\$(10,131,505)</u>

* This amount excludes the depreciation that is included in the direct expenses of the functions presented.

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
ASSETS:				
Cash and cash equivalents	\$ 7,126,358	\$ 1,588,954		\$ 8,715,312
Investments	1,255,382			1,255,382
Taxes receivable, net	266,829			266,829
Due from other funds	67,784			67,784
Due from other governments	908,786			908,786
Prepaid expenses	210,979			210,979
Other receivables	<u>5,165</u>			<u>5,165</u>
TOTAL ASSETS	<u>\$ 9,841,283</u>	<u>\$ 1,588,954</u>	<u>\$</u>	<u>\$11,430,237</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:				
LIABILITIES:				
Due to other funds	\$ 53,338			\$ 53,338
Due to other governments	180,190			180,190
Accounts payable	78,076	\$ 109,814		187,890
Accrued salaries and benefits	2,108,635			2,108,635
Payroll deductions and withholdings	7,243			7,243
Unearned revenue	21,540			21,540
Other current liabilities	<u>20,340</u>			<u>20,340</u>
Total liabilities	<u>2,469,362</u>	<u>109,814</u>		<u>2,579,176</u>
DEFERRED INFLOWS OF RESOURCES,				
Unavailable revenue - delinquent property taxes	<u>222,298</u>			<u>222,298</u>
FUND BALANCES:				
Nonspendable	210,979			210,979
Restricted by law or regulation		1,479,140		1,479,140
Committed	2,995,000			2,995,000
Assigned	666,889			666,889
Unassigned	<u>3,276,755</u>			<u>3,276,755</u>
Total fund balances	<u>7,149,623</u>	<u>1,479,140</u>		<u>8,628,763</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 9,841,283</u>	<u>\$ 1,588,954</u>	<u>\$</u>	<u>\$11,430,237</u>

See Notes to the Basic Financial Statements

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2017

TOTAL GOVERNMENTAL FUND BALANCES \$ 8,628,763

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

These assets consist of:

Land	1,197,275
Buildings, building improvements and land improvements	42,923,309
Furniture and equipment	10,173,743
Construction in progress	510,205
Accumulated depreciation	(24,118,868)

Deferred losses on refunding bonds are not current financial resources, and therefore, are not reported in the governmental funds balance sheet. 518,200

Noncurrent liabilities are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet.

These liabilities consist of:

Accrued interest	(94,165)
Capital leases	(418,987)
Bonds payable in future years, net	(20,074,695)
Net other postemployment benefit obligation	(879,044)
Net pension liability	(34,874,388)

Deferred inflows and outflows of resources related to pensions are not current financial resources, and therefore are not reported in the governmental funds balance sheet.

These deferrals consist of:

Pension changes in proportions	826,394
Pension contributions subsequent to the measurement date	2,653,566
Pension changes of assumptions	1,258,895
Pension net difference between projected and actual investment earnings	1,944,122
Pension difference between expected and actual experience	(290,822)
Pension difference between employer contributions and proportionate share of total contributions	(86,173)

Some of the District's revenues will be collected after year end but are not available soon enough to pay for the current period's expenditures, and therefore, are deferred in the governmental funds balance sheet. 222,298

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (9,980,372)

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUES:				
Local sources	\$15,168,599	\$ 8,921		\$15,177,520
State sources	6,892,401			6,892,401
Federal sources	<u>373,909</u>			<u>373,909</u>
Total revenues	<u>22,434,909</u>	<u>8,921</u>		<u>22,443,830</u>
EXPENDITURES:				
Instruction	12,774,246	3,316		12,777,562
Support services	6,199,651	202,463		6,402,114
Noninstructional services	636,917			636,917
Capital outlay		869,768		869,768
Debt service (principal and interest)	<u>246,705</u>		<u>\$ 2,215,938</u>	<u>2,462,643</u>
Total expenditures	<u>19,857,519</u>	<u>1,075,547</u>	<u>2,215,938</u>	<u>23,149,004</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>2,577,390</u>	<u>(1,066,626)</u>	<u>(2,215,938)</u>	<u>(705,174)</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	34,495			34,495
Interfund transfers in		150,000	2,215,938	2,365,938
Interfund transfers out	(2,365,938)			(2,365,938)
Proceeds from extended term financing	494,299			494,299
Refund of prior year expenditures	<u>3,286</u>	<u>3,709</u>		<u>6,995</u>
Total other financing sources (uses)	<u>(1,833,858)</u>	<u>153,709</u>	<u>2,215,938</u>	<u>535,789</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	743,532	(912,917)		(169,385)
FUND BALANCES, BEGINNING	<u>6,406,091</u>	<u>2,392,057</u>		<u>8,798,148</u>
FUND BALANCES, ENDING	<u>\$ 7,149,623</u>	<u>\$ 1,479,140</u>	<u>\$</u>	<u>\$ 8,628,763</u>

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT
OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (169,385)

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays, net of deletions in the current period. (207,534)

Because some property taxes will not be collected for several months after the District's fiscal year end, they are not considered as "available" revenues in the governmental funds. (5,313)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 1,617,192

Repayment of capital lease principal is an expenditure in the governmental funds; however, capital leases entered into during the year increase long-term liabilities and the repayment reduces long-term liabilities in the statement of net position. (256,795)

In the statement of activities, certain operating expenses - compensated absences (vacations and sick leave) and special termination benefits (early retirement) - are measured by the amounts earned during the year. In the governmental funds; however, expenditures for these items are measured by the amount of the financial resources used (essentially, the amounts actually paid). (52,317)

In the statement of activities, certain operating expenses - pension related costs - are measured by the amounts earned during the year. In the governmental funds; however, expenditures for these items are measured by the amount of the financial resources used (essentially, the amounts actually paid) (1,134,388)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 7,045

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (201,495)

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2017

	Food Service Fund
ASSETS:	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 442,941
Due from other funds	53,338
Due from other governments	13,689
Inventories	<u>2,908</u>
Total current assets	<u>512,876</u>
NONCURRENT ASSETS,	
Capital assets, net	<u>249,186</u>
TOTAL ASSETS	<u>\$ 762,062</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Pension changes in proportions	\$ 23,806
Pension changes of assumptions	36,265
Pension contributions subsequent to the measurement date	76,440
Pension net difference between projected and actual investment earnings	<u>56,004</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 192,515</u>
LIABILITIES:	
CURRENT LIABILITIES:	
Accrued salaries and benefits	\$ 3,561
Accounts payable	956
Current portion of noncurrent liabilities	577
Due to other funds	67,784
Unearned revenue	<u>15,430</u>
Total current liabilities	<u>88,308</u>
NONCURRENT LIABILITIES:	
Capital lease, net	1,928
Net pension liability	<u>1,004,613</u>
Total noncurrent liabilities	<u>1,006,541</u>
TOTAL LIABILITIES	<u>\$ 1,094,849</u>
DEFERRED INFLOWS OF RESOURCES:	
Pension difference between employer contributions and proportionate share of total contributions	\$ 2,483
Pension difference between expected and actual experience	<u>8,378</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 10,861</u>
NET POSITION:	
Invested in capital assets, net of related debt	\$ 249,186
Unrestricted	<u>(400,319)</u>
TOTAL NET POSITION	<u>\$ (151,133)</u>

See Notes to the Basic Financial Statements

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGE IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Food Service Fund
OPERATING REVENUES, Food service revenue	<u>\$ 462,507</u>
OPERATING EXPENSES:	
Salaries	285,217
Employee benefits	194,793
Purchased property services	4,047
Other purchased services	1,863
Supplies	489,140
Depreciation	49,641
Dues and fees	729
Interest	<u>287</u>
Total operating expenses	<u>1,025,717</u>
OPERATING LOSS	<u>(563,210)</u>
NONOPERATING REVENUES (EXPENSES):	
Earnings on investments	1,211
State subsidies	75,866
Federal subsidies	441,892
Loss on sale of assets	<u>(3,102)</u>
Total nonoperating revenues (expenses)	<u>515,867</u>
CHANGE IN NET POSITION	(47,343)
NET POSITION, BEGINNING	<u>(103,790)</u>
NET POSITION, ENDING	<u>\$ (151,133)</u>

See Notes to the Basic Financial Statements

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Food Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from users	\$ 462,364
Payments to suppliers for goods and services	(433,257)
Payments to employees	(441,372)
Payments for other operating expenditures	<u>(36)</u>
Net cash used by operating activities	<u>(412,301)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
State sources	71,780
Federal sources	<u>381,026</u>
Net cash provided by noncapital financing activities	<u>452,806</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of equipment	(34,924)
Repayment of obligations under capital leases	<u>(521)</u>
Net cash used by capital and related financing activities	<u>(35,445)</u>
CASH PROVIDED BY INVESTING ACTIVITIES,	
Earnings on investments	<u>1,211</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	6,271
CASH AND CASH EQUIVALENTS, BEGINNING	<u>436,670</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 442,941</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating loss	\$ (563,210)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	49,641
Amortization	23,616
Donated commodities	58,176
Change in:	
Other receivable	(2,626)
Inventories	2,649
Pension deferred outflows of resources	(131,882)
Accounts payable	10,275
Accrued salaries and benefits	2,532
Unearned revenue	(1,825)
Net pension liability	136,221
Pension deferred inflows of resources	<u>4,132</u>
Total adjustments	<u>150,909</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (412,301)</u>
NONCASH NONCAPITAL FINANCING ACTIVITIES,	
The District received \$58,176 of food commodities.	

See Notes to the Basic Financial Statements

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017

	Scholarship Trust Funds	Agency Funds
ASSETS,		
Cash and cash equivalents	<u>\$ 65,424</u>	<u>\$ 88,986</u>
LIABILITIES AND NET POSITION:		
LIABILITIES:		
Due to student groups		\$ 87,625
Accounts payable	_____	<u>1,361</u>
Total liabilities	_____	<u>88,986</u>
NET POSITION,		
Restricted for scholarships	<u>\$ 65,424</u>	_____
TOTAL LIABILITIES AND NET POSITION	<u>\$ 65,424</u>	<u>\$ 88,986</u>

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Scholarship Trust Funds
ADDITIONS:	
Gifts and contributions	\$ 8,020
Investment income	<u>122</u>
Total additions	<u>8,142</u>
DEDUCTIONS,	
Scholarships awarded	<u>6,900</u>
CHANGE IN NET POSITION	1,242
NET POSITION, BEGINNING	<u>64,182</u>
NET POSITION, ENDING	<u><u>\$65,424</u></u>

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

1. SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Loyalsock Township School District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the District's accounting policies are described below.

Reporting Entity

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The criterion for including a potential component unit within the reporting entity is the significance of their operational or financial relationship with the District. Based upon the application of this criterion, the reporting entity will consist solely of the accounts and funds of the District.

Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain 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 District are grouped into the categories governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

These are the funds through which most governmental functions typically are financed. The funds included in this category are as follows:

General Fund

This fund is used to account for and report all financial resources not accounted for and reported in another fund. The fund balance is available for any purpose provided it is expended or transferred according to the general laws of Pennsylvania.

Capital Projects Fund

This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Debt Service Fund

This fund is used to account for resources that are restricted, committed, or assigned to expenditure for principal and interest.

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

PROPRIETARY FUND

Enterprise Fund

This fund (food service fund) is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

FIDUCIARY FUNDS

Trust and Agency Funds

These funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Basis of Presentation and Accounting

Government-Wide Financial Statements

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

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. 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. 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 revenues as soon as all eligibility requirements imposed by the provider have been met.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for the business-type activity of the District and for each function or program of the 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 for 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 District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or government function is self-financing or draws from the general revenues of the District.

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements

Fund financial statements report detailed information about the District. The focus of governmental and proprietary 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 applicable, 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 funds are accounted for 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 District considers delinquent real estate taxes and derived tax revenues to be available if they are collected within 60 days and 30 days of the end of the fiscal period, respectively. Unearned revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and revenue is recognized. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except expenditures for debt service, prepaid expenses, and other long-term obligations, which are recognized when paid. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and deferred inflows of resources, 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.

The proprietary fund is accounted for using the accrual basis of accounting and the flow of all economic resources (measurement focus). This basis of accounting and measurement focus emphasizes the measurement of net income similar to the approach used by commercial enterprises, and revenues are recorded when earned and expenses are recorded when incurred. With this measurement focus, all assets and liabilities associated with the operation of this fund are included on the statement of net position. The statement of changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating revenues and expenses which generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contracted services, supplies, utilities and depreciation on capital assets.

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary funds are reported using the economic resources measurement focus.

Budgetary Procedures and Budgetary Accounting

An operating budget is adopted in each year for the general fund on the modified accrual basis of accounting.

At the fund level, actual expenses cannot exceed budgeted appropriations; however, with proper approval of the Board, budgetary transfers can be made. The budgetary comparison schedule presented in this report reflects the final budget authorization, including all amendments and budgetary transfers.

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

- The District, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year.
- The District is required to publish notice by advertisement, at least once, in two newspapers of general circulation in the municipality in which it is located, and within fifteen days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative office of the District.
- The Board 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.
- Fund balances in budgetary funds may be appropriated based on resolutions passed by the Board, which authorized the District to make expenditures. Appropriations lapse at the end of the fiscal period. In order to preserve a portion of an appropriation for which an expenditure has been committed by a purchase order, contract or other form of commitment, an encumbrance is recorded. Encumbrances outstanding at year-end are reported as reservations of fund balances.
- Included in the general fund budget are program budgets as prescribed by the state and federal agencies funding the program. These budgets are approved on a program by program basis by the state or federal funding agency.
- Capital budgets are not established for capital improvements and capital projects in the capital projects fund. Additionally, all transactions of the capital projects fund are approved by the Board prior to commitment, thereby constructively achieving budgetary control.
- The District does not adopt a formal budget for the proprietary fund and debt service fund.

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. As of June 30, 2017, the District had no outstanding encumbrances. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the fund financial statements. A reserve for encumbrances is not reported on the government-wide financial statements.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and liquid asset funds (Pennsylvania Local Government Investment Trust), carried at cost.

The District pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash account is available to meet current operating requirements.

Investments

Investments held in governmental funds consist of certificates of deposit stated at cost which approximates fair value. For purposes of determining realized gain or loss on sale, the cost of securities sold is determined by using the specific identification method.

The District categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs (See Note 3).

Interfund Receivables and Payables

During the course of operations, transactions may occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the governmental funds balance sheet. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Prepaid Expenses

Prepaid expenses represent payments made by the District in the current year to provide services occurring in the subsequent fiscal year.

Inventories

Proprietary fund food inventories of \$2,908 include \$213 of food commodities donated by the federal government, which are valued at fair value. All other food or supply inventories are valued at the lower of cost (first-in, first-out method) or fair value and are expensed as consumed.

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Transactions Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both governmental and proprietary funds.

Taxes Receivable

Taxes receivable are reported at their gross value and, where appropriate, are reduced by the estimated portion expected to be uncollectible. Taxes which become payable during fiscal year 2017 and are uncollected as of June 30, 2017 are recorded as taxes receivable in the government-wide financial statements, net of amounts estimated to be uncollectible. Management estimates the adequacy of the allowance for uncollectible taxes receivable based upon the historical experience in collecting these taxes. There was no allowance for uncollectible taxes receivable as of June 30, 2017.

Capital Assets

Capital assets, which includes land and improvements, buildings and building improvements, furniture and equipment and construction in progress are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. The District defines capital assets as assets which have an original cost of \$1,500 or more and an estimated useful life in excess of one year. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	20 years
Buildings and building improvements	20-50 years
Furniture and equipment	5-20 years

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 activities' and business-type activities' statement of net position. Bonds payable are reported net of the applicable bond premium or discount. Prepaid bond insurance is expensed over the life of the related debt. Other bond issuance costs are expensed in the period incurred.

In the fund financial statements, governmental funds 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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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Leasing

The District leases equipment under capital lease arrangements (See Note 9).

Bond Premium, Discount and Amortization

The discount recognized upon the issuance of the 2012A and 2014 bonds are being amortized utilizing the straight-line method, over the life of the bonds. The premiums recognized upon the issuance of the 2011, 2012B, and 2015 bonds are being amortized utilizing the straight-line method, over the life of the bonds. The net discount has been capitalized and included in bonds payable in the accompanying statement of net position. The net discount included in amortization expense included in the statement of activities amounted to \$49,156 for the year ended June 30, 2017.

Loss on Refinancing and Amortization

The loss recognized on the refinancing of 2001, 2002, 2007 and 2010 bond series is being amortized utilizing the straight-line method over the life of the bonds. The loss has been capitalized as a deferred outflow of resources in the accompanying statement of net position. Amortization expense included in the statement of activities amounted to \$146,964 for the year ended June 30, 2017.

Fund Equity

In the governmental fund financial statements, the fund balance amounts are classified based on the level of constraint placed upon funds, as follows:

- *Nonspendable* - fund balance that cannot be spent because it is not in spendable form such as inventories, prepaids and long-term loans and notes receivable (unless the proceeds are restricted, committed, or assigned).
- *Restricted* - fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* - fund balance includes amounts that can be used only for the specific purposes determined by formal action of the Board of School Directors.
- *Assigned* - fund balance includes amounts intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. The finance committee of the Board of School Directors has the authority to assign a fund balance.
- *Unassigned* - fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

Unrestricted net position for proprietary funds represent the net position available for future distribution.

The District has not adopted a minimum fund balance policy.

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Fund Balance Flow Assumptions

The District's policy is to first apply restricted fund balance, then committed, assigned, and unassigned, respectively when an expenditure is incurred for purposes for which amounts in any of these classifications could be used.

Net Position

In the government-wide financial statements, net position represents assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings or deferred inflows of resources used for the acquisition, construction or improvement of those assets and increased by any related deferred outflows of resources.

Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When the District incurs an expense for which it may use either restricted or unrestricted net position, it uses restricted net position first unless unrestricted net position will have to be returned because it was not used.

Pensions

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

Deferred Inflows/Outflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources, as appropriate. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will *not* be recognized as an outflow of resources (i.e. expense) until then.

In addition to liabilities, the governmental funds' balance sheet reports a separate section for deferred inflows of resources, as appropriate. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of resources that applies to future periods and so will *not* be recognized as an inflow of resources (i.e. revenue) until that time.

Net Position Flow Assumptions

Sometimes the District will fund outlays for a particular purpose for both restricted and unrestricted resources. It is the District's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
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Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The District's financial instruments consist of cash and cash equivalents, investments, taxes and other receivables, accounts payable and noncurrent liabilities. The carrying value of these financial instruments approximates their fair values at June 30, 2017.

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.

2. CASH AND CASH EQUIVALENTS:

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk.

As of June 30, 2017, \$8,671,852 of the District's bank balance of \$9,421,852 was exposed to custodial credit risk as follows:

Collateralized with securities held by the pledging financial institution	<u>\$8,671,852</u>
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Reconciliation to Financial Statements

Collateralized with securities held by the pledging financial institution amount above	\$ 8,671,852
Plus insured amount	750,000
Plus deposits in transit	3,684
Less outstanding checks	<u>(97,327)</u>
Carrying amount	9,328,209
Plus petty cash	1,369
Plus pooled cash equivalents in:	
General Fund	163,740
Capital Projects Fund	1,074,698
Food Service Fund	29
Less certificates of deposit considered investments by school code	<u>(1,255,382)</u>
Total cash and cash equivalents per financial statements	<u>\$ 9,312,663</u>

3. INVESTMENTS:

State statutes authorize the District to invest in obligations of the U. S. treasury, agencies and instrumentalities of the U. S. government, deposits in savings accounts,

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
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certificates of deposit, and the Pennsylvania Local Government Investment Trust (PLGIT).

Pennsylvania Act 10 of 2016 became effective May 25, 2016 and expanded the permitted investment types to include commercial paper, bankers' acceptances, negotiable certificates of deposit, and insured bank deposit reciprocals as long as certain safeguards related to credit quality and maturity are met.

As of June 30, 2017, investments consist of the following:

<u>Description</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Certificates of deposit	6-18 months	\$1,255,382		\$1,255,382	
PLGIT	N/A	<u>1,242,152</u>	_____	<u>1,242,152</u>	_____
Total		<u>\$2,497,534</u>	\$ _____	<u>\$2,497,534</u>	\$ _____

PLGIT is a common law trust organized to provide Pennsylvania school districts with a convenient method of pooling their cash for temporary investment. PLGIT functions similar to a money market fund, seeking to maintain a net asset value of \$1 per share. Shares may be withdrawn at any time. Portfolio securities are valued at amortized cost, which approximates fair value as of June 30, 2017. PLGIT may invest in any securities authorized by Section 440.1 of the Pennsylvania School Code. All investments in an external investment pool that is not SEC-registered are subject to oversight by the Commonwealth of Pennsylvania.

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The District does not have a formal investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2017, the investments were rated as follows:

<u>Description</u>	<u>Standard & Poor's</u>
PLGIT	AAA

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer. The District has no investments subject to concentration of credit risk.

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Custodial Credit Risk

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

Reconciliation to Financial Statements

Total investments above	\$ 2,497,534
Less deposits in investment pool considered cash equivalents	<u>(1,242,152)</u>
Total investments per financial statements	<u>\$ 1,255,382</u>

4. REAL ESTATE TAXES:

The tax on real estate, as levied by the School Board, was 14.17 mills (\$14.17 per \$1,000 of assessed valuation) for fiscal year 2017. The original assessed value at July 1, 2016, upon which the 2017 levy was based, was \$758,832,040. Assessed valuations of property are determined by Lycoming County and the elected tax collectors are responsible for collection. The schedule for real estate taxes levied for each fiscal year is as follows:

July 1	Levy Date
July 1 - August 31	2% Discount Period
September 1 - October 31	Face Payment Period
November 1 - December 31	10% Penalty Period
January 1	Lien Date

Current tax collections for the year ended June 30, 2017 were 97.08% of the tax levy. Estimated collectible delinquent real estate taxes at June 30, 2017 amounted to \$266,829.

5. INTERFUND BALANCES:

As of June 30, 2017, interfund receivables and payables that resulted from various interfund transactions were as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 67,784	\$ 53,338
Food Service Fund	<u>53,338</u>	<u>67,784</u>
Total	<u>\$121,122</u>	<u>\$121,122</u>

6. DUE FROM OTHER GOVERNMENTS:

Amounts due from other governments represent receivables for revenues earned by the District or collections made by another governmental unit on behalf of the District. At June 30, 2017, the following amounts are due from other governments:

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
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	<u>General Fund</u>	<u>Proprietary Fund</u>	<u>Total</u>
Federal	\$ 59,744	\$13,034	\$ 72,778
State	427,925	655	428,580
Local	<u>421,117</u>	<u> </u>	<u>421,117</u>
Total	<u>\$908,786</u>	<u>\$13,689</u>	<u>\$922,475</u>

7. CAPITAL ASSETS:

A summary of changes in capital assets is as follows:

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>
<u>GOVERNMENTAL ACTIVITIES:</u>				
Capital assets, not being depreciated:				
Land	\$ 1,197,275			\$ 1,197,275
Construction in progress	<u>92,212</u>	<u>\$ 846,523</u>	<u>\$(428,530)</u>	<u>510,205</u>
Total capital assets, not being depreciated	<u>1,289,487</u>	<u>846,523</u>	<u>(428,530)</u>	<u>1,707,480</u>
Capital assets, being depreciated:				
Buildings, building improvements and land improvements	42,471,534	451,775		42,923,309
Furniture and equipment	<u>9,668,762</u>	<u>743,091</u>	<u>(238,110)</u>	<u>10,173,743</u>
Total capital assets, being depreciated	<u>52,140,296</u>	<u>1,194,866</u>	<u>(238,110)</u>	<u>53,097,052</u>
Less accumulated depreciation:				
Buildings, building improvements and land improvements	(14,395,936)	(1,249,900)		(15,645,836)
Furniture and equipment	<u>(8,140,649)</u>	<u>(567,430)</u>	<u>235,047</u>	<u>(8,473,032)</u>
Total accumulated depreciation	<u>(22,536,585)</u>	<u>(1,817,330)</u>	<u>235,047</u>	<u>(24,118,868)</u>
Total capital assets, being depreciated, net	<u>29,603,711</u>	<u>(622,464)</u>	<u>(3,063)</u>	<u>28,978,184</u>
Governmental activities capital assets, net	<u>\$ 30,893,198</u>	<u>\$ 224,059</u>	<u>\$(431,593)</u>	<u>\$ 30,685,664</u>
<u>BUSINESS-TYPE ACTIVITIES:</u>				
Capital assets, being depreciated:				
Furniture and equipment	\$ 805,869	\$ 34,924	\$ (16,386)	\$ 824,407
Accumulated depreciation	<u>(538,864)</u>	<u>(49,641)</u>	<u>13,284</u>	<u>(575,221)</u>
Total capital assets, being depreciated, net	<u>267,005</u>	<u>(14,717)</u>	<u>(3,102)</u>	<u>249,186</u>
Business-type activities capital assets, net	<u>\$ 267,005</u>	<u>\$ (14,717)</u>	<u>\$ (3,102)</u>	<u>\$ 249,186</u>

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Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 378,490
Instructional student support	85,142
Administrative and financial support	28,803
Operation and maintenance of plant services	1,219,916
Pupil transportation	82,569
Depreciation, unallocated	<u>22,410</u>
 Total	 <u>\$1,817,330</u>

8. COMPENSATED ABSENCES:

Vacation

District employees who are required to work on a twelve-month schedule are credited with vacation at rates which vary with length of service or job classification. Vacation may be taken or accumulated within certain limits and is paid prior to retirement or termination at the employee's current rate of pay. At June 30, 2017, the liability for compensated absences related to vacation payable was \$58,555. This liability has been recorded in accrued salaries and benefits in the government-wide and general fund financial statements.

Sick Leave and Personal Leave

Most District employees are credited with twelve sick days and three personal leave days annually. However, the accumulation of sick days and personal days is not compensated upon termination or retirement.

9. NONCURRENT LIABILITIES:

The following is a summary of changes in governmental and business-type activities noncurrent liabilities for the year ended June 30, 2017:

	Balance June 30, <u>2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Amortization</u>	Balance June 30, <u>2017</u>	Amount Due in <u>One Year</u>
Governmental Activities, General obligation bonds payable	\$21,825,000		\$1,715,000		\$20,110,000	\$1,795,000
Plus net deferred bond premium (discount)	<u>13,851</u>			<u>\$49,156</u>	<u>(35,305)</u>	
Total	21,838,851		1,715,000	49,156	20,074,695	1,795,000
Capital leases	162,192	\$ 494,299	237,504		418,987	233,720
OPEB obligation	826,727	126,994	74,677		879,044	
Net pension liability	<u>30,145,608</u>	<u>4,728,780</u>			<u>34,874,388</u>	
Total	<u>\$52,973,378</u>	<u>\$5,350,073</u>	<u>\$2,027,181</u>	<u>\$ 49,156</u>	<u>\$56,247,114</u>	<u>\$2,028,720</u>

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	Balance June 30, 2016	<u>Additions</u>	<u>Retirements</u>	<u>Amortization</u>	Balance June 30, 2017	Amount Due in One Year
Business-Type Activities, Capital lease	\$ 3,026		\$ 521		\$ 2,505	\$ 577
Net pension liability	<u>868,392</u>	<u>\$ 136,221</u>	<u> </u>	<u> </u>	<u>1,004,613</u>	<u> </u>
Total	<u>\$ 871,418</u>	<u>\$ 136,221</u>	<u>\$ 521</u>	<u>\$ </u>	<u>\$ 1,007,118</u>	<u>\$ 577</u>

General obligation bonds payable at June 30, 2017 are comprised of the following:

Series of 2011, due in varying installments through November 2017, with interest rates at 5.0% per annum.	\$ 855,000
Series A of 2012, due in varying installments through April 2024, with interest rates ranging from 2.0% to 2.5% per annum.	7,340,000
Series B of 2012, due in varying installments through November 2019, with interest rates at 2.0% per annum.	4,605,000
Series of 2014, due in varying installments through May 2027, with interest rates ranging from 2.0% to 2.55% per annum.	5,185,000
Series of 2015, due in varying installments through November 2020, with interest rates at 2.0% per annum.	<u>2,125,000</u>
Total	20,110,000
Less amount due in one year	1,795,000
Less deferred bond discount, net	<u>35,305</u>
Noncurrent portion of general obligation bonds payable	<u>\$18,279,695</u>

The annual requirements to amortize general obligation bonds payable at June 30, 2017 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,795,000	\$ 448,938	\$ 2,243,938
2019	1,945,000	399,113	2,344,113
2020	2,150,000	359,863	2,509,863
2021	2,240,000	316,413	2,556,413
2022	2,285,000	290,920	2,575,920
2023 - 2027	<u>9,695,000</u>	<u>632,270</u>	<u>10,327,270</u>
Total	<u>\$20,110,000</u>	<u>\$2,447,517</u>	<u>\$22,557,517</u>

The District leases equipment under the terms of capital leases. The economic substance of the leases is that the District is financing the acquisition of the equipment through these leases. The following is an analysis of equipment leased under capital leases included in capital assets as of June 30, 2017:

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	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Equipment	\$ 736,626	\$3,148
Accumulated depreciation	<u>(316,001)</u>	<u>(787)</u>
Equipment, net	<u>\$ 420,625</u>	<u>\$2,361</u>

The following is a schedule of the future minimum lease payments under these capital leases and the present value of the net minimum lease payments at June 30, 2017:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2018	\$245,567	\$ 808
2019	170,018	808
2020	11,442	808
2021	10,521	605
2022	<u>4,706</u>	<u> </u>
Total	442,254	3,029
Less amounts representing interest	<u>23,267</u>	<u>524</u>
Present value of future minimum lease payments	<u>\$418,987</u>	<u>\$2,505</u>

The interest rates on the capitalized leases range from 1.9% to 26.41% and are imputed based on the lessor's implicit rate of return.

The total interest expense related to the governmental activities general obligation bonds and capital leases for the year ended June 30, 2017 amounted to \$600,902. No interest expense was capitalized during the year ended June 30, 2017.

10. OTHER POSTEMPLOYMENT BENEFITS (OPEB):

Plan Description

The District provides postretirement healthcare benefits for teachers and administrative employees who retire with at least 35 years of public school service in Pennsylvania or 30 years of public school service in Pennsylvania and have attained the age of 60 or 1 year of public service in Pennsylvania and have attained the age of 62, up to age 65. Certain employees also shall have completed 15 years of service with the District. The cost of such medical, prescription drug, vision, dental and life insurance coverage for retirees and spouses is determined by the contract provisions at the time of retirement. The plan provides post-retirement medical, prescription drug, dental, vision and life insurance benefits. The plan is unfunded and no financial report is prepared. These benefits are accounted for in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Retired professional employees who are ineligible under the above requirements and choose to participate in the medical plan must pay 100% of the composite rate cost of such coverage.

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Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the Board of School Directors. The plan is funded on a pay-as-you-go basis, i.e. premiums are paid annually to fund the health care benefits provided to current retirees. Retiree contribution rates and amounts vary depending on classification and years of service with the District. The District paid premiums of approximately \$34,000 for the fiscal year ended June 30, 2017. Total retiree contributions made by plan members were approximately \$150,000 for the fiscal year ended June 30, 2017.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following show the components of the District's annual OPEB cost for the year, the amount contributed to the plan, and changes in the District's net OPEB obligation:

ARC	\$ 203,528
Interest on net OPEB obligation (Estimated)	37,203
Adjustment to ARC (Estimated)	<u>(113,737)</u>
Annual OPEB cost (expense)	126,994
Contributions made (estimated)	<u>(74,677)</u>
Increase in net OPEB obligation	52,317
Net OPEB obligation at July 1, 2016	<u>826,727</u>
Net OPEB obligation at June 30, 2017	<u>\$ 879,044</u>

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Contributions</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2017	<u>\$126,994</u>	<u>\$ 74,677</u>	<u>58.80%</u>	<u>\$879,044</u>
June 30, 2016	<u>\$216,930</u>	<u>\$103,026</u>	<u>47.49%</u>	<u>\$826,727</u>
June 30, 2015	<u>\$226,365</u>	<u>\$ 95,776</u>	<u>42.31%</u>	<u>\$712,823</u>

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2016, the most recent actuarial valuation date, was as follows:

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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.pa.gov.

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 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

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

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

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

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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 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions

The school districts' contractually required contribution rate for fiscal year ended June 30, 2017 was 29.2% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$2,730,006 for the year ended June 30, 2017.

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

At June 30, 2017, the District reported a liability of \$35,879,001 for its proportionate share of the net pension liability in the government-wide statement of net position. The net pension liability was measured as of June 30, 2016, 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, 2015 to June 30, 2016. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2016, the District's proportion was 0.0724%, which was an increase of 0.0008% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense in the government-wide statement of activities as follows:

Governmental activities	\$3,787,380
Business-type activities	<u>109,101</u>
Total	<u>\$3,896,481</u>

At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience		\$299,200
Changes in assumptions	\$1,295,160	

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings	\$2,000,126	
Changes in proportion	850,200	
Difference between employer contributions and proportionate share of total contributions		\$ 88,656
Contributions subsequent to the measurement date	<u>2,730,006</u>	<u> </u>
Total	<u>\$6,875,492</u>	<u>\$387,856</u>

\$2,730,006, reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. 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:

2018	\$ 843,748
2019	843,743
2020	1,238,460
2021	831,679

Changes in Actuarial Assumptions

The total pension liability as of June 30, 2016 was determined by rolling forward the System's total pension liability as of June 30, 2015 to June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

- The investment rate of return was adjusted from - 7.50% to 7.25%
- The inflation assumption was decreased from 3.00% to 2.75%
- Salary growth changed from an effective 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an effective average of 5.00%, comprised of inflation at 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females were modified to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

The actuarial assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the five-year period ending June 30, 2015. The recommended assumption changes based on this experience study were adopted by the PSERS Board of Directors at its June 10, 2016 Board meeting, and were effective beginning with the June 30, 2016 actuarial valuation.

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

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

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

Asset Class:	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global public equity	22.5%	5.3%
Fixed income	28.5%	2.1%
Commodities	8.0%	2.5%
Absolute return	10.0%	3.3%
Risk parity	10.0%	3.9%
Infrastructure/MLPs	5.0%	4.8%
Real estate	12.0%	4.0%
Alternative investments	15.0%	6.6%
Cash	3.0%	0.2%
Financing (LIBOR)	<u>(14.0)%</u>	0.5%
Total	<u>100%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2016.

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

discount rate that is 1-percentage point lower (6.25%) or a 1-percentage-point higher (8.25%) than the current rate:

	1% Decrease <u>6.25%</u>	Discount Rate <u>7.25%</u>	1% Increase <u>8.25%</u>
District's proportionate share of the net pension liability (in thousands)	\$43,890	\$35,879	\$29,148

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.pa.gov.

12. SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK:

The District's operations are located in Loyalsock Township, Pennsylvania. Its service area is located within the geographic boundaries of the District. The District assesses taxpayers, within its service area, based upon taxing powers at its disposal. The ability of each of the District's taxpayers to honor their assessed obligations to the District is dependent upon economic and other factors affecting the taxpayers.

13. CONTINGENCIES:

Grants

The District participates in both state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The District is potentially liable for any expenditures which may be disallowed pursuant to the terms of these grant programs. It is the opinion of management that requests for reimbursements, if any, by either state or federal governments based on subsequent audits will not be material in relation to the District's financial statements as of June 30, 2017.

Litigation

The District is subject to claims arising out of its normal operations. In the opinion of management, after review and consultation with counsel, any proceedings that may be assessed will not have a material adverse effect on the financial position of the District or results of its operations.

Risk Management

The District is exposed to various risks of losses related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. It is the policy of the District to purchase commercial insurance for the risks of loss to which it is exposed, including workers' compensation and employee health and accident insurance.

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

14. JOINT VENTURE:

The District and other surrounding educational institutions created a joint venture, the Lycoming County Insurance Consortium Pooled Trust (Trust). The District self-insures through the Trust for certain health care benefits provided to current and former employees. The Trust has purchased an excess policy which covers employee health benefit claims in excess of \$375,000. Claims are recognized as an expense when paid (cash basis) which is not materially different from the accrual basis. For the year ended June 30, 2017, the District made payments for health care benefit claims of approximately \$2,492,000 to the Trust. Audited financial statements of the Trust are available.

The District and other surrounding educational institutions created a jointly governed organization, the Lycoming Career and Technology Center (Center), to provide vocational and technical education for students of the participating school districts. The governing board of the Center is comprised of a director from each participating school district. For the year ended June 30, 2017, the District paid approximately \$204,000 to the Center. As of June 30, 2017, there were no amounts due to or due from the Center. Audited financial statements of the Center are available.

15. SUBSEQUENT EVENTS:

On November 1, 2017, the District issued General Obligation Bonds, Series of 2017 in the amount of \$7,375,000. The Bonds are payable in varying installments through April 2024 with interest rates ranging from 2% through 3% per annum. The Bond proceeds will be used to currently refund all of General Obligation Bonds, Series A of 2012.

In November 2017, the District entered into an agreement for the purchase of synthetic field turf in the amount of approximately \$527,000.

Subsequent events have been evaluated through January 4, 2018, which is the date the financial statements were available to be issued.

16. RECENT ACCOUNTING PRONOUNCEMENTS:

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement replaces the provisions of GASB Statements No. 45 and 57 for OPEB plans. This statement is effective for fiscal years beginning after June 15, 2017. The District has not determined the effect, if any, on the financial statements due to adoption of this statement.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement establishes criteria for identifying fiduciary activities based on whether the government controls the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. Activities that meet the criteria should be reported as a fiduciary fund in the basic financial statements and include a

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

statement of fiduciary net position and a statement of changes in fiduciary net position. This statement is effective for fiscal years beginning after December 15, 2018. The District has not determined the effect, if any, on the financial statements due to adoption of this statement.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. This statement clarifies accounting and financial reporting requirements for a variety of topics, including blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). This statement is effective for fiscal years beginning after June 15, 2017. The District has not determined the effect, if any, on the financial statements due to adoption of this statement.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. This statement establishes accounting and financial reporting requirements for extinguishment of debt when cash or other monetary assets, not acquired with refunding debt proceeds, used to retire the debt are placed in an irrevocable trust. The requirements are similar to current guidance for in-substance defeasances of debt using proceeds from refunding debt, except that governments should recognize any difference between the reacquisition price and net carrying amount of the defeased debt as a separately identified gain or loss in the period of defeasance. This statement is effective for fiscal years beginning after June 15, 2017. The District has not determined the effect, if any, on the financial statements due to adoption of this statement.

In June 2017, GASB issued Statement No. 87, *Leases*. This statement requires a lessee to recognize in the financial statements a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. This statement also requires a lessor to recognize a lease receivable and a deferred inflow of resources for the lease term. Short-term leases (12 months or less) are recognized as outflows or inflows of resources based on the payment provisions of the lease contract. This statement is effective for fiscal years beginning after December 15, 2019. The District has not determined the effect, if any, on the financial statements due to adoption of this statement.

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		Actual Budgetary Basis
	Original	Final	
REVENUES:			
Local sources	\$ 14,488,500	\$ 14,488,500	\$ 15,168,599
State sources	6,378,756	6,378,756	6,892,401
Federal sources	<u>433,000</u>	<u>433,000</u>	<u>373,909</u>
Total revenues	<u>21,300,256</u>	<u>21,300,256</u>	<u>22,434,909</u>
EXPENDITURES:			
Instruction	12,597,845	12,597,845	12,774,246
Support services	6,269,859	6,269,859	6,199,651
Noninstructional services	638,515	638,515	636,917
Debt service (principal and interest)	<u>18,000</u>	<u>18,000</u>	<u>246,705</u>
Total expenditures	<u>19,524,219</u>	<u>19,524,219</u>	<u>19,857,519</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>1,776,037</u>	<u>1,776,037</u>	<u>2,577,390</u>
OTHER FINANCING SOURCES (USES):			
Sale of capital assets			34,495
Interfund transfers out	(2,215,936)	(2,215,936)	(2,365,938)
Proceeds from extended term financing			494,299
Refund of prior year expenditures			<u>3,286</u>
Total other financing uses, net	<u>(2,215,936)</u>	<u>(2,215,936)</u>	<u>(1,833,858)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(439,899)	(439,899)	743,532
FUND BALANCE, BEGINNING	<u>5,576,836</u>	<u>5,576,836</u>	<u>6,406,091</u>
FUND BALANCE, ENDING	<u>\$ 5,136,937</u>	<u>\$ 5,136,937</u>	<u>\$ 7,149,623</u>

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
JUNE 30, 2017

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as of Percentage of Covered Payroll ((b-a) / c)
Governmental	7/1/2016	\$	\$ 1,045,429	\$ 1,045,429	0.00%	\$ 8,254,457	12.67%
Activities	1/1/2014		1,465,861	1,465,861	0.00%	8,407,503	17.44%
	1/1/2012		1,360,234	1,360,234	0.00%	8,279,899	16.43%

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
PENSION PLAN
JUNE 30, 2017
(Dollar amounts in thousands)

	2016*	2015*	2014*
District's proportion of the net pension liability (asset)	0.0724%	0.0716%	0.0709%
District's proportionate share of the net pension liability (asset)	\$ 35,879	\$ 31,014	\$ 28,063
District's covered-employee payroll	\$ 9,382	\$ 9,215	\$ 9,046
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	382.42%	336.56%	310.23%
Plan fiduciary net position as a percentage of the total pension liability	50.14%	54.36%	57.24%

* This schedule is intended to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is completed, the District is presenting information for those years only for which information is available.

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
JUNE 30, 2017
(Dollar amounts in thousands)

	2017*	2016*	2015*	2014*
Contractually required contribution	\$2,730	\$2,346	\$ 1,844	\$ 1,447
Contributions in relation to the contractually required contribution	<u>2,730</u>	<u>2,346</u>	<u>1,844</u>	<u>1,447</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
District's covered-employee payroll	\$9,349	\$9,383	\$ 9,215	\$ 9,046
Contributions as a percentage of covered-employee payroll	29.20%	25.00%	20.01%	16.00%

* This schedule is intended to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is completed, the District is presenting information for those years only for which information is available.

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

GRANTOR/PROGRAM TITLE	Source Code	Federal CFDA Number	Pass-Through Grant Number	Grant Period Beginning/Ending Date	Grant Amount	Total Received For The Year	Accrued (Deferred) Revenue July 1, 2016	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue June 30, 2017	Passed-Through To Subrecipients
<u>U.S. DEPARTMENT OF EDUCATION</u>											
Impact Aid	D	84.041	N/A	07/01/16-06/30/17	N/A	\$ 2,780	_____	\$ 2,780	\$ 2,780	_____	_____
Passed through the Pennsylvania Department of Education:											
Title I - Improving Basic Programs	I	84.010	13-160234	07/01/15-09/30/16	\$ 217,023	32,206	\$ 27,624	4,582	4,582	_____	_____
Title I - Improving Basic Programs	I	84.010	13-170234	07/01/16-09/30/17	314,648	254,904	_____	314,648	314,648	\$ 59,744	_____
Total Title I - Improving Basic Programs						<u>287,110</u>	<u>27,624</u>	<u>319,230</u>	<u>319,230</u>	<u>59,744</u>	_____
Title II - Supporting Effective Instruction	I	84.367	20-170234	07/01/16-09/30/17	50,215	50,215	_____	50,215	50,215	_____	_____
Passed through BLaST Intermediate Unit #17:											
IDEA ESEA Title VI	I	84.027	N/A	07/01/15-09/30/16	N/A	31,866	31,866	_____	_____	_____	_____
IDEA ESEA Title VI	I	84.027	N/A	07/01/16-09/30/17	N/A	200,000	_____	_____	222,559	222,559	_____
IDEA Extended School Year	I	84.027	N/A	07/01/16-09/30/17	N/A	30,107	_____	30,107	30,107	_____	_____
Total IDEA ESEA Title VI and Extended School Year						<u>261,973</u>	<u>31,866</u>	<u>252,666</u>	<u>252,666</u>	<u>22,559</u>	_____
IDEA Special Education - Preschool Grants	I	84.173	N/A	07/01/16-06/30/17	N/A	1,587	_____	1,587	1,587	_____	_____
Total IDEA Cluster						<u>263,560</u>	<u>31,866</u>	<u>254,253</u>	<u>254,253</u>	<u>22,559</u>	_____
TOTAL U.S. DEPARTMENT OF EDUCATION						<u>603,665</u>	<u>59,490</u>	<u>626,478</u>	<u>626,478</u>	<u>82,303</u>	_____
<u>U.S. DEPARTMENT OF AGRICULTURE</u>											
Team Nutrition Grants	D	10.574	N/A	11/01/11-11/01/15	1,000	_____	(1,000)	_____	_____	(1,000)	_____
Passed through the Pennsylvania Department of Education:											
Summer Food Service Program for Children	I	10.559	N/A	07/01/15-06/30/16	N/A	1,061	1,061	_____	_____	_____	_____
Summer Food Service Program for Children	I	10.559	N/A	07/01/16-06/30/17	N/A	4,835	_____	7,314	7,314	2,479	_____
Total Summer Food Service Program for Children						<u>5,896</u>	<u>1,061</u>	<u>7,314</u>	<u>7,314</u>	<u>2,479</u>	_____
National School Lunch Program	I	10.555	N/A	07/01/16-06/30/17	N/A	300,518	6,866	301,828	301,828	8,176	_____
Passed through the Pennsylvania Department of Agriculture:											
National School Lunch Program	I	10.555	N/A	07/01/16-06/30/17	N/A	(a) 58,175	(b) (202)	58,164	(c) 58,164	(d) (213)	_____
Total National School Lunch Program						<u>358,693</u>	<u>6,664</u>	<u>359,992</u>	<u>359,992</u>	<u>7,963</u>	_____
Passed through the Pennsylvania Department of Education:											
School Breakfast Program	I	10.553	N/A	07/01/16-06/30/17	N/A	74,622	2,417	74,584	74,584	2,379	_____
Total Child Nutrition Cluster						<u>439,211</u>	<u>10,142</u>	<u>441,890</u>	<u>441,890</u>	<u>12,821</u>	_____
TOTAL U.S. DEPARTMENT OF AGRICULTURE						<u>439,211</u>	<u>9,142</u>	<u>441,890</u>	<u>441,890</u>	<u>11,821</u>	_____
TOTAL FEDERAL AWARDS						<u>\$ 1,042,876</u>	<u>\$ 68,632</u>	<u>\$ 1,068,368</u>	<u>\$ 1,068,368</u>	<u>\$ 94,124</u>	\$ _____

SOURCE CODES:
N/A - Not applicable
D - Direct Funding
I - Indirect Funding

FOOTNOTES:
(a) Total amount of commodities received.
(b) Beginning inventory at July 1, 2016.
(c) Total amount of commodities used.
(d) Ending inventory at June 30, 2017.

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

1. BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of Loyalsock Township School District under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to be and does not present the financial position, changes in financial position, or cash flows of the District.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. INDIRECT COST ALLOCATION PLAN:

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



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

Board of School Directors
Loyalsock Township School District
Williamsport, 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, and each major fund, of Loyalsock Township School District (District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 4, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.

Larson, Kellett & Associates, P.C.

Montoursville, Pennsylvania
January 4, 2018



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

Board of School Directors
Loyalsock Township School District
Williamsport, Pennsylvania:

Report on Compliance for Each Major Federal Program

We have audited Loyalsock Township School District's (District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the 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, 2017.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

Purpose of this Report

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

Larson, Kellett & Associates, P.C.

Montoursville, Pennsylvania
January 4, 2018

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified opinion.

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes x no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes x none reported

Noncompliance material to financial statements noted?

_____ yes x no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes x no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes x none reported

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

Any audit findings disclosed that are required to be reported under 2 CFR section 200.516(a)?

_____ yes x no

Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
10.553	School Breakfast Program - Child Nutrition Cluster
10.555	National School Lunch Program - Child Nutrition Cluster
10.559	Summer Food Service Program for Children - Child Nutrition Cluster

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

\$750,000

Auditee qualified as low-risk auditee?

_____ yes x no

SECTION II - FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT AS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED AUDITING STANDARDS AND GOVERNMENT AUDITING STANDARDS

None reported.

LOYALSOCK TOWNSHIP SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

SECTION III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None reported.