HERBEIN
CPAS + CONSULTANTS

POTTSTOWN SCHOOL DISTRICT

FINANCIAL AND COMPLIANCE REPORT

Year Ended June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of School Directors
Pottstown School District
Pottstown, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Pottstown School District as of and for the year ended June 30, 2016, 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.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Pottstown School District, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule for the general fund, pension, and other postemployment benefit information on pages 70 through 72 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pottstown School District's basic financial statements. The combining nonmajor governmental fund financial statements are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The accompanying 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 also is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2017, 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.

Herbein + Company, Inc.

Reading, Pennsylvania
February 21, 2017

POTTSTOWN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
June 30, 2016

The following is a discussion and analysis of the Pottstown School District's annual financial performance during the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

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

DISTRICT HIGHLIGHTS

The Pottstown School District is a school district of the third class, coterminous with the Borough of Pottstown. The District covers an area of 5.1 square miles in a section of Montgomery County. The governing body of the School District is a Board of School Directors comprised of nine members. Members are elected to four-year terms, which expire on a staggered basis. The daily operations and management of the School District are carried out by the administrative staff of the School District headed by the Superintendent of Schools, who is appointed by the Board.

The Pottstown School District consisted of four (4) elementary schools, a middle school, a high school, a closed elementary building, an Administration Building, an Administration Annex Building and two (2) maintenance buildings. Renovations to Barth Elementary School were substantially completed during the 2012-13 school year. Edgewood Elementary School was closed at the end of the 2012-13 school year, but housed the Rupert Elementary School students and staff during 2013-14 and up to November 10 of 2014 when additions and renovations were completed at the Rupert Elementary School building. Work on additions and renovations to Franklin and Lincoln Elementary Schools also took place during the 2013-14 year and were completed in time for the opening of the 2014-15 school year. The District's enrollment, including out placed students was 3,156 students. The District employed approximately 220 professionals, 254 support staff, 23 full time and 2 part time administrators. The District's commitment to provide an excellent education for each student can be seen in the quality of programs and opportunities the District maintains and supports.

FINANCIAL HIGHLIGHTS

The School District's budget is prepared according to Pennsylvania law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The School District uses site-based budgeting, and the budgeting system is designed to tightly control total site budgets but provide flexibility for site management.

- The District's governmental activities experienced a 0.16% decrease in net position during the 2015-2016 fiscal year. The net position for governmental activities that include the General Fund, the Capital Projects Fund and the Internal Service Fund decreased by $75,400.

- The net position for business-type activities or Food Service increased by $46,721 or 4.1% for the year which includes depreciation of $22,341, during the 2015-2016 fiscal year. In 2015-16 the District's Food Service participated, for the second year, in the Community Eligibility Provision which provides free breakfast and lunch to all students and provides a higher subsidy. Participation increased significantly for all students. The cafeteria operates independently from the General Fund.

- Total Governmental Fund revenues exceeded expenditures by $1,172,085. This resulted from spending being significantly limited as a result of the uncertainty of available state funding along with increased revenues for grants, all of which were unknown at the time the budget was prepared.

- Total General Fund revenues and other financing sources exceeded expenditures and other financing uses budgeted by $1,153,308, bringing the General Fund fund balance to $8,539,013. Revenues were $1,401,463 greater than anticipated. Expenditures were $48,155 over budget with other financial uses being $300,000 under budget due to the uncertainty of available state revenues.

- Total General Fund revenues were $1,401,463 greater than anticipated. Local revenue exceeded the budget by $696,883. Real Estate Taxes were under collected by approximately $169,300. This was more than offset by higher than anticipated collections for Real Estate Transfer Tax and Earned Income Taxes of approximately $252,500, IDEA passed through the MCIU of $41,000 and additional funding from the grants of $460,000. State funding was $642,263 more than budgeted due to increased PSERS contributions and additional PreK Counts funding. Federal revenue exceeded the budget by $62,317 as a result of additional funding received for the Title I and 21st Century Programs.

- Total General Fund expenditures were more than budgeted by $48,155 or .08%. This was significantly offset by the additional revenues received above what was budgeted. Total Instructional Expenditures were under budget by $520,867 primarily comprised of under expenditures in Regular Educational Programs for both elementary and secondary levels. Total Support Services expenditures were over budget by $763,548. This was primarily a result of additional costs for Crossing Guards and retirement payouts. Debt Service was lower than budgeted by $509,335. This was offset with Capital Outlays greater than anticipated by $201,488 as a result of unforeseen capital outlays.

- Reserves for future increases in employer contributions to the Public School Employees Retirement System (PSERS) were increased $1,000,000 to $4,199,409. Reserves have been established for future transportation needs of $200,000, the Residency Incentive of $100,000 and an assigned fund balance of $500,000 for contingencies along with non-spendable funds of $97,334. Non-spendable funds consist of prepaid expenses and inventories. Restricted funds consist of Save the Lights donations to be used for stadium lighting. The remaining fund balance of $3,342,665 is unassigned.

- The net position of the Internal Service Fund for medical costs associated with self funding increased $496,286 to $3,689,858.

Fund Level

- The trends of prior years indicated that during the fiscal year 2015-2016 the Pottstown School District would experience another year of significant increases in the costs for special education instruction along with benefits for our employees. Further, with the down turn in the economy, anticipated increases in the employer contribution to PSERS will continue to cause an additional drain on the financial resources of all schools in Pennsylvania.

- At the close of the fiscal year, the General Fund ending fund balance increased by $1,153,308 to $8,539,013 of which $3,342,665 is unassigned. The remaining General Fund balance is comprised of funds committed for PSERS of $4,199,409, transportation of $200,000, residency of $100,000; nonspendable fund balance of $97,334; restricted fund balance of $99,605; and an assigned fund balance of $500,000 which is used as contingency in the annual budget. The Capital Projects ending fund balance increased $220,092 to a balance of $1,492,825 as a result of a yearend transfer from the general fund. This is also observed in the Total Governmental fund balance increase of $1,397,085 to $10,131,665 from $8,734,580.

- A Proprietary Internal Service Fund was established with the Southeastern Pennsylvania Schools Trust (SEPaST) for self funded medical costs and has a net position of $3,689,585. This represents an increase of $496,286. These funds were a combination of the funds reserved in prior years for medical costs and better experience over the last two years than anticipated in actual medical costs.

OVERVIEW OF THE FINANCIAL STATEMENTS

The accompanying financial statements have been prepared in accordance with GASB Statement No. 34 and present both government-wide and fund level financial statements using both the accrual and modified accrual basis of accounting, respectively.

This annual report consists of three parts: (1) management's discussion and analysis, (2) the basic financial statements and (3) required supplementary information. The basic financial statements include two types of financial statements that present different views of the District.

- The first type includes two district-wide or government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The other type and remaining statements are the fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.

    - *Governmental Funds* statements indicate how basic services, such as regular and special education, were financed in the short term as well as indicate future spending plans.

    - *Proprietary Funds* statements offer short-term and long-term financial information about the activities the District operates like a business, such as food services.

    - *Fiduciary Funds* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, such as Student Activity Funds and Scholarship Funds.

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

Figure A-1
Organization of the Pottstown School District Annual Financial Report

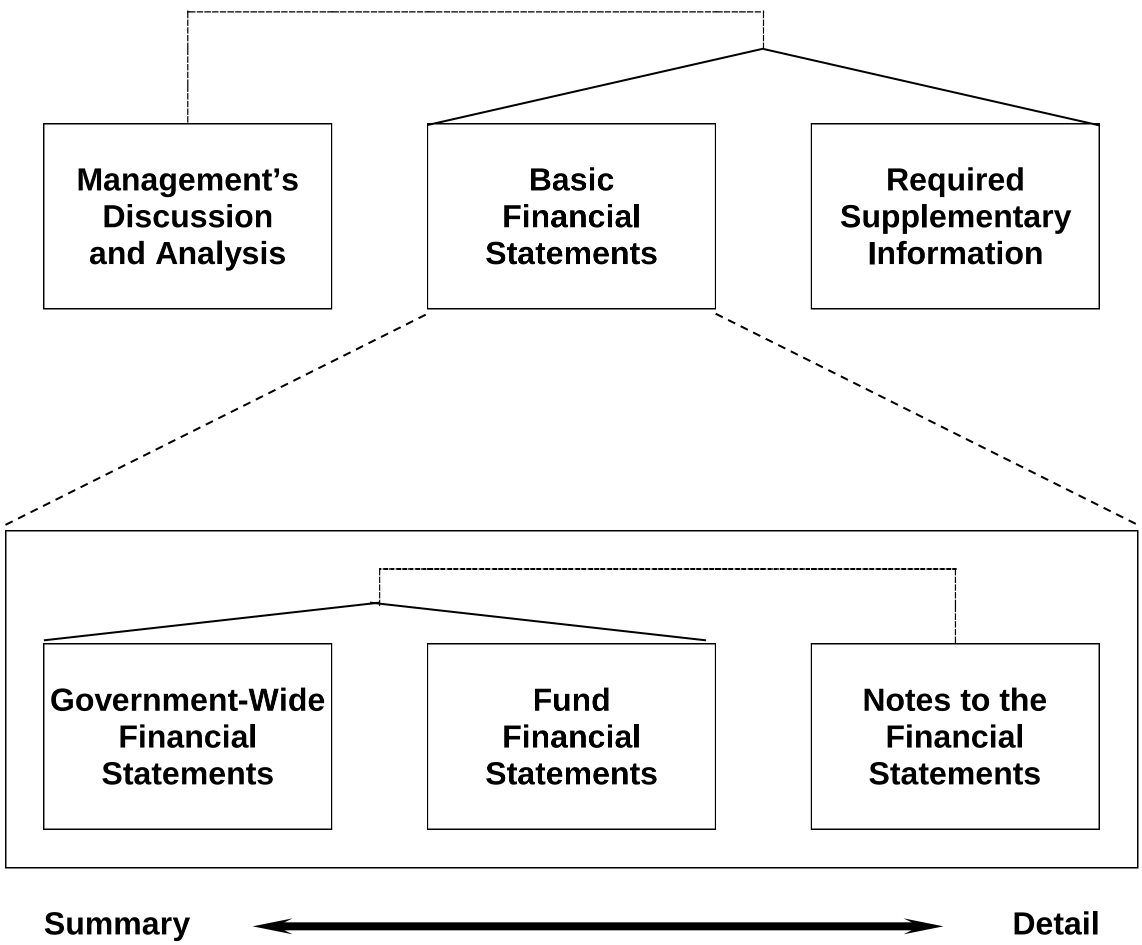

Figure A-2 summarizes the major features of the District's statements. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2
Major Features of the Government-Wide and Fund Financial Statements

	Government-Wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except Fiduciary Funds)	Activities of the District that are not proprietary or fiduciary, such as general operating and capital projects	Activities the District operates similar to private businesses, such as food services	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	• Statement of net position • Statement of activities	• Balance sheet • Statement of revenues, expenditures and changes in fund balances	• 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 focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, current and noncurrent and deferred inflows and outflows of resources	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or noncurrent liabilities included	All assets and liabilities, both financial and capital, current and noncurrent and deferred inflows and outflows of resources	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position and the statement of activities are two financial statements that report information about the District as a whole and about its activities that indicate whether the District is better off or worse off as a result of this year's activities. These statements include all the District's assets and liabilities using the accrual basis of accounting. Revenue and expenses are taken into account regardless of when cash is received or paid.

The statement of net position presents all the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as "net position." Over time, increases and decreases in net position measure whether the District's financial position is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the year. All changes in net position are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some events that will result in cash flows in future periods: uncollected taxes, retirement incentives and unused vacation leave.

Both statements report two activities:

- ***Governmental Activities*** - Most of the District's basic services, such as regular and special education, maintenance and operation of plant services, are reported under this category. Taxes, state formula aid finance and state and federal grants generally fund these programs.

- ***Business-Type Activities*** - The only business-type activity in the District is food service operations. The sources of funding for operations consist of charges for meal purchases and federal and state subsidies

Fund Financial Statements

The fund financial statements provide more detailed information about the major individual funds of the District--not the District as a whole. A fund is a fiscal and accounting entity with a self-balancing set of accounts used to keep track of specific sources of funding and spending for particular programs. Some funds are required by state law and by bond requirements. The District establishes other funds to control and manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as federal grants).

The District's funds are divided into three categories: (1) Governmental, (2) Proprietary and (3) Fiduciary.

- ***Governmental Funds*** - Most of the District's basic services are included in Governmental Funds that focus on how money flows into and out of these funds and the balances left at year-end for future spending. The Governmental Funds financial statements provide a detailed short-term view of the general operations and the basic services provided and provide some direction as to whether there will be more or fewer resources that can be spent in the near future to finance the District's programs.

  These funds are reported using the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. Governmental Funds include the General Fund and the Capital Projects Fund. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information behind the Governmental Funds statements explains the relationship (or differences) between them.

- ***Proprietary Funds*** - Services for which the District charges a fee are generally reported in the Proprietary Funds. These funds utilize the accrual accounting method, which is the same method used by private sector businesses, or where the reporting is on determining net income, financial position, changes in financial position and a significant portion of funding through user charges. When the District charges customers for services it provides, whether to outside customers or to other units in the District, these services are generally reported in the Proprietary Funds. The Food Service Fund is the District's Enterprise Fund and is the same as the business-type activities we report in the government-wide statements but provides more detail and additional information, such as cash flows. In addition to the food service enterprise fund, the district has an internal service fund which is used to record the activities associated with self-funding for medical and prescription benefits.

- ***Fiduciary Funds*** - The District acts as a trustee, or fiduciary, for assets that belong to others, such as Scholarship and Agency Funds or Student Activity Funds. The District is responsible for ensuring that the assets reported in these funds are used only for the intended purposes and by those to whom the assets belong. These activities are excluded from the District-wide financial statements since these assets cannot be used to finance the District's operations.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net position decreased 0.06% or $28,679 over the course of the fiscal year's operations for total combined net deficit at June 30, 2016, of ($49,196,795). The District's financial position was derived from its governmental activities, the net position of which decreased 0.16% or $75,400 to ($48,114,720). The net deficit of the District's business-type activities decreased 0.41% or $46,721 to ($1,082,075).

Figure A – Condensed Statement of Net Position (in millions)

	Governmental		Business-Type		Total	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
Assets						
Current	$ 21	$ 20	$ 1	$ -	$ 22	$ 20
Capital assets and other	65	67	-	-	65	67
TOTAL	86	87	1	-	87	87
Deferred outflows of resources	8	7	-	-	8	7
Total Assets & Deferred outflows	$ 94	$ 94	$ 1	$ -	$ 95	$ 94
Current and other	12	10	-	-	12	10
Long-term	129	127	2	1	131	128
TOTAL	141	137	2	1	143	138
Deferred inflow of resources	1	5	-	-	1	5
Invested in capital assets, net of related debt	10	11	-	-	10	11
Restricted net assets	5	1	-	-	5	1
Unrestricted net assets	(63)	(60)	(1)	(1)	(64)	(61)
TOTAL	(48)	(48)	(1)	(1)	(49)	(49)
Total Liabilities & Deferred inflows	$ 94	$ 94	$ 1	$ -	$ 95	$ 94

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

The District's net position decreased by $28,679. The decrease is comprised of an increase in Cash and Receivables of $1.2 million which is to be expected as Accounts Payable decreased $246,231 along with Bonds and Notes Payable decreasing $1.7 million while the Southeastern Pennsylvania Schools Trust increased $552,366. This is offset by a decrease in Capital Assets of $2.3million primarily as a result of depreciation exceeding capital improvements as building renovations have been completed. In addition the deferred outflows of resources increased $1.6million due to the accounting under GASB No. 68, *Accounting and Financial Reporting for Pensions* and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date.* Deferred inflows of resources decreased 3.8 million which was offset by total liabilities increasing $5 million. The increase in liabilities is a direct result of the increased Net Pension Liability which is offset by a reduction in Net Bonds and Notes Payable of $1.7 million.

The District closely monitors and gives consideration to real estate and economic trends. These considerations are conservatively reflected in the annually approved General Fund budget. Governmental activities had (130%) of total net position (deficit) as unrestricted. This is the largest component of the District's net position. The Board of Directors and Administration have judiciously followed their capital project's strategy to meet their timeline for investments in capital assets. Business-type activities had an unrestricted net deficit of (104%).

A major portion (84.8%) of the District's total costs for operating programs and services was related to student instruction and support for instruction, including the operation/maintenance of school facilities and transportation as detailed in Figure A-4, Changes in Net Position from Operating Results.

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

Figure A-4 takes the information from the statement of activities and rearranges it slightly, so you can see our total revenues for the year. The following table reflects the revenues and expenses for 2015 and 2016.

Figure A-4

Changes in Net Position from Operating Results (In Millions of Dollars)

	Governmental Activities		Business-Type Activities		Total District	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
REVENUES						
Program Revenues						
Charges for Services	$ 0.2	$ 0.1	$ 0.2	$ 0.2	$ 0.4	$ 0.3
Operating grants and contributions	12.8	11.5	1.8	1.7	14.6	13.2
Capital grants and contributions	0.5	0.5	-	-	0.5	0.5
General Revenues						
Property taxes	29.9	29.9	-	-	29.9	29.9
State aid	11.6	11.3	-	-	11.6	11.3
Other taxes and miscellaneous	3	2.8	-	-	3.0	2.8
TOTAL REVENUES	58.0	56.1	2.0	1.9	60.0	58.0
EXPENSES						
Instruction	35.7	34.4	-	-	35.7	34.4
Pupil and instructional services	5.1	4.4	-	-	5.1	4.4
Administration and business	4.7	4.3	-	-	4.7	4.3
Maintenance and operations	6.3	6.2	-	-	6.3	6.2
Transportation	2.1	1.9	-	-	2.1	1.9
Other	4.2	4.3	2	1.9	6.2	6.20
TOTAL EXPENSES	58.1	55.5	2	1.9	60.1	57.4
CHANGE IN NET ASSETS	$ -0.1	$ 0.6	$ -	$ -	$ -0.1	$ 0.6

The following Figure A-5 presents the expenses of both the governmental activities and the business-type activities of the District.

Figure A-5 - Net Cost of District Activities

	2016		2015	
Functions/Programs	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	$ 35,715,793	$ 25,012,140	$ 34,397,820	$ 24,652,761
Pupil and instructional services	5,065,144	4,623,131	4,408,034	4,045,938
Administration and business	4,654,584	4,223,698	4,283,492	3,963,198
Maintenance and operations	6,314,241	5,729,066	6,193,722	5,801,852
Transportation	2,142,259	1,613,935	1,943,447	1,425,752
Pupil Health Services/Other	1,551,774	1,323,595	1,632,156	1,431,521
Food Service, Student activities and community services	1,004,049	831,800	979,168	906,024
Interest on long-term debt	1,606,374	1,176,863	1,688,200	1,157,155
TOTAL GOVERNMENTAL ACTIVITIES	$ 58,054,218	44,534,228	$ 55,526,039	43,384,201
Less unrestricted grants, subsidies		11,626,632		11,280,673
TOTAL NEEDS FROM LOCAL TAXES AND OTHER REVENUES		$ 32,907,596		$ 32,103,528
Business-Type Activities				
Food Service	$ 1,970,177	$ 46,244	$ 1,912,988	$ (15,489)

Figure A-5 shows the District's six largest functions: instruction, pupil and instructional services, administrative and business services, operation and maintenance of plant, pupil transportation and student activities and community services, as well as each program's net cost (total cost less revenues generated by the activities). This figure also shows the net costs offset by the other unrestricted grants, subsidies and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At the end of the 2015-2016 fiscal year, Governmental Funds had a total year-end fund balance of $10,131,665, a $1,397,085 increase from the prior fiscal year's balance of $8,734,580. The General Fund increased $1,153,308 as result of the annual revenues received being above expected primarily as a result of additional grant funds received above that which was budgeted Capital Projects increased $220,092 as a result of a yearend transfer from the General Fund.

General Fund Budgetary Highlights

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

The District applies for federal, state and local grants, and these grants cannot always be anticipated in the budgetary process. Budgeted expenditures and other financing uses also increased this same amount to compensate for the additional approved grants. Transfers between specific categories of expenditures/financing uses occur during the year. The most significant transfers occur from the budget reserve category to specific expenditure areas.

The budgetary reserve is an amount that will be used for unexpected expenditures throughout the fiscal year. Experience indicates that there are certain variables in expenditures where control is difficult, regardless of the care with which the budget is prepared.

The District's budget for fiscal year 2015-2016 anticipated expenditures exceeding revenue by $500,000; however, the actual results for the year produced an excess of revenues over expenditures and other financing uses of $1,153,308. Total revenues received were $1,401,463 over budget. Local revenue collected exceeded the budget by $696,883. This was a direct result of additional grant funding received which were not included in the budget along with higher than anticipated collections of Earned Income Taxes, Real Estate Transfer Taxes and Delinquent Taxes. Funds received from State revenue exceeded the budget by $642,263 as a result of PreK Counts and PSERS funding being greater than originally indicated by the state. Federal revenues were $62,317 greater than anticipated as a result of additional funding for the 21st Century program.

Total expenditures were over budget by $48,155 or .08%. Instructional expenditures were $520,867 or 1.5% under spent. Support services were overspent by $763,548 as a result of significant increases in crossing guard expenditures along with the associated expenses for the additional grants received. These over expenditures were offset by under expenditures for Debt Service and Capital Outlay of $307,887 as a direct result of bond refinancing.

The District's conservative approach to budgeting is observed by the results indicating that actual revenues were greater than budgeted revenues and actual expenditures were barely overspent as a result of the additional grants received, which were not included in the original budgeted expenditures. Without such a conservative approach the expenditures should have been overspent by the full amount of the additional grant moneys received. As it is most of the grant expenditures were absorbed by the original budgeted expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

For the Pottstown School District, capital assets include land, buildings, furniture and equipment, vehicles and other items which meet the following criteria:

1. The individual asset must have a useful life of greater than one year.

2. The individual asset cost is equal to or greater than $2,500 or was purchased with debt proceeds.

The District maintains fixed asset records for the above capital assets, as well as for items costing over $500 with a life extending at least one year. Each department or school is responsible for the protection of these assets.

At June 30, 2016, the District had $62,563,369 (net of depreciation) invested in a broad range of capital assets, including land, school buildings, administrative offices, athletic facilities, furniture and equipment. Total depreciation expense for the year was $3,531,848 for governmental activities and $22,341 for business type activities. Additions were made to governmental activities in the amount of $1,231,438. This represents a net decrease of $2,322,751 or 3.58% from last year. With the Elementary Schools projects completed, capital assets will continue to decrease as depreciation will normally exceed the annual improvements.

	Governmental Activities		Business Type Activities		Total District	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
Land and Constr. In Proc.	$ 0.3	$ 0.3	$ -	$ -	$ 0.3	$ 0.3
Site improvements	2.1	1.3	-	-	2.1	1.3
Buildings and building improvements	58.6	61.3	-	-	58.6	61.3
Furniture and equipment	1.3	1.8	-	0.1	1.3	1.9
Vehicles	0.2	0.1	-	-	0.2	0.1
	$ 62.5	$ 64.8	$ -	$ 0.1	$ 62.5	$ 64.9

Long-Term Debt

At year-end, the District had $52,654,139 of general obligation bonds and notes payable, net of discounts and premiums. This is a decrease of $1,627,896 from the previous year as a result of debt payments. Other obligations include compensated absences (accrued vacation pay and sick leave for specific employees of the District). More detailed information about our long-term liabilities is included in the financial statements.

Figure A-7
Outstanding Long-Term Debt (In Millions of Dollars)

	2015-16	2014-15
General obligation bonds and notes	$ 52.6	$ 54.3
Other general obligation debt (compensated absences)	0.7	0.5
	$ 53.3	$ 54.8

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of the following circumstances that may affect its future financial growth.

- The District has completed the Elementary Schools Project. The decision has been made to maintain the Administration Building. Improvements will be necessary in the not too distant future to maintain the building for the long term. Necessary improvements may include items such as roof replacement, mechanical upgrades, window replacement, masonry repairs, asbestos abatement and cosmetic upgrades such as paint, carpeting and flooring.

- The Pennsylvania School Employees Retirement System continues to reset the percentage of payroll that school districts must pay as the actuarial projections based on required investment returns are not met. The actual and projected rates for employer contributions were, again, recently increased as follows:
    - 2010-11 was 5.64%
    - 2011-12 was 8.65% - an increase of 53.4%
    - 2012-13 was 12.36% - an increase of 42.9%
    - 2013-14 was 16.93% - an increase of 37.0%
    - 2014-15was 21.4% - an increase of 26.4%
    - 2015-16 was 25.84% – an increase of 20.8%
    - 2016-17 is 30.03% – an increase of 16.2%
    - 2017-18 projected to be 32.57% – an increase of 8.6%
    - 2018-19 projected to be 34.18% – an increase of 4.9%
    - 2019-20 projected to be 35.53% – an increase of 3.9%
    - 2020-21 projected to be 35.95% – an increase of 1.2%
    - 2021-22 projected to be 36.40% - an increase of 1.25%

  Starting with 2010-2011 through 2016-2017 the rate increases from 5.64% to 30.03%, an increase of 432.4% over the last six years. Over the next five years, 2016-17 through 2021-22 the rate increases from 30.03% to 36.4%, an increase of 21.2%. From 2010-11 to 2021-22 the rate increases from 5.64% to 36.40% or 545.39% over this 11 year period. (Based on PSERS projections from 12/7/2016.)

- Prior to the latest projections the PSERS rate was expected to be at its maximum level in 2019-20. With the most recent revised projections the rates will not reach their maximum level prior to 2021-22. Current projections were not available beyond the 2021-22 school year. The federal mandates, "Student Success Act" which replaces “No Child Left Behind” and IDEA requirements exceed the federal funding available to support these mandates. As a result, these mandates will require additional costs to the taxpayers to meet the requirements.

- The District anticipates rising health care costs in the ensuing fiscal years, as indicators report increases significantly above the index. The District moved to the self funded SEPaST, comprised of various county districts, to realize administrative savings on health benefits.

- The Affordable Health Care Act will also place a burden on the district through additional manpower to comply along with the potential to consider alternative health care plans.

- The Governor and state legislature passed Act 1 of the 2006 Special Session - Taxpayer Relief Act which has an effect on how school districts budget and raise revenue for education since the 2007-08 fiscal year. This legislation restricts the School District’s ability to increase property taxes without voter approval of the District’s budget if the budget exceeds an annual inflation index determined by the Commonwealth. The District has never exceeded the index and only raised taxes to half (50%) of the allowable rate as indicated by the index for the 2012-13 school year while there was no tax increase in the 2015-16 and 2016-17 school years.

- Legislation was passed which eliminates all but three exceptions of the original exceptions passed under the Act 1 of the 2006 Special Session, allowing Districts to increase local tax effort above the Index without voter approval. The three remaining exceptions are retirement, debt and special education expenses.

- The District currently has a labor agreement with the Federation of Pottstown Teachers with a contract period of August 31, 2016 through September 1, 2019.

- With the change in Governor and legislators there is uncertainty in the financial support for public schools at the state level. There is also momentum building for real estate tax elimination which would significantly hinder the district's ability to meaningfully impact school finances.

CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT

This financial report is designed to provide the District’s citizens, taxpayers, customers, investors and creditors with a general overview of the District’s finances and to demonstrate the District’s accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Office, Pottstown School District, 230 Beech Street, Pottstown, PA 19464.

POTTSTOWN SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	$ 15,509,055	$ 358,293	$ 15,867,348
Taxes Receivable, Net	2,750,119	-	2,750,119
Internal Balances	52,792	(52,792)	-
Intergovernmental Receivables	2,335,059	74,316	2,409,375
Other Receivables	209,557	30	209,587
Inventories	27,786	27,418	55,204
Prepaid Expenses	260,548	-	260,548
Funds Held by Southeastern Pennsylvania Schools Trust	2,768,985	-	2,768,985
Capital Assets Not Being Depreciated:			
Land	298,222	-	298,222
Construction-in-Progress	8,498	-	8,498
Capital Assets, Net of Accumulated Depreciation	62,210,361	46,288	62,256,649
TOTAL ASSETS	86,430,982	453,553	86,884,535
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charge on Bond Refunding	161,985	-	161,985
Interest Rate Swap	2,075,816	-	2,075,816
Deferred Outflows of Resources for Pension	58,635	143,958	202,593
Pension Contributions Made Subsequent to the Measurement Date	5,714,164	119,848	5,834,012
TOTAL DEFERRED OUTFLOWS OF RESOURCES	8,010,600	263,806	8,274,406
LIABILITIES			
Accounts Payable	1,229,159	726	1,229,885
Payroll Deductions and Withholdings	248,139	-	248,139
Accrued Salaries and Benefits	5,518,818	29,797	5,548,615
Accrued Interest	99,339	-	99,339
Unearned Revenues	427,223	7,737	434,960
Interest Rate Option Agreement Deferral	2,075,816	-	2,075,816
Noncurrent Liabilities:			
Amounts Due Within One Year	2,456,560	-	2,456,560
Bonds and Notes Payable, Net	50,461,139	-	50,461,139
Long-Term Portion of Compensated Absences	412,835	22,025	434,860
Net Pension Liability	77,496,917	1,727,083	79,224,000
Other Postemployment Benefit Obligation	867,511	-	867,511
TOTAL LIABILITIES	141,293,456	1,787,368	143,080,824
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources for Pension	1,262,846	12,066	1,274,912
NET POSITION			
Net Investment in Capital Assets	10,024,927	46,288	10,071,215
Restricted for:			
Capital Projects	1,492,825	-	1,492,825
Health Claims	2,959,985	-	2,959,985
Other	99,827	-	99,827
Unrestricted (Deficit)	(62,692,284)	(1,128,363)	(63,820,647)
TOTAL NET POSITION (DEFICIT)	$ (48,114,720)	$ (1,082,075)	$ (49,196,795)

POTTSTOWN SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Business-Type Activities	Total
Governmental Activities							
Instructional Services:							
Regular	$ 18,471,662	$ -	$ 3,898,898	$ -	$ (14,572,764)	$ -	$ (14,572,764)
Special	11,825,743	-	3,714,426	-	(8,111,317)	-	(8,111,317)
Vocational	1,323,335	-	419,703	-	(903,632)	-	(903,632)
Other Instructional Programs	1,964,829	-	788,402	-	(1,176,427)	-	(1,176,427)
Non Public School Programs	4,583	-	-	-	(4,583)	-	(4,583)
Pre-kindergarten Programs	2,125,641	-	1,882,224	-	(243,417)	-	(243,417)
Total Instructional Services	35,715,793	-	10,703,653	-	(25,012,140)	-	(25,012,140)
Support Services:							
Pupil Personnel	2,145,143	-	232,047	-	(1,913,096)	-	(1,913,096)
Instructional Staff	2,920,001	-	209,966	-	(2,710,035)	-	(2,710,035)
Administration	3,570,166	-	305,557	-	(3,264,609)	-	(3,264,609)
Pupil Health	1,139,768	-	192,183	-	(947,585)	-	(947,585)
Business Services	1,084,418	-	125,329	-	(959,089)	-	(959,089)
Operation of Plant and Maintenance Services	6,314,241	97,131	388,439	99,605	(5,729,066)	-	(5,729,066)
Student Transportation Services	2,142,259	7,325	520,999	-	(1,613,935)	-	(1,613,935)
Central	393,108	-	35,996	-	(357,112)	-	(357,112)
Other Support Services	18,898	-	-	-	(18,898)	-	(18,898)
Total Support Services	19,728,002	104,456	2,010,516	99,605	(17,513,425)	-	(17,513,425)
Noninstructional Services:							
Food Service	(10,432)	-	-	-	10,432	-	10,432
Student Activities	941,657	79,119	91,177	-	(771,361)	-	(771,361)
Community Services	72,824	-	1,953	-	(70,871)	-	(70,871)
Interest on Long-Term Debt	1,606,374	-	-	429,511	(1,176,863)	-	(1,176,863)
Total Noninstructional Services	2,610,423	79,119	93,130	429,511	(2,008,663)	-	(2,008,663)
Total Governmental Activities	58,054,218	183,575	12,807,299	529,116	(44,534,228)	-	(44,534,228)
Business-Type Activities							
Food Service	1,970,177	188,529	1,827,892	-	-	46,244	46,244
Total Primary Government	$ 60,024,395	$ 372,104	$ 14,635,191	$ 529,116	(44,534,228)	46,244	(44,487,984)
General Revenues							
Taxes:							
Property Taxes					29,913,865	-	29,913,865
Public Utility Realty, Earned Income, LST Tax and Mercantile Taxes					2,871,464	-	2,871,464
Grants, Subsidies, and Contributions Not Restricted to Specific Programs					11,626,632	-	11,626,632
Investment Earnings					25,020	477	25,497
Miscellaneous Income					21,847	-	21,847
Total General Revenues					44,458,828	477	44,459,305
Change in Net Position					(75,400)	46,721	(28,679)
Net Position (Deficit) - Beginning of year					(48,039,320)	(1,128,796)	(49,168,116)
Net Position (Deficit) - End of year					$ (48,114,720)	$ (1,082,075)	$ (49,196,795)

See accompanying notes.

POTTSTOWN SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2016

	General	Capital Projects	Nonmajor Funds	Total Governmental Funds
ASSETS				
Cash and Investments	$ 14,035,858	$ 1,363,764	$ 109,433	$ 15,509,055
Taxes Receivable	2,799,210	-	-	2,799,210
Interfund Receivables	55,794	205,898	-	261,692
Intergovernmental Receivables	2,335,059	-	-	2,335,059
Other Receivables	209,557	-	-	209,557
Inventories	27,786	-	-	27,786
Prepaid Expenditures	69,548	-	-	69,548
TOTAL ASSETS	$ 19,532,812	$ 1,569,662	$ 109,433	$ 21,211,907
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Interfund Payable	$ 860,133	$ 76,837	$ 2,798	$ 939,768
Accounts Payable	1,221,356	-	6,808	1,228,164
Payroll Deductions and Withholdings	248,139	-	-	248,139
Accrued Salaries and Benefits	5,518,818	-	-	5,518,818
Unearned Revenues	427,223	-	-	427,223
Current Portion of Compensated Absences	263,560			263,560
TOTAL LIABILITIES	8,539,229	76,837	9,606	8,625,672
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Property Taxes	2,454,570	-	-	2,454,570
FUND BALANCES				
Nonspendable Fund Balance	97,334	-	-	97,334
Restricted Fund Balance	99,605	1,492,825	99,827	1,692,257
Committed for PSERS Increase	4,199,409	-	-	4,199,409
Committed for Transportation Costs	200,000	-	-	200,000
Committed for Residency Incentive	100,000	-	-	100,000
Assigned Fund Balance	500,000	-	-	500,000
Unassigned Fund Balance	3,342,665	-	-	3,342,665
TOTAL FUND BALANCES	8,539,013	1,492,825	99,827	10,131,665
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 19,532,812	$ 1,569,662	$ 109,433	$ 21,211,907

See accompanying notes.

POTTSTOWN SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

June 30, 2016

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

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS		$ 10,131,665
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is $102,639,237 and the accumulated depreciation is $40,122,156.		62,517,081
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as unavailable revenue in the funds adjusted for allowance for doubtful accounts.		2,405,479
An internal service fund is used by the District to account for future self-insured healthcare costs. The assets and liabilities of the internal service fund are reported with governmental activities.		3,689,858
The net pension and other postemployment benefit obligations are not reflected on the fund financial statements.		(78,364,428)
Deferred outflows and inflows of resources for pension are recorded and amortized in the statement of net position.		4,509,953
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bonds and Notes Payable	$ (52,777,000)	
Accrued Interest on Bonds	(99,339)	
Unamortized Bond Premium	(79,546)	
Unamortized Bond Discount	202,407	
Deferred Charge on Bond Refunding	161,985	
Long-Term Portion of Compensated Absences	(412,835)	(53,004,328)
TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES		$ (48,114,720)

POTTSTOWN SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2016

	General	Capital Projects	Nonmajor Funds	Total Governmental Funds
REVENUES				
Local Sources	$ 34,543,281	$ 20,242	$ 60,472	$ 34,623,995
State Sources	21,490,475	-	-	21,490,475
Federal Sources	2,004,635	-	-	2,004,635
TOTAL REVENUES	58,038,391	20,242	60,472	58,119,105
EXPENDITURES				
Current:				
Instructional Services	34,309,383	-	-	34,309,383
Support Services	17,224,306	-	60,943	17,285,249
Operation of Noninstructional Services	898,390	-	45,476	943,866
Capital Outlay	955,148	150	-	955,298
Debt Service:				
Principal	1,794,000	-	-	1,794,000
Interest	1,446,585	-	155,368	1,601,953
Refund of Prior Year Revenues	57,271	-	-	57,271
TOTAL EXPENDITURES	56,685,083	150	261,787	56,947,020
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,353,308	20,092	(201,315)	1,172,085
OTHER FINANCING SOURCES (USES)				
Issuance of Refunding Note	-	-	10,000,000	10,000,000
Current Refunding Debt Service - Principal	-	-	(9,775,000)	(9,775,000)
Transfers In	-	200,000	-	200,000
Transfers Out	(200,000)	-	-	(200,000)
TOTAL OTHER FINANCING SOURCES (USES)	(200,000)	200,000	225,000	225,000
NET CHANGE IN FUND BALANCES	1,153,308	220,092	23,685	1,397,085
FUND BALANCES - BEGINNING OF YEAR	7,385,705	1,272,733	76,142	8,734,580
FUND BALANCES - END OF YEAR	$ 8,539,013	$ 1,492,825	$ 99,827	$ 10,131,665

See accompanying notes.

POTTSTOWN SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016

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

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS		$ 1,397,085
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital Outlays	$ 1,231,438	
Less: Depreciation Expense	(3,531,848)	(2,300,410)
Because some property taxes will not be collected for several months after the District's year end, they are not considered as "available" revenues in the governmental funds.		(140,287)
Issuance of long-term debt (e.g., bonds) 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.		
Issuance of Refunding Note	(10,000,000)	
Repayment of Bond and Note Principal	1,794,000	
Current Refunding Debt Service - Principal	9,775,000	
Amortization of Bond Premium	24,483	
Amortization of Bond Discount	(12,806)	
Amortization of Deferred Charge on Bond Refunding	(23,106)	1,557,571
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.		7,008
In the statement of activities, certain operating expenses - compensated absences (retirement bonus and sick days) are measured by the amounts earned during the year.		73,379
The change in net pension liability and other postemployment benefit obligation and related deferred outflows and inflows of resources are reflected as an adjustment to expense on the statement of activities, but not included in the fund statements.		(1,166,032)
An internal service fund is used to account for future self-insured healthcare costs charged to the individual funds. The net revenue of the internal service fund is reported with governmental activities.		496,286
CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES		$ (75,400)

See accompanying notes.

POTTSTOWN SCHOOL DISTRICT

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

June 30, 2016

	Enterprise Fund Food Service	Internal Service Fund	Totals
ASSETS			
CURRENT ASSETS			
Cash and Investments	$ 358,293	$ -	$ 358,293
Interfund Receivables	10,603	729,873	740,476
Intergovernmental Receivables	74,316	-	74,316
Other Receivables	30	-	30
Inventories	27,418	-	27,418
Funds held by Southeastern Pennsylvania Schools Trust	-	2,768,985	2,768,985
TOTAL CURRENT ASSETS	470,660	3,498,858	3,969,518
NONCURRENT ASSETS			
Long-Term Deposit	-	191,000	191,000
Furniture and Equipment, Net	46,288	-	46,288
TOTAL ASSETS	516,948	3,689,858	4,206,806
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows of Resources for Pension	143,958	-	143,958
Pension Contributions Made Subsequent to the Measurement Date	119,848	-	119,848
TOTAL DEFERRED OUTFLOWS OF RESOURCES	263,806	-	263,806
LIABILITIES			
CURRENT LIABILITIES			
Interfund Payable	63,395	-	63,395
Accounts Payable	726	-	726
Accrued Salaries and Benefits	29,797	-	29,797
Unearned Revenues	7,737	-	7,737
TOTAL CURRENT LIABILITIES	101,655	-	101,655
NONCURRENT LIABILITIES			
Compensated Absences	22,025	-	22,025
Net Pension Liability	1,727,083	-	1,727,083
TOTAL LIABILITIES	1,850,763	-	1,850,763
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources for Pension	12,066	-	12,066
NET POSITION			
Net Investment in Capital Assets	46,288	-	46,288
Restricted for Health Claims	-	2,768,985	2,768,985
Restricted Terminal Liability Reserve	-	191,000	191,000
Unrestricted (Deficit)	(1,128,363)	729,873	(398,490)
TOTAL NET POSITION (DEFICIT)	$ (1,082,075)	$ 3,689,858	$ 2,607,783

See accompanying notes.

POTTSTOWN SCHOOL DISTRICT

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

For the Year Ended June 30, 2016

	Enterprise Fund Food Service	Internal Service Fund	Totals
OPERATING REVENUES			
Food Service Revenue	$ 188,529	$ -	$ 188,529
Charges for Services	-	6,294,718	6,294,718
TOTAL OPERATING REVENUES	188,529	6,294,718	6,483,247
OPERATING EXPENSES			
Salaries	503,100	-	503,100
Employee Benefits	371,863	5,525,438	5,897,301
Purchased Property Services	10,916	-	10,916
Other Purchased Services	329	-	329
Supplies	1,052,316	-	1,052,316
Depreciation	22,341	-	22,341
Other	9,312	272,994	282,306
TOTAL OPERATING EXPENSES	1,970,177	5,798,432	7,768,609
OPERATING INCOME (LOSS)	(1,781,648)	496,286	(1,285,362)
NONOPERATING REVENUES			
Earnings on Investments	477	-	477
State Sources	150,321	-	150,321
Federal Sources	1,677,571	-	1,677,571
TOTAL NONOPERATING REVENUES	1,828,369	-	1,828,369
CHANGE IN NET POSITION	46,721	496,286	543,007
NET POSITION (DEFICIT) - BEGINNING OF YEAR	(1,128,796)	3,193,572	2,064,776
NET POSITION (DEFICIT) - END OF YEAR	$ (1,082,075)	$ 3,689,858	$ 2,607,783

POTTSTOWN SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Year Ended June 30, 2016

	Enterprise Fund Food Service	Internal Service Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Users	$ 189,074	$ 6,235,798	$ 6,424,872
Cash Payments to Employees for Services	(761,708)	-	(761,708)
Cash Payments for Supplies and Other Operating Expenses	(950,411)	(272,994)	(1,223,405)
Cash Payments for Health Insurance Costs	-	(5,962,804)	(5,962,804)
NET CASH USED FOR OPERATING ACTIVITIES	(1,523,045)	-	(1,523,045)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
State Sources	151,449	-	151,449
Federal Sources	1,584,043	-	1,584,043
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	1,735,492	-	1,735,492
CASH FLOWS FROM INVESTING ACTIVITIES			
Earnings on Investments	477	-	477
NET INCREASE IN CASH AND CASH EQUIVALENTS	212,924	-	212,924
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	145,369	-	145,369
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 358,293	$ -	$ 358,293

POTTSTOWN SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS - CONTINUED

For the Year Ended June 30, 2016

	Enterprise Fund Food Service	Internal Service Fund	Totals
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:			
Operating Income (Loss)	$ (1,781,648)	$ 496,286	$ (1,285,362)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:			
Depreciation	22,341	-	22,341
Donated Commodities Used	124,490	-	124,490
Changes in Assets, Deferred Outflows of Resources, Liabilities, and Deferred Inflows of Resources:			
Other Receivables	11,121	-	11,121
Inventories	(2,754)	-	(2,754)
Funds held by Southeastern Pennsylvania Schools Trust	-	(552,366)	(552,366)
Long-Term Deposits	-	115,000	115,000
Interfund Balances	50,611	(58,920)	(8,309)
Deferred Outflows of Resources for Pension	(143,958)	-	(143,958)
Pension Contributions Made Subsequent to the Measurement Date	(17,294)	-	(17,294)
Accounts Payable	726	-	726
Accrued Salaries and Benefits	(12,599)	-	(12,599)
Unearned Revenues	(850)	-	(850)
Compensated Absences	3,035	-	3,035
Net Pension Liability	311,161	-	311,161
Deferred Inflows of Resources for Pension	(87,427)	-	(87,427)
Total Adjustments	258,603	(496,286)	(237,683)
NET CASH USED FOR OPERATING ACTIVITIES	$ (1,523,045)	$ -	$ (1,523,045)

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the District used $124,490 of commodities from the U.S. Department of Agriculture.

POTTSTOWN SCHOOL DISTRICT

STATEMENT OF NET POSITION
FIDUCIARY FUNDS

June 30, 2016

	Trust Fund	Agency Funds Student Activities
ASSETS		
CURRENT ASSETS		
Cash and Investments	$ 102,633	$ 90,612
Interfund Receivable	995	-
Accounts Receivable	5,550	-
TOTAL ASSETS	109,178	90,612
LIABILITIES		
CURRENT LIABILITIES		
Other Current Liabilities	3,273	$ 90,612
NET POSITION HELD IN TRUST	$ 105,905	

See accompanying notes.

POTTSTOWN SCHOOL DISTRICT

STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS

For the Year Ended June 30, 2016

	Trust Fund
ADDITIONS	
Contributions	$ 74,015
Earnings on Investments	117
TOTAL ADDITIONS	74,132
DEDUCTIONS	
Purchased Services	26,364
TOTAL DEDUCTIONS	26,364
CHANGE IN NET POSITION	47,768
NET POSITION - BEGINNING OF YEAR	58,137
NET POSITION - END OF YEAR	$ 105,905

See accompanying notes.

Pottstown School District ("School District" or the "District") is located in Montgomery County, Pennsylvania. The District is comprised of five elementary schools, one middle school, and one high school, and serves approximately 3,000 students.

The Pottstown School District is governed by a board of nine school directors who are residents of the District and who are elected every two years, on a staggered basis, for a four-year term. The board of school directors has the power and duty to establish, equip, furnish and maintain a sufficient number of elementary, secondary, and other schools necessary to educate every person, residing in such district, between the ages of six and 21 years, who may attend.

In order to establish, enlarge, equip, furnish, operate, and maintain any school herein provided, or to pay any school indebtedness which the District is required to pay, or to pay an indebtedness that may at any time hereafter be created by the District, the board of school directors are vested with all the necessary authority and power annually to levy and collect the necessary taxes required and granted by the legislature, in addition to the annual state appropriation, and are vested with all necessary power and authority to comply with and carry out any or all of the provisions of the Public School Code of 1949.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the District (the primary government) and its component units.

The District used guidance contained in generally accepted accounting principles to evaluate the possible inclusion of related entities (authorities, boards, etc.) within its reporting entity. The criteria used by the District for inclusion are financial accountability and the nature and significance of the relationships. In determining financial accountability in a given case, the District reviews the applicability of the following criteria. The District is financially accountable for:

- Organizations that make up the legal District entity.

- Legally separate organizations if District officials appoint a voting majority of the organization's governing body and the District is able to impose its will on the organization, or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the District as defined below.

  Impose its will - If the District can significantly influence the programs, projects or activities of, or the level of services performed or provided by the organization.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A. Reporting Entity - continued

Financial benefit or burden - exists if the District (1) is entitled to the organization's resources; (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to the organization; or (3) is obligated in some manner for the debt of the organization.

- Organizations that are fiscally dependent on the District. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval by the District.

Based on the foregoing criteria, the District has determined it has no component units.

Governments commonly enter into special arrangements with each other to provide or obtain needed services. A common type of such an arrangement is a joint venture. In addition to joint ventures, governments also enter into contracts to plan for and address certain activities for their mutual benefits; i.e., a jointly governed organization. The District has one jointly governed organization:

Jointly Governed Organizations: The District is a participating member of the Montgomery County Intermediate Unit (MCIU). The MCIU is run by a joint committee consisting of members from each participating district. No participating district appoints a majority of the joint committee. The board of directors of each participating district must approve MCIU's annual operating budget.

The MCIU is a self-sustaining organization that provides services for fees to participating districts. As such, the District has no ongoing financial interest or responsibility in the MCIU. The MCIU contracts with participating districts to supply special education services, computer services, and to act as a conduit for certain federal programs.

B. Basis of Presentation - Government-Wide Financial Statements

Government-wide financial statements (i.e., the statement of net position and the statement of activities) display information about the reporting entity, except for its fiduciary activities. All fiduciary activities are reported only in the fund financial statements. The government-wide statements include separate columns for the governmental and business-type activities of the primary government, as well as any discretely presented component units. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions are reported separately from business-type activities which rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Presentation - Government-Wide Financial Statements - continued

The statement of activities demonstrates the degree to which the direct expenses of a given function to the District are offset by the program revenues related to that function. Direct expenses are those that are directly related to and clearly identified with a function. Program revenues include 1) charges to customers or others who purchase, use, or directly benefit from services or goods provided by a given function, or 2) grants and contributions that are restricted to meet the operational or capital requirements of a function. Taxes and other items properly not included in program revenues are reported as general revenues.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are the contributions made to any component units from the District's governmental funds and transfers between governmental funds and business-type and fiduciary funds. Elimination of these contributions would distort the direct costs and program revenues reported for the various functions concerned.

C. Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District Reports the Following Major Governmental Funds:

***General Fund*:** This fund is established to account for resources devoted to financing the general services that the District performs. Intergovernmental revenues and other sources of revenue used to finance the fundamental operations of the District are included in this fund. The fund is charged with all costs of operating the District for which a separate fund has not been established.

***Capital Projects Fund*:** This fund is established to account for financial resources to be used for the acquisition or construction of major capital equipment and facilities (other than those financed by proprietary funds).

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

The District has the Following Major Enterprise Fund:

Food Service Fund: This fund accounts for all revenues, food purchases, and costs and expenses for the food service program. The food service fund is the District's only major enterprise fund where the intent of the governing body is that the costs of providing food services are covered by user charges and subsidies received.

Additionally, the District Reports the Following Fund Types:

Internal Service Fund: This fund accounts for the financing of services provided to other departments or agencies of the government on a cost reimbursement basis. The District's internal service fund is a major proprietary fund used to account for the activity related to the District's self-insured medical, vision, and prescription drug plan. Since this fund supports largely governmental activities, it is included in governmental activities in the government-wide statements.

Fiduciary Funds: The District's fiduciary funds are trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are, therefore, not available to support the District's own programs. The District's only trust funds are the private-purpose trusts. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's student activity fund is an agency fund.

During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as interfund receivables and payables. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Property taxes and interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met. If time-eligibility requirements are not met, deferred inflows of resources would be recorded. All other revenue items are considered to be measurable and available only when cash is received by the government.

For the year ended June 30, 2016, the District recognized revenue related to rental subsidies due from the Commonwealth of Pennsylvania. The District believes that the authorization of borrowing to fund the rental subsidy through PA Act 25 of 2016 and the subsequent bond resolution in July 2016 by the Commonwealth Financing Authority meets the available criteria under generally accepted accounting principles for governmental fund revenue recognition.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

The proprietary fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The trust fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting.* The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Budgetary Process

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

In accordance with Act 1 of 2006, the board shall annually, but not later than 110 days before the primary election, decide the budget option to be used for the following fiscal year. The board shall approve either the Accelerated Budget Process Option or the Board Resolution Option.

Accelerated Budget Process Option
Under this option, a preliminary budget must be adopted 90 days prior to the primary election. Under this option, the preliminary budget must be available for public inspection at least 20 days prior to the budget adoption. The board shall give public notice of its intent to adopt the preliminary budget at least 10 days prior to the adoption.

If the primary budget exceeds the increase authorized by the Index, an application for an exception may be filed with the Pennsylvania Department of Education and made available for public inspection. The board may opt to forego applying for an exception by submitting a referendum question seeking voter approval for a tax increase, in accordance with Act 1.

The final budget shall include any necessary changes from the adopted preliminary budget. Any reduction required as the result of the failure of referendum shall be clearly stated. The final budget shall be made available for public inspection at least 20 days prior to final adoption. The board shall annually adopt the final budget by a majority vote of all members of the board prior to June 30.

Board Resolution Option
Under the Board Resolution Option, the board shall adopt a resolution that it will not raise the rate of any tax for the following fiscal year by more than the Index. Such resolution shall be adopted no later than 110 days prior to the primary election. At least 30 days prior to adoption of the final budget the board shall prepare a proposed budget. The proposed budget shall be available for public inspection at least 20 days prior to adoption of the budget. The board shall give public notice of its intent to adopt at least 10 days prior to adoption of the proposed budget. The board shall annually adopt the final budget by a majority vote of all members of the board by June 30.

Legal budgetary control is maintained at the sub-function/major object level. The PA School Code allows the school board to make budgetary transfers between major function and major object codes only within the last nine months of the fiscal year, unless there is a two-thirds majority of the board approving the transfer. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Budgetary Process - continued

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the PDE 2028 when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all 2015/16 budget transfers.

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance

1. Cash and Investments

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

Investments are valued at fair value in accordance with Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*, except for investments in external investment pools, which are valued at amortized costs if required criteria are met as outlined in Governmental Accounting Standards Board Statement No. 79, *Certain External Investment Pools and Pool Participants.*

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. 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.

2. Receivables/Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the year are referred to as "interfund receivables/payables." Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as "internal balances."

3. Inventories and Prepaid Items

Inventories of governmental funds are presented at the lower of cost or market on a first-in, first-out basis and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased. The inventories on hand at June 30, 2016, consisted of the following:

Paper supplies	$ 27,786

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

3. Inventories and Prepaid Items - continued

Inventories of the Enterprise Fund consisting of food and paper supplies are carried at cost, using the first-in, first-out method. Federal donated commodities are valued at their fair market value as determined by the U.S. Department of Agriculture at the date of donation. The inventories on hand at June 30, 2016, consisted of the following:

Purchased food and supplies	$ 22,691
Donated commodities	4,727
	$ 27,418

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The costs of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital Assets, Depreciation, and Amortization

The District's capital assets with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Proprietary capital assets are also reported in their respective financial statements. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

The District generally capitalizes assets with a cost of $2,500 or more as purchase and construction outlays occur. Assets purchased or constructed with long-term debt may be capitalized regardless of the threshold established. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

4. Capital Assets, Depreciation, and Amortization - continued

Estimated useful lives in years for depreciable assets are as follows:

Assets	Years
Building and building improvements	5 - 40
Site improvements	15 - 40
Furniture and equipment	5 - 20
Vehicles	5 - 7

Interest costs incurred during the construction phase of capital assets are capitalized when incurred by proprietary funds and similar component units on debt where proceeds were used to finance the construction of assets.

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District currently has four items that qualify for reporting in this category, which are a deferred charge on bond refunding, interest rate swap, a deferred pension contribution, and deferred outflows of resources for pension, which are reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The interest rate derivative is deemed a hedge instrument and is reported as a deferred outflow on the government-wide statement of net position. A deferred pension contribution results from contributions made to the pension plan subsequent to the measurement date and prior to the District's year end. The contributions will be recognized as a reduction in net pension liability in the following year. Deferred outflows of resources for pension relates to the District's net pension liability and pension expenses and arises from changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, changes in the employer's proportion, differences between employer contributions and the proportionate share of total contributions reported by the pension plan, or changes in the internal allocation of the net pension liability between governmental and business-type activities. These amounts are deferred and amortized over either a closed five-year period or the average remaining service life of all employees depending on what gave rise to the deferred outflow.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

5. Deferred Outflows/Inflows of Resources - continued

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two types of items that qualify for reporting in this category. The first item, *deferred inflows of resources for pension*, relates to the District's net pension liability and pension expense and arises from changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, changes in the employer's proportion, differences between employer contributions and the proportionate share of total contributions reported by the pension plan, or changes in the internal allocation of the net pension liability between governmental and business-type activities. These amounts are deferred and amortized over either a closed five-year period or the average remaining service life of all employees depending on what gave rise to the deferred inflow. The second item, *unavailable revenue*, arises only under a modified accrual basis of accounting and is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source - property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

6. Unearned Revenues

Revenues that are received but not earned are reported as unearned revenues in the government-wide and fund financial statements. Unearned revenues arise when resources are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has legal claim to the resources, the liability for unearned revenue is removed from the respective financial statements and revenue is recognized.

7. Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net investment in the capital assets component of net position is comprised of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. In addition, any deferred outflows of resources and/or deferred inflows of resources related to such capital assets or liabilities associated with the capital assets should also be added to or deducted from the overall net investment in capital assets. The restricted component of net position is used when there are limitations imposed on their use either through the enabling legislation adopted by a higher governmental authority or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining component of net position is unrestricted.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

7. Net Position - continued

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

8. Fund Balance Policies and Flow Assumptions

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The board of school directors is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The board of school directors may assign fund balance. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

The District's unassigned and assigned fund balance of the General Fund should not be less than five percent of the following year's budgeted expenditures.

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. The District's policy states there are no restrictions on the order of the unrestricted fund balances used when an expenditure is incurred for a purpose in which unrestricted fund balance amounts are available under committed, assigned, or unassigned fund balance. The decision will be made at the discretion of the business manager.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

G. Revenues and Expenditures/Expense

1. Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions (including special assessments) that are restricted to meeting the operations or capital requirements of a particular function or segment. All taxes and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Compensated Absences

Vested or accumulated vacation and sick leave is expected to be liquidated with expendable available financial resources and is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation and sick leave that are not expected to be liquidated with expendable available financial resources are reported in the government-wide financial statements. Vested or accumulated vacation or sick leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

District employees earn sick leave depending upon their classification. A total of 300 sick days may be accumulated. Upon retirement, eligible employees are paid an established rate per day ranging from $20 to $70, depending upon their classification. In addition, the District is required to pay eligible employees for unused vacation.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the food service fund and internal service fund are charges to customers for sales and services provided. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

H. Other Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Compliance with Finance Related Legal and Contractual Provisions

The District has no material violations of finance related legal and contractual provisions.

B. Deficit Fund Balance or Net Position of Individual Funds

Deficit Fund Balance - Proprietary Fund (Food Service Fund)
For the year ended June 30, 2016, the accounting under GASB No. 68, *Accounting and Financial Reporting for Pensions,* and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date,* created a deficiency in net position at year end of $1,082,075. The District will fund this deficiency in future years through contributions to the Pennsylvania Public School Employees' Retirement Plan (PSERS) at a rate required by PSERS.

C. Excess of Expenditures Over Appropriations in Individual Funds

For the year ended June 30, 2016, the General Fund had an excess of expenditures over appropriations of $48,155. The District used revenues in excess of budgeted amounts to fund the excess expenditures.

D. Budgetary Compliance

The District's only legally adopted budget is for the General Fund. All budgetary transfers were made within the last nine months of the fiscal year. The District cancels all purchase orders open at year-end; therefore, it does not have any outstanding encumbrances at June 30, 2016. In addition, the District includes a portion of the prior year's fund balance represented by unappropriated liquid assets remaining in the fund as budgeted revenue in the succeeding year. The results of operations on a GAAP basis do not recognize the fund balance allocation as revenue as it represents prior period's excess of revenues over expenditures.

NOTE 3 - CASH AND INVESTMENTS

The deposit and investment policy of the District adheres to state statutes. There were no deposits or investment transactions during the year that were in violation of either the state statutes or the policy of the District.

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

The breakdown of total cash and investments at June 30, 2016, was as follows:

Petty cash	$ 837
Certificates of deposit	23,065
Cash	10,490,925
Pooled cash and investments	5,545,766
	$ 16,060,593

Deposits
Custodial Credit Risk
Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. The District does have a policy for custodial credit risk on deposits. At June 30, 2016, the carrying amount of the District's deposits was $10,513,990 and the bank balance was $10,513,533. Of the bank balance, $577,208 was covered by federal depository insurance, and $9,936,325 was exposed to custodial credit risk but covered by collateralization requirements in accordance with Act 72.

Bank certificates of deposit are considered to be a cash equivalent for presentation on the government-wide and fund financial statements.

Investments
Under Section 440.1 of the Public School Code of 1949, as amended, the District is permitted to invest funds in the following types of investments:

> Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
>
> Deposits in savings accounts, time deposits, or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured, and for any amounts above the insured maximum, provided that approved collateral as provided by law, therefore, shall be pledged by the depository.

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.

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

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

	Maturities	Fair Value	Carrying Value
PA Local Government Investment Trust			
Money Market Fund		$ 53,725	$ 53,725
PA School District Liquid Asset Fund			
Full Flex Pool	< 1 year	2,980,000	2,980,000
MAX Account Balance		2,812,826	2,812,826
PA State Treasury INVEST Daily Pool			
U.S. Government Agencies and Money Market Funds		603	603
Total			5,847,154
Less: Reconciling Items			(301,388)
Total Investments			$ 5,545,766

A portion of the District's deposits are in the Pennsylvania Local Government Investment Trust (PLGIT), the Pennsylvania School District Liquid Asset Fund (PSDLAF), and the Pennsylvania State Treasury INVEST Daily Pool (INVEST). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, the funds act like money market mutual funds in that their objective is to maintain a stable net asset value of $1 per share, are rated by a nationally recognized statistical rating organization, and are subject to an independent annual audit.

The District's cash equivalent investments in PLGIT, PSDLAF, and INVEST cannot be classified by risk category because they are not evidenced by securities that exist in physical or book entry form. The fair value of the District's position in the external investment pool is the same as the value of the pool shares. All investments in external investment pools that are not registered with the Securities and Exchange Commission are subject to oversight by the Commonwealth of Pennsylvania.

As of June 30, 2016, the entire PLGIT, PSDLAF, and INVEST book balance of $5,545,766 is considered to be a cash equivalent for presentation on the government-wide and fund financial statements.

Interest Rate Risk

The District has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Credit Risk
The District has an investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2016, the District's investments were rated as:

Investment	Standard & Poor's
PA School District Liquid Asset Fund	AAA
PA Invest	AAA
PA Local Government Investment Trust	AAA

Concentration of Credit Risk
The District places no limit on the amount it may invest in any one issuer.

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.

NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE

The District has one independently elected tax collector who is responsible for the collection of taxes. Assessed values are established by the County's Board of Assessment. All taxable real property was assessed at $810,196,679. In accordance with Act 1 of 2006, the District received $1,617,133 in property tax reduction funds for the 2015/2016 fiscal year. The District tax rate for the year ended June 30, 2016, was 39.252 mills ($39.252 per $1,000 of assessed valuation) as levied by the board of school directors. The schedule for real estate taxes levied for each fiscal year is as follows:

July 1	Levy date
July 1 - August 31	2% discount period
September 1 - October 31	Face payment period
November 1 - January 14	10% penalty period
January 15	Lien date

NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE - CONTINUED

The District, in accordance with generally accepted accounting principles, recognized the delinquent and unpaid taxes receivable reduced by an allowance for uncollectible taxes as determined by administration. A portion of the net amount estimated to be collectible which was measurable and available within 60 days was recognized as revenue and the balance reported as unavailable revenue under deferred inflows of resources in the fund financial statements.

The balances at June 30, 2016, were as follows:

	Gross Taxes Receivable	Allowance for Uncollectible Taxes	Net Estimated to be Collectible	Tax Revenue Recognized	Unavailable Revenue
Real estate	$ 2,749,545	$ 49,091	$ 2,700,454	$ 294,975	$ 2,454,570
Earned Income Tax	816	-	816	816	-
Other	48,849	-	48,849	48,849	-
	$ 2,799,210	$ 49,091	$ 2,750,119	$ 344,640	$ 2,454,570

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES

The following schedule represents intergovernmental receivables at June 30, 2016:

Receivable	General Fund	Proprietary Fund - Food Service
Commonwealth of PA		
Ready to Learn	$ 55,325	$ -
Retirement	925,159	-
Rental Subsidy	405,766	-
Social Security	74,070	-
Transportation	8,974	-
National School Lunch Program	-	3,276
Federal Subsidies		
Special Education Grants to States	369,406	-
Title I Grants to Local Education Agencies	7,908	-
Title III English Language Acquisition State Grants	3,845	-
ACCESS Medical Assistance Program	6,771	-
21st Century Community Learning Centers	474,546	-
National School Lunch Program	-	71,040
Other Local Agencies	3,289	-
	$ 2,335,059	$ 74,316

NOTE 6 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The District had the following interfund receivables/payables at June 30, 2016:

	Interfund Receivables	Interfund Payables
General Fund	$ 55,794	$ 860,133
Capital Projects Fund	205,898	76,837
Elementary Activites (NonMajor)	-	2,798
Food Service Fund	10,603	63,395
Internal Service Fund	729,873	-
Trust Fund	995	-
	$ 1,003,163	$ 1,003,163

Interfund receivables and payables exist as a result of a time lag between dates when payments between funds are made. All will be paid within one year.

Interfund transfers are summarized as follows:

	Transfers In	Transfers Out
General Fund	$ -	$ 200,000
Capital Projects Fund	200,000	-
	$ 200,000	$ 200,000

Transfers were made to fund future capital needs.

NOTE 7 - CHANGES IN CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2016, were as follows:

Governmental Activities

	Beginning Balance	Increase	Reclass/ Decrease	Ending Balance
Capital assets not being depreciated:				
Land	$ 298,222	$ -	$ -	$ 298,222
Construction-in-progress	40,151	955,148	(986,801)	8,498
Total not being depreciated	338,373	955,148	(986,801)	306,720
Capital assets being depreciated:				
Buildings and building improvements	87,889,044	-	23,875	87,912,919
Site improvements	3,166,883	-	962,926	4,129,809
Furniture and equipment	9,369,384	130,648	-	9,500,032
Vehicles	644,115	145,642	-	789,757
Total being depreciated	101,069,426	276,290	986,801	102,332,517
Less accumulated depreciation for:				
Buildings and building improvements	26,576,674	2,716,927	-	29,293,601
Site improvements	1,842,769	162,878	-	2,005,647
Furniture and equipment	7,641,536	563,054	-	8,204,590
Vehicles	529,329	88,989	-	618,318
Total accumulated depreciation	36,590,308	3,531,848	-	40,122,156
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	64,479,118	(3,255,558)	986,801	62,210,361
GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET	$ 64,817,491	$ (2,300,410)	$ -	$ 62,517,081

Business-Type Activities

	Beginning Balance	Increase	Reclass/ Decrease	Ending Balance
Capital assets being depreciated:				
Furniture and equipment	$ 860,842	$ -	$ -	$ 860,842
Accumulated depreciation for:				
Furniture and equipment	792,213	22,341	-	814,554
BUSINESS-TYPE ACTIVITIES, CAPITAL ASSETS, NET	$ 68,629	$ (22,341)	$ -	$ 46,288

NOTE 7 - CHANGES IN CAPITAL ASSETS - CONTINUED

Depreciation expense was charged to functions/programs of the governmental activities of the primary government as follows:

Instructional Services:	
Regular	$ 608,531
Special	248,487
Vocational	46,521
Other Instructional Programs	17,430
Pre-kindergarten Programs	10,682
	931,651
Support Services:	
Pupil Personnel	108,412
Instructional Staff	408,086
Administration	132,608
Pupil Health	44,190
Business Services	45,571
Operation and Maintenance of Plant Services	1,711,854
Student Transportation Services	80,598
Central Support	16,270
	2,547,589
Noninstructional Services:	
Student Activities	40,166
Community Services	12,442
	52,608
TOTAL DEPRECIATION EXPENSE - GOVERNMENTAL ACTIVITIES	$ 3,531,848

NOTE 8 - GENERAL LONG-TERM DEBT

General obligation bonds and notes payable are as follows:

General Obligation Note, Series of 2015: The General Obligation Note, Series of 2015, aggregate principal of $10,000,000, was issued on November 19, 2015, for the purpose of currently refunding a portion of the outstanding General Obligation Bonds, Series A of 2010. The note matures from June 1, 2016, to June 1, 2027, and has an interest rate of 2.44%. Total cash flow savings was $397,401 related to the current refunding.	$ 9,995,000
General Obligation Bonds, Series of 2014: The General Obligation Bonds, Series of 2014, aggregate principal of $6,730,000, were issued on April 25, 2014, for the purpose of providing funds for various capital projects of the District. The bonds mature from June 1, 2019, to June 1, 2035. Bonds maturing on June 1, 2019, 2024, 2029, and 2033 are subject to mandatory redemption. Maturity schedule reflects mandatory redemption amounts. Interest rates range from 1.5% to 4.25%.	6,720,000
General Obligation Bonds, Series of 2013: The General Obligation Bonds, Series of 2013, aggregate principal of $10,000,000, were issued on November 26, 2013, for the purpose of providing funds for various capital projects of the District. The bonds mature from June 1, 2020, to June 1, 2033. Bonds stated to mature June 1, 2020, are subject to mandatory redemption beginning 2015. Maturity schedule reflects mandatory redemption amounts. Interest rates range from 2.25% to 4.1%.	9,980,000
General Obligation Bonds, Series of 2012: The General Obligation Bonds, Series of 2012, aggregate principal of $5,315,000, were issued on April 3, 2012, for the purpose of currently refunding the outstanding General Obligation Bonds, series A of 2006. The bonds mature from April 1, 2013, to April 1, 2019. Interest rates range from 1.5% to 2.0%. Total cash flow savings was $435,442 related to current refinancing.	2,545,000
General Obligation Bonds, Series of 2011: The General Obligation Bonds, Series of 2011, aggregate principal of $10,000,000, were issued on November 3, 2011, for the purpose of providing funds for various capital projects of the District. The bonds mature from January 1, 2017, to June 1, 2031. Interest rates range from 2.0% to 3.9%.	9,980,000
General Obligation Bonds, Series A of 2010: The General Obligation Bonds, Series A of 2010, aggregate principal of $16,715,000, were issued on October 15, 2010, for the purpose of currently refunding the outstanding General Obligation Bonds, Series of 2005 and 2006. The bonds mature from June 1, 2011, to June 1, 2027. Interest rates range from 0.5% to 3.5%. Total cash flow savings was $978,865 related to current refinancing.	2,780,000

NOTE 8 - GENERAL LONG-TERM DEBT - CONTINUED

General Obligation Bonds, Series B of 2010: The General Obligation Bonds, Series A of 2010, aggregate principal of $1,865,000, were issued on October 15, 2010, for the purpose of providing funds for various capital projects of the District. The bonds mature from June 1, 2011, to June 1, 2020. Interest rates range from 2.0% to 3.0%.	835,000
General Obligation Notes, Series of 2002: The General Obligation Notes, Series of 2002, aggregate principal of $2,000,000, were issued on November 12, 2002, for the purpose of financing certain renovations and improvements of buildings within the District. The bonds mature from June 25, 2004, to June, 25, 2022. Interest rates are variable.	757,000
General Obligation Notes, Series of 2000: The General Obligation Notes, Series of 2000, aggregate principal of $9,200,000, were issued on September 8, 2000, for the purpose of financing certain renovations and improvements of buildings within the District. The bonds mature from April 25, 2002, to April 25, 2028. Interest rates are variable.	9,185,000
Total Bonds and Notes Payable	$ 52,777,000

The future annual payments required to amortize all outstanding bonds and notes are as follows:

	Principal	Interest *
2017	$ 2,193,000	$ 1,524,524
2018	2,239,000	1,481,598
2019	2,294,000	1,430,083
2020	2,352,000	1,373,937
2021	2,412,000	1,329,465
2022 - 2026	12,989,000	5,940,661
2027 - 2031	14,898,000	4,389,068
2032 - 2035	13,400,000	1,381,720
	$ 52,777,000	$ 18,851,056

* Includes interest for variable rate debt at 0.995%.

NOTE 8 - GENERAL LONG-TERM DEBT - CONTINUED

Long-term liabilities and activity, except for the net pension liability and other postemployment benefit obligation, for the year ended June 30, 2016, were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
General Obligation Debt:					
Bonds and notes payable	$ 54,346,000	$ 10,000,000	$ 11,569,000	$ 52,777,000	$ 2,193,000
Less deferred amounts:					
For issuance discounts	(215,213)	-	(12,806)	(202,407)	-
For issuance premiums	151,248	-	71,702	79,546	-
Subtotal	54,282,035	10,000,000	11,627,896	52,654,139	2,193,000
Other Liabilities:					
Compensated absences	510,996	177,938	12,539	676,395	263,560
Total Governmental Long-term Liabilities	$ 54,793,031	$ 10,177,938	$ 11,640,435	$ 53,330,534	$ 2,456,560
Business-Type Activities					
Other Liabilities:					
Compensated absences	$ 18,990	$ 3,035	$ -	$ 22,025	$ -

Funds to repay outstanding bonds and notes will be provided from future taxes or other general revenues of the general fund. The compensated absence liabilities will be liquidated by the general fund and the food service fund. Total interest expense paid during the year was $1,601,953.

Subsequent to June 30, 2016, the District issued General Obligation Bonds, Series of 2016 in the original amount of $9,995,000. The funds will be used to currently refund a portion of the outstanding General Obligation Bonds, Series of 2011, to provide funds toward certain capital projects, and to pay expenses of issuing the notes. Principal maturities occur on January 1, 2017, through maturity in 2031. Interest is payable in semi-annually on January 1 and July 1 at rates varying from 0.75% to 3.0%. The District realized a savings of $128,755 as a result of the refunding.

NOTE 9 - EMPLOYEE RETIREMENT PLANS

Employee Defined Benefit Pension Plan

Summary of Significant Accounting Policies

Pension Plan

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

General Information about the Pension Plan

Plan Description

PSERS is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania under Title 24 Part IV of the Pennsylvania General Assembly. The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.state.pa.us.

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2.0 percent or 2.5 percent, 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 10 years of service.

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2.0 percent or 2.5 percent, 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 (10 years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

Contributions

The contribution policy is set by state statute and requires contributions by active members, employers, and the Commonwealth of Pennsylvania.

Member Contributions:

Active members who joined the System prior to July 22, 1983, contribute at 5.25 percent (Membership Class T-C) or at 6.50 percent (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 percent (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 percent (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

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

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employer Contributions:

The District's contractually required contribution rate for fiscal year ended June 30, 2016, was 25.0% 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. The rate was certified by the PSERS Board of Trustees. Contributions to the pension plan from the District were $5,834,012 for the year ended June 30, 2016.

The District is also required to contribute a percentage of covered payroll to PSERS for healthcare insurance premium assistance. For the year ended June 30, 2016, the contribution rate was 0.84 percent of covered payroll and the District contributed $196,023.

Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for no less than one-half of the employer contributions made, including contributions related to pension and healthcare. This arrangement does not meet the criteria of a special funding situation in accordance with GASB Standards. Therefore, the net pension liabilities and related pension expense represent 100 percent of the District's share of these amounts. The total reimbursement recognized by the District for the year ended June 30, 2016, was $3,909,456.

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

At June 30, 2016, the District reported a liability of $79,224,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2014, to June 30, 2015. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2015, the District's proportion was 0.1829 percent, which was a decrease of 0.0019 percent from its proportion measured as of June 30, 2014.

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

For the year ended June 30, 2016, the District recognized pension expense of $6,725,968. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	$ -	$ 160,000
Differences between expected and actual experience	-	327,000
Changes in proportions - plan level	50,000	645,000
Changes in proportions - internal	142,912	142,912
Difference between employer contributions and proportionate share of total contributions	9,681	-
Contributions made subsequent to the measurement date	5,834,012	-
	$ 6,036,605	$ 1,274,912

The $5,834,012 reported as deferred outflows of resources resulting from District pension contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the years ending June 30:

2017	$ (586,032)
2018	(586,032)
2019	(586,033)
2020	685,778
	$ (1,072,319)

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Actuarial Assumptions

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

- Actuarial cost method - Entry Age Normal - level percent of pay
- Investment return - 7.50 percent, includes inflation at 3.00 percent
- Salary increases - Effective average of 5.50 percent, which reflects an allowance for inflation of 3.00 percent, real wage growth of 1.00 percent, and merit or seniority increases of 1.50 percent
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back three years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back seven years for males and three years for females.

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

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

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

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

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

Discount Rate

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

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

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

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

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
District's proportionate share of the net pension liability	$ 97,651,000	$ 79,224,000	$ 63,736,000

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

At June 30, 2016, the District had an accrued balance due to PSERS of $1,466,285. This amount represents the District's contractually obligated contributions for wages earned in March, April, and June 2015. The balance was paid in September 2016.

403(b) Tax Shelter Plan

The District has established a 403(b) tax shelter plan permitting the establishment of accounts for school employees to voluntarily set aside monies to supplement their retirement income. All school employees are eligible to participate. The District does not contribute to the plan.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The Pottstown School District administers a single-employer defined benefit healthcare plan (the Retiree Health Plan). The Plan provides medical and prescription drug insurance for eligible retirees, their spouses and dependents through the District's health insurance plan, which covers both active and retired members until the member reaches Medicare age. Benefit provisions are established through negotiation with the District and the unions representing the District's employees. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy

Contribution requirements also are negotiated between the District and union representatives. The required contribution is based on pay-as-you-go financing. The District currently provides the following plans:

Administrators:

Administrators retired between July 1, 2007, and June 30, 2008, or between July 1, 2009, and June 30, 2010, who have 20 years of service with the District, 20 years of PSERS service, and are eligible for PSERS retirement, the retiree must pay full premium for vision and dental. The District will pay 100% of single coverage for the core plan up to $5,000 per year for up to 10 years.

Administrators retired before June 30, 2007, between July 1, 2008, and June 30, 2009, or after July 1, 2010, with at least 25 years of service with the District and eligible for PSERS retirement, the retiree pays full premium for vision and dental. The District will pay 100 percent of the single coverage premium for the core plan for medical and prescription drug.

Teachers, Support Staff, and Cafeteria Staff:

Teachers, support staff, and cafeteria staff retired between September 1, 1996, and June 30, 2007, must pay full premium for vision and dental. For medical and prescription drug, the District will pay $175 per month towards retiree's premium only for up to 10 years.

Teachers, support staff, and cafeteria staff retired between July 1, 2007, and June 30, 2008, or between July 1, 2009, and June 30, 2012, with at least 20 years of service with the District, 20 years of PSERS service and are eligible for PSERS retirement must pay full premium for vision and dental. For medical and prescription drug, the District will pay 100 percent of the single coverage premium for the core plan up to $5,000 per year for up to 10 years.

Under Act 110/43, any employee who is eligible - age 60 with 30 years of service; age 62 with one year of service; or 35 years of service, regardless of age, is allowed to continue coverage for themselves and their dependents until the member reaches Medicare age. The retiree is responsible for payment equal to the premium determined for the purposes of COBRA.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation:

Annual required contribution	$ 688,422
Interest on net OPEB obligation	23,893
Adjustment to annual required contribution	(32,596)
Annual OPEB Cost	679,719
Contributions made (estimated)	(343,161)
Estimated increase in net OPEB obligation	336,558
Net OPEB obligation - beginning of year	530,953
Net OPEB obligation - end of year	$ 867,511

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2016	$ 679,719	50.49%	$ 867,511
6/30/2015	686,159	42.74%	530,953
6/30/2014	386,785	84.78%	138,068

Funded Status and Funding Progress

As of May 1, 2014, the most recent actuarial valuation date, the Plan was unfunded. The actuarial accrued liability for benefits was $5,725,496, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $5,725,496. The covered payroll (annual payroll of active employees covered by the Plan) was $21,089,150, and the ratio of the UAAL to the covered payroll was 27.15 percent.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Funded Status and Funding Progress - continued

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about actuarial value of plan assets and actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the May 1, 2014 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5 percent initially, decreasing by 0.5 percent per year to an ultimate rate of 5.5 percent in 2016. Rates gradually decrease from 5.3 percent in 2017 to 4.2 percent in 2089 and later. The unfunded actuarial accrued liability is being amortized using single period amortization as of the end of the year based on level dollar, 20-year open period.

NOTE 11 - DERIVATIVE INSTRUMENT

Introduction

The District follows accounting guidance for derivative instruments. All derivatives are to be reported on the statement of net position at fair value, and depending on whether a derivative is deemed a hedge or an investment instrument, the changes in fair value are either reported on the statement of net position as a deferral, or in the statement of activities as investment revenue or loss.

The District engaged an independent party to perform the valuation on the two derivative instruments that it holds. Both derivatives are considered level 2 investments. Both the District’s basis swaps qualify and are considered hedging derivative instruments with the fair value of the derivative reported as deferred outflow of $2,075,816. The swap transactions were considered effective under both the consistent critical terms and the quantitative method standards.

NOTE 11 - DERIVATIVE INSTRUMENT - CONTINUED

Terms and Fair Value

The terms as of June 30, 2016, were as follows:

Government Activity	Objective	Principal Amount at Issuance	Closing Date	Maturity Date	Interest Paid	Interest Rate (1)	Market Value
Effective Hedges							
2000 Note SWAP	Provide fixed interest rate to borrowers	$ 9,200,000	09/08/2000	04/25/2028	$ 91,069	0.995%	$ 1,896,208
2002 Note SWAP	To hedge exposure to changes in long-term interest rates	2,000,000	11/12/2002	06/25/2022	8,687	0.995%	179,608

(1) The loan interest rate is determined by the program administrator to fund the payments for debt service on Delaware Valley Regional Finance Authority (DelVal) bond issues, the net payments on interest rate swap agreements related to the loans, and the administrative expenses to operate the DelVal Loan Program.

DelVal has entered into interest rate swap agreements with Bank of America, N.A.; Barclays Bank PLC; Citibank, N.A.; PNC Bank; National Association; and Toronto-Dominion Bank (the “Counterparties”) related to DelVal’s bonds and fixed rate loans. The “market value” is the estimated price that DelVal would receive (pay) if the agreements were terminated as of June 30, 2016. If DelVal were obligated to make a payment and sufficient funds were not available, DelVal could assess each borrower its allocable share of the termination payment. A related interest rate swap agreement may be terminated under the following circumstances:

(a) DelVal and the Counterparty mutually consent to the termination,
(b) The borrower defaults on its loan, or
(c) DelVal or the Counterparty default or their financial conditions deteriorate to make a default imminent.
(d) The borrower prepays or terminates the fixed rate of a fixed rate loan before its scheduled termination date.

NOTE 11 - DERIVATIVE INSTRUMENT - CONTINUED

DelVal would seek to replace the terminated underlying swap agreement with a new agreement with similar terms and conditions. At market value, the loss or gain of the replacement swap should offset the gain or loss from the termination payment. DelVal may not be able to secure a replacement interest rate swap if the swap market is not functioning normally or if DelVal does not have access to the swap market. The long-term, unsecured, senior debt ratings of DelVal are currently "A1" and "A+" by Moody's Investors Service and Standard & Poor's, respectively.

Risks

Credit Risk. As of June 30, 2016, the District was not exposed to credit risk on its outstanding swaps. The District is exposed to credit risk in the amount of the derivative's fair value. This amount may increase if interest rates increase in the future. However, when interest rates decline and the fair value of the swaps are negative, the District is not exposed to credit risk. The District will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated. The current credit rating of Delaware Valley Regional Finance Authority, the counterparty, is A1 and A+ by Moody's and Standard & Poor's, respectively.

Basis Risk. Basis risk is the risk that the interest rate paid by the District on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The District bears basis risk on its swaps. The swaps have basis risk since the District receives a percentage of LIBOR to offset the actual variable bond rate the District pays on its bonds. The District is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the District pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

Tax Risk. Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the District's underlying variable-rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, e.g., a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. The District is receiving 67 percent of LIBOR (a taxable index) on the swaps and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

Termination Risk. The District or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the District would be liable to the counterparty for a payment equal to the swap's fair value.

NOTE 12 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs except for workers' compensation for which the District retains risk of loss. The District monitors their insured programs and increases insurance coverage as needed. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years. The District has no unfunded liability.

Effective July 1, 2012, the District became self-insured for medical and prescription insurance for employees and their dependents. During the year, the District handled all activity through its general fund. Effective June 30, 2012, the District established an internal service fund to administer future self-insurance benefits to all District employees. The District uses a third party administrator to provide consulting and administrative services to process claims within the self insurance fund. For the year ended June 30, 2016, the District has coverage for claims in excess of $200,000 per person.

Changes in claims are as follows for the years ended June 30:

	2016	2015
Claims payable, beginning of year	$ -	$ -
Incurred claims	5,962,804	6,026,522
Claims paid	(5,962,804)	(6,026,522)
Claims payable, end of year	$ -	$ -

NOTE 13 - CONTINGENCIES AND COMMITMENTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time; although, the District expects such amounts, if any, to be immaterial.

The District is the defendant in several lawsuits arising in the normal course of operations. In the opinion of the administration, the outcome of these lawsuits will not have a material adverse effect on the accompanying financial statements and, accordingly, no provision for losses has been recorded.

NOTE 13 - CONTINGENCIES AND COMMITMENTS - CONTINUED

During the 2015/2016 year, the District awarded a contract to JPS Construction Company for work related to exterior wall and site repairs at Franklin Elementary, Lincoln Elementary, and the Middle School. At June 30, 2016, a balance of $527,912 remains outstanding on this commitment. The District plans to use existing resources in the general and capital projects funds to fulfill this commitment.

NOTE 14 - FUND BALANCE

Details of the District's governmental fund balance reporting and policy can be found in Note 1, *Summary of Significant Accounting Policies*. Fund balance classifications for the year ended June 30, 2016, were as follows:

General Fund
The General Fund has nonspendable funds of $97,334 related to inventories and prepaid expenses, and restricted funds of $99,605 for the "Save the Lights" campaign. Committed funds are $4,199,409 for retirement rate increases, $200,000 for future transportation costs, and $100,000 for residency incentives. Assigned funds are $500,000 for appropriations for the 2016/17 budget. The remaining fund balance of $3,342,665 is unassigned. The commitments were authorized by the board of school directors' motion to set aside resources to fund anticipated increases in PSERS contributions, for future anticipated increases in transportation, and for future residency incentives.

Capital Projects Fund
The capital projects fund has restricted funds of $1,492,825 consisting of surplus monies transferred from the general fund for the acquisition or construction of capital facilities and capital assets as authorized by Municipal Code P.L. 145 Act of April 30, 1943.

Nonmajor Funds
The nonmajor funds have restricted funds of $99,827 consisting of $91,136 of spendable receipts that are received from donors for specific purposes and $8,691 of sinking fund deposits that will be used to pay future interest expenses.

The District has established and will maintain reservations of fund balance in accordance with GASB 54. This policy applies to the District's General Fund and all governmental funds. Fund balance is composed of nonspendable, restricted, committed, assigned, and unassigned amounts.

Fund balance information is used to identify the available resources to repay long-term debt, reduce property taxes, add new governmental programs, expand existing programs, or enhance the financial position of the District in accordance with policies established by the board of school directors.

NOTE 15 - NEW ACCOUNTING PRONOUNCEMENTS

The Government Accounting Standards Board (GASB) has issued the following standards which have not yet been implemented:

- Statement No. 74, *Financial Reporting for Postemployment Benefits Other Than Pension Plans* - The objective of this statement is to improve the usefulness of information about other postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This statement is effective for the year ending June 30, 2017.

- Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* - This statement replaces the requirements of Statement No. 45, Ac*counting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The scope of this statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This statement is effective for the year ending June 30, 2018.

- Statement No. 77, *Tax Abatement Disclosures* - The requirement enhances the disclosure of information about the nature and magnitude of tax abatements and will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations, and (2) the impact those abatements have on a government's financial position and economic condition. This statement is effective for the year ending June 30, 2017.

- Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73* - This statement addresses certain issues that have been raised with respect to GASB Statements No. 67, No. 68, and No. 73 related to (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions of the treatment of deviations from the guidance in Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This statement is effective for the year ending June 30, 2017.

The District has not yet completed the analyses necessary to determine the actual financial statement impact of these new pronouncements.

REQUIRED SUPPLEMENTARY INFORMATION

POTTSTOWN SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

For the Year Ended June 30, 2016

	Budgeted Amount		Actual	Variances
	Original	Final	(GAAP) Basis	Final to Actual
REVENUES				
Local Sources	$ 33,846,398	$ 33,846,398	$ 34,543,281	$ 696,883
State Sources	20,848,212	20,848,212	21,490,475	642,263
Federal Sources	1,942,318	1,942,318	2,004,635	62,317
TOTAL REVENUES	56,636,928	56,636,928	58,038,391	1,401,463
EXPENDITURES				
INSTRUCTIONAL SERVICES				
Regular Programs - Elementary/Secondary	19,846,600	19,846,600	17,557,330	2,289,270
Special Programs - Elementary/Secondary	10,375,206	10,375,206	11,420,163	(1,044,957)
Vocational Education Programs	1,124,570	1,124,570	1,265,132	(140,562)
Other Instructional Programs - Elementary/Secondary	2,101,914	2,101,914	1,939,455	162,459
Nonpublic School Programs	-	-	4,583	(4,583)
Pre-Kindergarten	1,381,960	1,381,960	2,122,720	(740,760)
TOTAL INSTRUCTIONAL SERVICES	34,830,250	34,830,250	34,309,383	520,867
SUPPORT SERVICES				
Pupil Personnel	2,011,949	2,011,949	1,927,033	84,916
Instructional Staff	2,240,244	2,240,244	2,513,180	(272,936)
Administration	3,069,270	3,069,270	3,424,587	(355,317)
Pupil Health	1,207,759	1,207,759	1,069,493	138,266
Business	945,269	945,269	1,040,300	(95,031)
Operation and Maintenance of Plant Services	4,772,682	4,772,682	4,689,833	82,849
Student Transportation Services	1,747,029	1,747,029	2,167,071	(420,042)
Central	438,983	438,983	373,911	65,072
Other Support Services	27,573	27,573	18,898	8,675
TOTAL SUPPORT SERVICES	16,460,758	16,460,758	17,224,306	(763,548)
OPERATION OF NONINSTRUCTIONAL SERVICES				
Student Activities	778,480	778,480	838,194	(59,714)
Community Services	63,820	63,820	60,196	3,624
TOTAL OPERATION OF NONINSTRUCTIONAL SERVICES	842,300	842,300	898,390	(56,090)
Capital Outlay	753,700	753,700	955,148	(201,448)
Debt Service	3,749,920	3,749,920	3,240,585	509,335
Refund of Prior Year Revenues	-	-	57,271	(57,271)
TOTAL EXPENDITURES	56,636,928	56,636,928	56,685,083	(48,155)
EXCESS OF REVENUES OVER EXPENDITURES	-	-	1,353,308	1,353,308
OTHER FINANCING SOURCES (USES)				
Transfers Out	-	-	(200,000)	(200,000)
Budgetary Reserve	(500,000)	(500,000)	-	500,000
TOTAL OTHER FINANCING SOURCES (USES)	(500,000)	(500,000)	(200,000)	300,000
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	$ (500,000)	$ (500,000)	1,153,308	$ 1,653,308
FUND BALANCE - BEGINNING OF YEAR			7,385,705	
FUND BALANCE - END OF YEAR			$ 8,539,013	

POTTSTOWN SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND RELATED RATIOS - PENSION PLAN

June 30, 2016

	2016	2015	2014
District's proportion of the collective net pension liability	0.1829%	0.1848%	0.1846%
District's proportionate share of the collective net pension liability	$ 79,224,000	$ 73,145,000	$ 75,568,000
District's covered employee payroll	$ 23,528,030	$ 23,582,695	$ 23,691,286
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	336.72%	310.16%	318.97%
Plan fiduciary net position as a percentage of the total pension liability	54.36%	57.24%	54.50%

The District's covered employee payroll noted above is as of the measurement date of the net pension liability (June 30, 2015, 2014, and 2013).

Note: This schedule is to present the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information for only those years for which information is available is shown.

POTTSTOWN SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS - PENSION PLAN

LAST 10 FISCAL YEARS

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	$ 5,834,012	$ 4,696,902	$ 3,732,485	$ 2,686,177	$ 1,899,240	$ 1,261,707	$ 1,034,458	$ 977,792	$ 1,525,536	$ 1,218,324
Contributions in relation to the contractually required contribution	5,834,012	4,696,902	3,732,485	2,686,177	1,899,240	1,261,707	1,034,458	977,792	1,525,536	1,218,324
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered employee payroll	$ 23,800,965	$ 23,528,030	$ 23,582,695	$ 23,691,286						
Contributions as a percentage of covered employee payroll	24.51%	19.96%	15.83%	11.34%						

NOTE: This schedule is to present the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information for only those years for which information is available is shown.

POTTSTOWN SCHOOL DISTRICT

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
Eligible Employees	5/1/2014	$ -	$ 5,725,496	$ 5,725,496	0.00%	$ 21,089,150	27.15%
Eligible Employees	5/1/2012	-	3,351,076	3,351,076	0.00%	20,810,112	16.10%
Eligible Employees	5/1/2010	-	3,234,715	3,234,715	0.00%	23,259,390	13.91%

See note to required supplementary information.

BUDGETARY DATA

The budget for the general fund is adopted on the modified accrual basis of accounting which is consistent with generally accepted accounting principles.

SUPPLEMENTARY INFORMATION

POTTSTOWN SCHOOL DISTRICT

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2016

	Debt Service	Special Revenue	Total Governmental Funds
ASSETS			
Cash and Investments	$ 8,691	$ 100,742	$ 109,433
TOTAL ASSETS	$ 8,691	$ 100,742	$ 109,433
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
LIABILITIES			
Interfund Payable	$ -	$ 2,798	$ 2,798
Accounts Payable	-	6,808	6,808
TOTAL LIABILITIES	-	9,606	9,606
FUND BALANCES			
Restricted Fund Balance	8,691	91,136	99,827
TOTAL FUND BALANCES	8,691	91,136	99,827
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 8,691	$ 100,742	$ 109,433

POTTSTOWN SCHOOL DISTRICT

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

For the Year Ended June 30, 2016

	Debt Service	Special Revenue	Total Governmental Funds
REVENUES			
Local Sources	$ 2	$ 60,470	$ 60,472
TOTAL REVENUES	2	60,470	60,472
EXPENDITURES			
Current:			
Support Services	60,943	-	60,943
Operation of Noninstructional Services	-	45,476	45,476
Debt Service:			
Interest	155,368	-	155,368
TOTAL EXPENDITURES	216,311	45,476	261,787
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(216,309)	14,994	(201,315)
OTHER FINANCING SOURCES (USES)			
Issuance of Refunding Note	10,000,000	-	10,000,000
Current Refunding Debt Service - Principal	(9,775,000)	-	(9,775,000)
TOTAL OTHER FINANCING SOURCES (USES)	225,000	-	225,000
NET CHANGE IN FUND BALANCES	8,691	14,994	23,685
FUND BALANCES - BEGINNING OF YEAR	-	76,142	76,142
FUND BALANCES - END OF YEAR	$ 8,691	$ 91,136	$ 99,827

See accompanying notes.

POTTSTOWN SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Source Code	Federal CFDA Number	Federal Pass-Through Grantor's Number	Grant Period Beginning/ Ending Dates	Program or Award Amount	Total Received for the Year	Accrued or (Unearned) Revenue at July 1, 2015	Revenue Recognized	Expenditures	Accrued or (Unearned) Revenue at June 30, 2016
U.S. DEPARTMENT OF DEFENSE										
JROTC - Basic, Applied, and Advanced Research in Science and Engineering	D	12.630-297929	N/A	07/01/15-06/30/16	$ 53,382	$ 53,382	$ -	$ 53,382	$ 53,382	$ -
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES										
Passed through PA Department of Welfare:										
Access - Time Study/Medical Assistance Program	I	93.778	N/A	07/01/15-06/30/16	N/A	14,476	2,277	18,970	18,970	6,771
U.S. DEPARTMENT OF EDUCATION										
Passed through the Pennsylvania Department of Education:										
Title I										
Title I Grants to Local Education Agencies	I	84.010	013-160348	07/01/15-09/30/16	1,078,052	1,070,144	-	1,078,052	1,078,052	7,908
Title I Grants to Local Education Agencies	I	84.010	013-150348	09/12/14-09/30/15	972,836	(37,920)	(37,920)	-	-	-
Title I Grants to Local Education Agencies	I	84.010	042-130348	07/01/13-09/30/14	50,403	-	-	-	-	-
Title I Grants to Local Education Agencies	I	84.010	077-150348	03/20/15-09/30/15	41,255	23,574	23,401	173	173	-
Title I Subtotal						1,055,798	(14,519)	1,078,225	1,078,225	7,908
Career and Technical Training	I	84.048	380-160051	07/01/15-06/30/16	60,582	60,582	-	60,582	60,582	-
Career and Technical Training	I	84.048	380-150092	07/01/14-06/30/15	57,340	26,064	26,064	-	-	-
Supporting Effective Instruction State Grants	I	84.367	020-160348	07/01/15-09/30/16	142,889	143,275	-	142,889	142,889	(386)
Supporting Effective Instruction State Grants	I	84.367	020-150348	09/09/14-09/30/15	142,887	(300)	(300)	-	-	-
21st Century Community Learning Center	I	84.287	4100068087	10/01/15-09/30/16	400,000	139,534	-	277,683	277,683	138,149
21st Century Community Learning Center	I	84.287	4100068087	10/01/14-09/30/15	400,000	148,114	- ^	183,828	183,828	35,714
21st Century Community Learning Center	I	84.287	4100060872	10/01/14-09/30/15	500,000	199,317	310,924	189,076	189,076	300,683
21st Century Community Learning Center	I	84.287	4100060872	10/01/13-09/30/14	500,000	-	(17,440) *			(17,440)
21st Century Community Learning Center Subtotal						486,965	293,484	650,587	650,587	457,106
Passed through Berks County Intermediate Unit										
Race to the Top	I	84.412	N/A	07/01/15-06/30/16	75,000	75,000	-	75,000	75,000	-
Passed through Montgomery Intermediate Unit:										
Title III English Language Acquisition State Grants	I	84.365	N/A	07/17/15-09/30/16	3,845	-	-	3,845	3,845	3,845
Title III English Language Acquisition State Grants	I	84.365	N/A	07/06/14-09/30/15	3,636	3,636	3,636	-	-	-
Special Education - Grants to States Cluster:										
Special Education - Grants to States	I	84.027	N/A	07/01/15-06/30/16	667,987	318,796	-	667,987	667,987	349,191
Special Education - Preschool Grants	I	84.173	N/A	07/01/15-06/30/16	3,668	-	-	3,668	3,668	3,668
Special Education - Grants to States	I	84.027	N/A	07/01/14-06/30/15	725,610	461,412	461,412	-	-	-
Special Education - Preschool Grants	I	84.173	N/A	07/01/14-06/30/15	4,753	4,753	4,753	-	-	-
Passed through the Lancaster-Lebanon Intermediate Unit:										
Elementary Math Cohort Series - Special Education	I	84.027	N/A	07/01/15-06/30/16	20,000	3,453	-	20,000	20,000	16,547
Total Special Education - Grants to States Cluster						788,414	466,165	691,655	691,655	369,406
TOTAL U.S. DEPARTMENT OF EDUCATION						2,639,434	774,530	2,702,783	2,702,783	837,879
U.S. DEPARTMENT OF AGRICULTURE										
Child Nutrition Cluster										
Passed through Pennsylvania Department of Education:										
National School Lunch Program	I	10.555	N/A	07/01/15-06/30/16	N/A	1,196,285	-	1,252,091	1,252,091	55,806
National School Lunch Program	I	10.555	N/A	07/01/14-06/30/15	N/A	79,499	79,499	-	-	-
School Breakfast Program	I	10.553	N/A	07/01/15-06/30/16	N/A	285,756	-	300,990	300,990	15,234
School Breakfast Program	I	10.553	N/A	07/01/14-06/30/15	N/A	17,775	17,775	-	-	-
Passed through the Pennsylvania Department of Agriculture:										
National School Lunch Program	I	10.555	N/A	07/01/15-06/30/16	N/A	129,217	-	124,490	124,490	(4,727)
TOTAL CHILD NUTRITION CLUSTER AND U.S. DEPARTMENT OF AGRICULTURE						1,708,532	97,274	1,677,571	1,677,571	66,313
TOTAL FEDERAL AWARDS						$ 4,415,824	$ 874,081	$ 4,452,706	$ 4,452,706	$ 910,963

Source Code: D - Direct Funding and I - Indirect Funding

^ Adjusted for write-off of receivable deemed uncollectible
* Adjusted for revisions in expenditure reports during the year.

NOTE: No funds were passed through to subrecipients in the year ended June 30, 2016.

See notes to schedule of expeditures of federal awards.

POTTSTOWN SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2016

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Pottstown School District under programs of the federal government for the year ended June 30, 2016. 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 Pottstown School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Pottstown School District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to the reimbursement. Negative amounts shown on the Schedule represent adjustment or credits made in the normal course of business for amounts reported as expenditures in prior years.

NOTE 3 - DE MINIMUS RATE FOR INDIRECT COSTS

The District did not elect to use the De Minimus rate for indirect costs.

NOTE 4 - FOOD COMMODITIES

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. At June 30, 2016, the District had $4,727 of food commodity inventory.

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

To the Board of School Directors
Pottstown School District
Pottstown, Pennsylvania

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Pottstown School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Pottstown School District's basic financial statements and have issued our report thereon dated February 21, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be material weaknesses: 2016-001 and 2016-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pottstown School District's financial statements are free of 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*.

Pottstown School District's Response to Findings

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

Purpose of this Report

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

Herbein + Company, Inc.

Reading, Pennsylvania
February 21, 2017

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

To the Board of School Directors
Pottstown School District
Pottstown, Pennsylvania

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2016-003. Our opinion on each major federal program is not modified with respect to these matters.

Pottstown School District's response to the noncompliance finding identified in our audit is described in the accompany schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2016-002 to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2016-003 to be a significant deficiency.

Pottstown School District's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Herbein + Company, Inc.

Reading, Pennsylvania
February 21, 2017

POTTSTOWN SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	X yes	___ no
Significant deficiency(ies) identified 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?	X yes	___ no
Significant deficiency(ies) identified not considered to be material weaknesses?	X yes	___ none reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR, Section 200.516(a)?	X yes	___ no

Identification of major program(s):

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I Grants to Local Education Agencies

Dollar threshold used to distinguish between Type A and Type B programs: $750,000

Auditee qualified as low-risk auditee?	X yes	___ no

Section II - Financial Statement Findings

2016-001 ACCOUNT RECONCILIATIONS/MATERIAL ADJUSTMENTS POSTED AS A RESULT OF THE AUDIT - MATERIAL WEAKNESS

Criteria
AU Section 325 indicates that the “Identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity’s internal control” should be regarded as a material weakness in internal controls.

Condition
Material audit adjustments were proposed during the audit and recorded to properly reflect accounts on the financial statement. Certain material balance sheet accounts were not accurately and properly reconciled throughout the year or at year end.

Cause
The turnover in the business office staff contributed to certain reconciliations not being performed timely.

Effect
Significant adjustments are posted at year end to bring numerous funds and accounts into compliance with reporting under U.S. generally accepted accounting standards. As a result of reconciliations and other monitoring activities not being performed, the financial statements were materially misstated at year end.

Recommendation
The business office should review and document its policies and procedures for key transaction classes to ensure that the appropriate individual is assigned the proper task and has the tools necessary to complete that task effectively and efficiently. We also recommend that a further understanding of the reports needed and the analysis of said reports be obtained by the appropriate personnel in order to identify possible under/overstatements in material accounts and investigate the possible cause. It is strongly recommended that these material accounts are reconciled monthly to the general ledger and deadlines are setup for accountability of preparation and review.

Management Response
See corrective action plan included in this report package.

Section II - Financial Statement Findings

2016-002 GRANT ADMINISTRATION/PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA) - MATERIAL WEAKNESS

See Section III - Federal Award Findings and Questioned Costs

Section III - Federal Award Findings and Questioned Costs

2016-002 GRANT ADMINISTRATION/PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA) - MATERIAL WEAKNESS

Federal Program
Title I Grants to Local Education Agencies - 84.010 (Grant 013-1603848)

Criteria
The District receives grants through various funding sources to be used for numerous programs. Each grant has specific time periods in which it must be spent and agreements typically outline what the money must be used to fund. Additionally, Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) requires the auditee to prepare a complete and accurate SEFA.

Condition
The District uses separate funding sources to track activity for each grant. However, during the year grant activity in the general ledger was not accurately reconciled to expense reports submitted or revenue recorded, which lead to material adjustments needed at year-end to reconcile grant activity. Furthermore, the District was not tracking all grants to be sure funds were spent within the applicable time period. Additionally, the District did not prepare a SEFA containing all required information.

Cause
Due to turnover in the business office, reconciliations for grant activity were not accurately and properly maintained. Because certain grant reconciliations were not performed throughout the year, a complete SEFA was not updated accurately to reflect current year activity.

Section III - Federal Award Findings and Questioned Costs

2016-002 GRANT ADMINISTRATION/PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA) - MATERIAL WEAKNESS - CONTINUED

Effect
The District does have a system in place to capture complete and accurate grant information by using various funding sources within the general ledger software. However, there was no reconciliation between the general ledger and reports submitted or any system for tracking if the full grant amount was spent timely. Without proper reconciliations, the District risks not completing reports accurately or drawdowns timely, which creates a risk of loss of current or future funding. With turnover in the business office and grant reconciliations not being performed, a SEFA was not accurately prepared at year end. The SEFA was subsequently updated through further inquiry and documentation of awards received.

Questioned Costs
None.

Context
Material adjustments were proposed during the audit to properly reconcile accounts receivable and unearned revenue related to grants. The material adjustments posted to reconcile unearned revenue and receivables related to grants significantly impact the District’s ability to produce an accurate SEFA.

Repeat Finding
No.

Recommendation
We recommend that the District re-evaluate its procedures for tracking grant activity and reconciling reports to the general ledger periodically throughout the year and at a minimum at year end. It is important to assign responsibility for grant activity, as well as accountability in the form of oversight and review by management. Accurate reconciliations will allow for a complete SEFA to be prepared timely.

Management Response
See corrective action plan included in this report package.

Section III - Federal Award Findings and Questioned Costs

2016-003 REPORTING - SIGNIFICANT DEFICIENCY

Federal Program
Title I Grants to Local Education Agencies - 84.010 (Grant 013-160348)

Criteria
The District receives Title I funds as a subrecipient from the Pennsylvania Department of Education (PDE). The District's agreement with PDE requires that reconciliation of cash on hand reports and final expenditure reports are filed during the grant period.

Condition
The final expenditure report that was filed for the 2015/2016 grant period did not agree to the breakdown of expenditures charged to the program during the year.

Cause
During audit testing, entries were prepared by management to properly reflect allowable costs within the general ledger for the grant year. Because of these entries, the final expenditure report, which was filed prior to the entries being posted, did not accurately reflect the costs charged to the program for the year.

Effect
The District was not in compliance with the reporting requirements of the grant.

Questioned Costs
None.

Context
A majority of the costs charged to Title I are for payroll and benefits. While the District historically overspends the grant annually, the final expenditure report reported more salaries expense than was charged to the general ledger at year end. There is no control in place to review reports for accuracy prior to filing.

Repeat Finding
No.

Recommendation
We suggest the business office reviews its procedures related to grant report preparation and filing to strengthen controls over this compliance requirement. Reports should be prepared with supporting documentation attached and then reviewed by someone independent of the preparer, such as a member of management. The reviewer should initial the report or otherwise document that the review took place prior to the report being filed.

Management Response
See corrective action plan included in this report package.

2015-001 Personnel File Records

Criteria
The District is required to obtain several documents upon hiring personnel. I-9 forms, W-4 forms, and several clearances must be obtained by the District prior to employment.

Condition/Cause
During our audit procedures, required documents could not be located during the testing of personnel files in eight files out of a sample of 60. Controls as described to be in place by the business office were not being followed.

Effect
The District was out of compliance with state and federal regulations. In addition, the absence of clearances poses a certain risk to the District.

Recommendation
We recommend that the controls that are in place be followed and the employee in charge of human resources review files to ascertain that appropriate documentation is on file.

Benefit
The District will be in compliance with state and federal regulations.

Management Response
Management is in agreement with the recommendation. With the implementation of Act 15, the District has controls in place to ensure compliance with all employees and to ensure all necessary documentation is obtained for each new hired employee. The human resources department has reviewed all active employee files to ensure the required documentation is being obtained and appropriately filed. A new software system has been implemented which provides the capability of electronically tracking all clearances and dates for renewal which should facilitate compliance.

Current Status of Corrective Action Plan
This is no longer a finding in the current year.

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Members of the Board
Pottstown School District
Pottstown, Pennsylvania

We have performed the procedures enumerated below, which were agreed to by the Commonwealth of Pennsylvania and Pottstown School District solely to assist you with respect to the financial schedules and exhibits required by the Commonwealth of Pennsylvania. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Commonwealth of Pennsylvania. Consequently, we made no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

a. We have verified by comparison that the amounts and classifications that the supplemental financial schedules listed below, which summarize amounts reported to the Commonwealth of Pennsylvania for the fiscal year ended June 30, 2016, have been accurately compiled and reflect the audited books and records of Pottstown School District. We have also verified by comparison to the example schedules that these schedules are presented, at a minimum, at the level of detail and in the format required by the Commonwealth of Pennsylvania pertaining to this period.

Program Name	Referenced Schedule/Exhibit
PA Pre-K Counts	Supplemental Audit Schedule for Fiscal Year Ended June 30, 2016

b. We have inquired of management regarding adjustments to reported revenues or expenditures, which were not reflected on the reports submitted to the Commonwealth of Pennsylvania for the period in question.

c. The processes detailed in paragraphs (a) and (b) above disclosed no adjustments and/or findings.

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the Commonwealth of Pennsylvania and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Herbein + Company, Inc.

Reading, Pennsylvania
February 21, 2017

POTTSTOWN SCHOOL DISTRICT

PA PRE-K COUNTS SUPPLEMENTAL AUDIT SCHEDULE

For the Fiscal Year Ended June 30, 2016

	Original Budgeted Expenditures	Final Approved Revised Budget	Actual Expenditures	Differences
PERSONNEL:				
Salaries/Wages:				
Child Health and Development	$ 131,191	$ 159,326	$ 175,052	$ (15,726)
Total Salaries	131,191	159,326	175,052	(15,726)
Benefits (net of retirement and Social Security reimbursement)	71,622	89,493	79,269	10,224
Total Personnel	202,813	248,819	254,321	(5,502)
OPERATIONS:				
Supplies for Program Purposes	6,820	32,646	31,036	1,610
Supplies for Management Purposes	3,440	3,640	3,497	143
Nutritional Services	8,736	9,936	10,100	(164)
Amount Related to Parent Services	220	420	437	(17)
Building Maintenance/Repairs	6,388	4,388	4,371	17
Utilities and Telephone	531	531	438	93
Publications/Advertising/Printing	747	847	874	(27)
Substitutes	1,230	1,960	1,749	211
Non-Student Travel	5,075	2,975	1,219	1,756
Contracted Services	81,000	103,968	103,002	966
Training and Staff Development	6,000	1,500	1,311	189
Student Transportation	1,000	1,200	475	725
Construction Costs for Classroom Renovations	6,800	6,800	6,800	-
Total Operations	127,987	170,811	165,309	5,502
PROGRAMS				
Funds Passed Through to Partners	1,076,800	1,199,470	1,199,470	-
Total Programs	1,076,800	1,199,470	1,199,470	-
Total Budget	$ 1,407,600	$ 1,619,100	$ 1,619,100	$ -

	Original Budgeted Revenues	Revised Budgeted Revenues	Actual Revenues	Differences
Revenues				
Pennsylvania Pre-K Counts	$ 1,407,600	$ 1,619,100	$ 1,619,100	$ -
	$ 1,407,600	$ 1,619,100	$ 1,619,100	$ -

POTTSTOWN
SCHOOL DISTRICT

Building a Better Tomorrow

ADMINISTRATION BUILDING●230 Beech Street●Pottstown PA 19464●(610)323-8200●FAX(610)326-6540
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CORRECTIVE ACTION PLAN

Department of Education:

The Pottstown School District respectfully submits the following corrective action plan for the year ended June 30, 2016.

Name and address of independent public accounting firm: Herbein+Company, Inc. Certified Public Accountants, 2763 Century Boulevard, Reading, PA 19610.

Audit period: Year ending June 30, 2016

The findings for the year ended June 30, 2016 schedule of findings are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Section II - Financial Statement Findings

2016-001 Account Reconciliations/Material Adjustments Posted as a Result of the Audit - Material Weakness

Condition
Material audit adjustments were proposed during the audit and recorded to properly reflect accounts on the financial statement. Certain material balance sheet accounts were not accurately and properly reconciled throughout the year or at year end.

Cause
The turnover in the business office staff contributed to certain reconciliations not being performed timely.

Recommendation
The business office should review and document its policies and procedures for key transaction classes to ensure that the appropriate individual is assigned the proper task and has the tools necessary to complete that task effectively and efficiently. We also recommend that a further understanding of the reports needed and the analysis of said reports be obtained by the appropriate personnel in order to identify possible under/overstatements in material accounts and investigate the possible cause. It is strongly recommended that these material accounts are reconciled monthly to the general ledger and deadlines are setup for accountability of preparation and review.

Management Response
The district is in agreement with the recommendation. We have initiated a biweekly reconciliation of the payroll distribution records against the general ledger expenditure records. All balances in the expense and withholding accounts equal what is distributed through the biweekly payroll run. This is performed by the Assistant Business Manager to segregate the reconciliation from the payroll department. This will eliminate any confusion from payroll being charged to the 13th pay period. This will also reconcile year end payroll accruals and eliminate posting errors. Due to the moratorium on receiving PlanCon funding the district had not been accruing receivables for these funds due to the uncertainty of actually receiving the funds. Now that the moratorium has ended the district will resume accruing for any outstanding funds receivable.

Section III – Federal Award Findings and Questioned Costs

2016-002 Grant Administration/Preparation of the Schedule of Expenditures of Federal Awards (SEFA) - Material Weakness

Federal Program
Title I - 84.010 (Grant 013-1603848)

Condition
The District uses separate funding sources to track activity for each grant. However, during the year grant activity in the general ledger was not accurately reconciled to expense reports submitted or revenue recorded, which lead to material adjustments needed at year-end to reconcile grant activity. Furthermore, the District was not tracking all grants to be sure funds were spent within the applicable time period. Additionally, the District did not prepare a SEFA containing all required information.

Cause
Due to turnover in the business office, reconciliations for grant activity were not accurately and properly maintained. Because certain grant reconciliations were not performed throughout the year, a complete SEFA was not updated accurately to reflect current year activity.

Recommendation
We recommend that the District re-evaluate its procedures for tracking grant activity and reconciling reports to the general ledger periodically throughout the year and at a minimum at year end. It is important to assign responsibility for grant activity, as well as accountability in the form of oversight and review by management. Accurate reconciliations will allow for a complete SEFA to be prepared timely.

Management Response
The district is in agreement with the recommendation. Due to system limitations on segregating allowable retirement expenditures, reconciliations will be made between grant expenditures reported and the posting of expenditures to the general ledger prior to reports being filed. This will require a manual journal entry to properly reflect qualifying retirement expenditures for federal grants. All grants will be identified and reconciled at least quarterly. The reconciliations will assist in the annual preparation of the required SEFA.

2016-003 Reporting - Significant Deficiency

Federal Program
Title I - 84.010 (Grant 013-160348)

Condition
The final expenditure report that was filed for the 2015/2016 grant period did not agree to the breakdown of expenditures charged to the program during the year.

Cause
During audit testing, entries were prepared by management to properly reflect allowable costs within the general ledger for the grant year. Because of these entries, the final expenditure report, which was filed prior to the entries being posted, did not accurately reflect the costs charged to the program for the year.

Recommendation

We suggest the business office reviews its procedures related to grant report preparation and filing to strengthen controls over this compliance requirement. Reports should be prepared with supporting documentation attached and then reviewed by someone independent of the preparer, such as a member of management. The reviewer should initial the report or otherwise document that the review took place prior to the report being filed.

Management Response

The district is in agreement with the recommendation. The quarterly reconciliation of all grants will assist in strengthening the controls over this requirement. Supporting documentation will be attached to the reconciliations which will be prepared by the district accountant and reviewed and signed off on, by the Assistant Business Manager prior to reports being filed.

If the Department of Education has questions regarding this plan, please call Linda Adams at 610-970-6611.

Sincerely,

Linda S. Adams