

CONNELLSVILLE AREA SCHOOL DISTRICT

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FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

**CONNELLSVILLE AREA  
SCHOOL DISTRICT**  
FAYETTE COUNTY, PENNSYLVANIA

FINANCIAL STATEMENTS

AND

OTHER INFORMATION REQUIRED BY  
GOVERNMENT AUDITING STANDARDS  
AND UNIFORM GUIDANCE

WITH REPORTS OF  
CERTIFIED PUBLIC ACCOUNTANT

**FOR THE YEAR ENDED  
JUNE 30, 2016**

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**FAYETTE COUNTY, PENNSYLVANIA**  
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**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**FAYETTE COUNTY, PENNSYLVANIA**  
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# **Mark C. Turnley**

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**To the Management and Board of Education  
Connellsville Area School District**

## **Independent Auditor's Report**

### **Report on Financial Statements**

I have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Connellsville Area School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Connellsville Area School District'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 Connellsville Area School District's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

## **Opinion**

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

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iv-xiv and the other required supplementary information on pages 44-46, 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Connellsville Area School District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and 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 my opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, I have also issued my report dated February 13, 2017 on my consideration of the Connellsville Area School District's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Connellsville Area School District's internal control over financial reporting and compliance.

A handwritten signature in black ink, reading "Mark C. Turnley". The signature is written in a cursive, flowing style.

Mark C. Turnley, CPA

February 13, 2017  
New Brighton, Pennsylvania

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**Management's Discussion and Analysis (MD&A)**  
**Required Supplementary Information (RSI)**

**June 30, 2016**

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

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

**MISSION STATEMENT**

Through the cooperative efforts of educators, parents, and community, the Connellsville Area School District shall provide a safe, well-maintained and challenging educational environment designed to meet the diverse needs of our school population in order to develop respectful, responsible, knowledgeable students inspired to become successful life-long learners in an ever-changing technological society.

**PRIMARY GOVERNMENTAL UNIT**

The Connellsville Area School District is the Primary Governmental Unit of the Connellsville Area Career and Technical Center, formerly known as the North Fayette Area Vocational Technical School. As of July 1, 2001, the Board of Education of the School District assumed sole responsibility for the operation of the Connellsville Area Career and Technical Center, making it a component unit of the Connellsville Area School District.

**FINANCIAL STATEMENTS**

The financial statements consist of three parts: Management Discussion and Analysis, the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of Connellsville Area School District. The first two statements are government-wide financial statements – the Statement of Net Position and the Statement of Activities. These provide both long-term and short-term information about the School's overall financial status.

# CONNELLSVILLE AREA SCHOOL DISTRICT

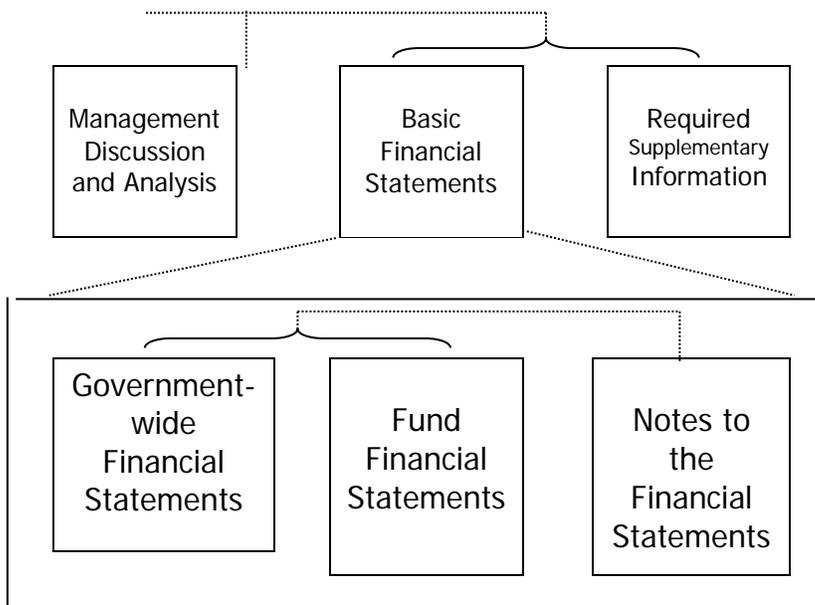
## Management's Discussion and Analysis (MD&A)

The remaining statements are fund financial statements that focus on individual parts of the District's operations in more detail than the government-wide statements. The governmental funds statements tell in general how the District's services were financed in the short term as well as what remains for future spending. Proprietary fund statements offer short-term and long-term financial information about the activities that the School operates like a business. The District accounts for food service as an enterprise fund. The Connellsville Area Career and Technical Center maintains the Culinary Arts Program as an enterprise fund. Fiduciary fund statements provide information about financial relationships where the School acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

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

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

Figure A-1  
Required components of  
Connellsville Area School District's  
Financial Report



**CONNELLSVILLE AREA SCHOOL DISTRICT**  
*Management's Discussion and Analysis (MD&A)*

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

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

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

## **OVERVIEW OF FINANCIAL STATEMENTS**

### Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

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

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

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

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

### Fund Financial Statements

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

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

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

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
*Management's Discussion and Analysis (MD&A)*

**OVERVIEW OF FINANCIAL STATEMENTS (Continued)**

Fund Financial Statements (Continued)

Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as student activity funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those whom the assets belong.

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

The District's total net position was a deficit of \$104,000,655 at June 30, 2016.

Table A-1  
 Fiscal Years ended June 30, 2016 and June 30, 2015  
 Condensed Statement of Net Position

|                                                                | ----- JUNE 30, 2016 -----  |                             |                         | JUNE 30, 2015           |
|----------------------------------------------------------------|----------------------------|-----------------------------|-------------------------|-------------------------|
|                                                                | GOVERNMENTAL<br>ACTIVITIES | BUSINESS-TYPE<br>ACTIVITIES | TOTAL                   | TOTAL                   |
| Current Assets                                                 | \$ 9,232,652               | \$ (439,292)                | \$ 8,793,360            | \$ 10,217,724           |
| Capital Assets                                                 | 97,790,734                 | 14,391                      | 97,805,125              | 102,583,559             |
| Deferred Outflows of Resources                                 | 9,520,388                  | 349,148                     | 9,869,536               | 9,309,098               |
| <b>TOTAL ASSETS AND DEFERRED<br/>OUTFLOWS OF RESOURCES</b>     | <b>\$ 116,543,774</b>      | <b>\$ (75,753)</b>          | <b>\$ 116,468,021</b>   | <b>\$ 122,110,381</b>   |
| Current Liabilities                                            | \$ 12,235,992              | \$ 62,923                   | \$ 12,298,915           | \$ 13,237,415           |
| Long-term Liabilities                                          | 202,062,641                | 4,075,120                   | 206,137,761             | 201,587,667             |
| Deferred Inflows of Resources                                  | 1,952,680                  | 79,320                      | 2,032,000               | 7,309,007               |
| <b>TOTAL LIABILITIES AND DEFERRED<br/>INFLOWS OF RESOURCES</b> | <b>\$ 216,251,313</b>      | <b>\$ 4,217,363</b>         | <b>\$ 220,468,676</b>   | <b>\$ 222,134,089</b>   |
| Net Investment in<br>Capital Assets                            | \$ 1,596,747               | \$ 14,391                   | \$ 1,611,138            | \$ 3,058,052            |
| Unrestricted (Deficit)                                         | (101,304,286)              | (4,307,507)                 | (105,611,793)           | (103,081,760)           |
| <b>TOTAL NET POSITION (Deficit)</b>                            | <b>\$ (99,707,539)</b>     | <b>\$ (4,293,116)</b>       | <b>\$ (104,000,655)</b> | <b>\$ (100,023,708)</b> |

The decrease in current assets and corresponding decrease in current liabilities represents the effect of when outstanding accounts payable (vendor) obligations were paid at June 30, 2016 versus 2015. Cash and investments of the District's governmental activities decreased by \$911,352 during the current fiscal year, while corresponding 'accounts payable' decreased by \$984,560. Capital assets and corresponding net investment in capital assets decreased mainly due to depreciation expense exceeding capital asset additions by \$4,342,073 for the 2015-2016 fiscal year. The increase in deferred outflows of resources, long-term liabilities, and decrease in deferred inflows of resources is attributed to the updated valuation received from the Pennsylvania School Employees Retirement System (PSERS), in accordance with GASB Statement No. 68, 'Accounting and Financial Reporting for Pensions'. This updated valuation increased the District's net pension liability from \$101,724,000 at June 30, 2015 to \$109,631,000 at June 30, 2016. Deferred inflows of resources related to this pension obligation decreased from \$7,309,007 in the prior fiscal year to \$2,032,000 at June 30, 2016.

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
*Management's Discussion and Analysis (MD&A)*

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)**

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

Table A-2 takes the information from that Statement, rearranges it slightly, so you can see our total revenues for the year.

Table A-2  
 Fiscal Years ended June 30, 2016 and June 30, 2015  
 Changes in Net Position from Operating Results

|                                      | ----- JUNE 30, 2016 -----  |                             |                       | JUNE 30, 2015         |
|--------------------------------------|----------------------------|-----------------------------|-----------------------|-----------------------|
|                                      | GOVERNMENTAL<br>ACTIVITIES | BUSINESS-TYPE<br>ACTIVITIES | TOTAL                 | TOTAL                 |
| <b>REVENUES</b>                      |                            |                             |                       |                       |
| <b>Program Revenues:</b>             |                            |                             |                       |                       |
| Charges for Services                 | \$ 445,437                 | \$ 300,741                  | \$ 746,178            | \$ 1,278,769          |
| Operating Grants and Contributions   | 21,422,632                 | 2,718,023                   | 24,140,655            | 23,832,862            |
| Capital grants and Contributions     | 15,982                     | -                           | 15,982                | 343,461               |
| <b>General Revenues:</b>             |                            |                             |                       |                       |
| Property, Other Taxes, Pa Relief Tax | 17,793,159                 | -                           | 17,793,159            | 17,678,102            |
| Grants, Subsidies and Contributions  | 29,729,026                 | -                           | 29,729,026            | 29,147,165            |
| Investment Earnings                  | 15,785                     | 432                         | 16,217                | 1,769                 |
| Miscellaneous                        | 572,293                    | 21                          | 572,314               | 399,721               |
| Loss on Disposition of Assets        | (221,238)                  | -                           | (221,238)             | -                     |
| Transfers                            | 3,592                      | (3,592)                     | -                     | -                     |
| <b>TOTAL REVENUES</b>                | <b>\$ 69,776,668</b>       | <b>\$ 3,015,625</b>         | <b>\$ 72,792,293</b>  | <b>\$ 72,681,849</b>  |
| <b>EXPENSES</b>                      |                            |                             |                       |                       |
| Instruction                          | \$ 46,942,474              | \$ -                        | \$ 46,942,474         | \$ 48,034,129         |
| Instructional Student Support        | 3,836,888                  | -                           | 3,836,888             | 3,671,899             |
| Administrative and Financial Support | 5,764,202                  | -                           | 5,764,202             | 5,701,552             |
| Operation and Maintenance of Plant   | 7,006,287                  | -                           | 7,006,287             | 7,705,330             |
| Pupil Transportation                 | 5,753,368                  | -                           | 5,753,368             | 6,439,787             |
| Student Activities                   | 1,189,492                  | -                           | 1,189,492             | 1,181,185             |
| Community Services                   | 34,564                     | -                           | 34,564                | 25,630                |
| Capital Outlay                       | 78,559                     | -                           | 78,559                | -                     |
| Interest on Long-term Debt/Refunds   | 2,949,411                  | -                           | 2,949,411             | 3,113,574             |
| Food Services                        | -                          | 3,213,995                   | 3,213,995             | 3,195,200             |
| <b>TOTAL EXPENSES</b>                | <b>\$ 73,555,245</b>       | <b>\$ 3,213,995</b>         | <b>\$ 76,769,240</b>  | <b>\$ 79,068,286</b>  |
| <b>CHANGE IN NET POSITION</b>        | <b>\$ (3,778,577)</b>      | <b>\$ (198,370)</b>         | <b>\$ (3,976,947)</b> | <b>\$ (6,386,437)</b> |

The main reason for the negative change in net position represents the charge against operations for depreciation expense, additional pension expense from the implementation of GASB Statement No. 68, and the increased obligation due for post-employment healthcare benefits provided to District retirees. The District did however generate savings during the 2015-2016 most notably in the areas of instruction, maintenance of District facilities, and pupil transportation.

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
*Management's Discussion and Analysis (MD&A)*

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)**

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

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

Table A-3  
 Fiscal Years ended June 30, 2016 and June 30, 2015  
 Net Cost of Governmental Activities

|                                                            | ----- JUNE 30, 2016 ----- |                        | ----- JUNE 30, 2015 ----- |                        |
|------------------------------------------------------------|---------------------------|------------------------|---------------------------|------------------------|
|                                                            | TOTAL COST<br>OF SERVICE  | NET COST<br>OF SERVICE | TOTAL COST<br>OF SERVICE  | NET COST<br>OF SERVICE |
| <b>EXPENSES</b>                                            |                           |                        |                           |                        |
| Instruction                                                | \$ 46,942,474             | \$ 32,496,010          | \$ 48,034,129             | \$ 32,796,495          |
| Instructional Student Support                              | 3,836,888                 | 2,945,991              | 3,671,899                 | 2,830,239              |
| Administrative and Financial Support                       | 5,764,202                 | 5,037,854              | 5,701,552                 | 4,948,808              |
| Operation and Maintenance of Plant                         | 7,006,287                 | 6,400,798              | 7,705,330                 | 7,040,129              |
| Pupil Transportation                                       | 5,753,368                 | 787,571                | 6,439,787                 | 1,642,356              |
| Student Activities                                         | 1,189,492                 | 981,982                | 1,181,185                 | 963,648                |
| Community Services                                         | 34,564                    | 9,000                  | 25,630                    | 25,630                 |
| Capital Outlay                                             | 78,559                    | 78,559                 | -                         | -                      |
| Interest on Long-term Debt/Refunds                         | 2,949,411                 | 2,933,429              | 3,113,574                 | 2,770,113              |
| <b>TOTAL EXPENSES</b>                                      | <b>\$ 73,555,245</b>      | <b>\$ 51,671,194</b>   | <b>\$ 75,873,086</b>      | <b>\$ 53,017,418</b>   |
| <b>Less:</b>                                               |                           |                        |                           |                        |
| Unrestricted Grants, Subsidies                             |                           | 29,729,026             |                           | 29,147,165             |
| <b>TOTAL NEEDS FROM LOCAL TAXES<br/>AND OTHER REVENUES</b> |                           | <b>\$ 21,942,168</b>   |                           | <b>\$ 23,870,253</b>   |

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
*Management's Discussion and Analysis (MD&A)*

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)**

Table A-4 reflects the activities of the Food Service program and other Enterprise Funds (Connellsville Area Career and Technical Center's activity), the only Business-type activities of the District.

Table A-4  
 Fiscal Years ended June 30, 2016 and June 30, 2015  
 Net Cost of Business-type Activities

|                                        | ----- JUNE 30, 2016 -----        |                                | ----- JUNE 30, 2015 -----        |                                |
|----------------------------------------|----------------------------------|--------------------------------|----------------------------------|--------------------------------|
|                                        | <u>TOTAL COST<br/>OF SERVICE</u> | <u>NET COST<br/>OF SERVICE</u> | <u>TOTAL COST<br/>OF SERVICE</u> | <u>NET COST<br/>OF SERVICE</u> |
| <b>EXPENSES</b>                        |                                  |                                |                                  |                                |
| Food Service                           | \$ 3,213,995                     | \$ (195,231)                   | \$ 3,195,164                     | \$ (373,966)                   |
| Other Enterprise Funds                 | -                                | -                              | 36                               | (36)                           |
|                                        | <u>\$ 3,213,995</u>              | <u>\$ (195,231)</u>            | <u>\$ 3,195,200</u>              | <u>\$ (374,002)</u>            |
| Investment earnings                    |                                  | 432                            |                                  | 134                            |
| Transfer/Refund of Prior Year Expenses |                                  | (3,571)                        |                                  | 250,000                        |
| <b>TOTAL BUSINESS-TYPE ACTIVITIES</b>  |                                  |                                |                                  |                                |
| <b>NET INCOME &lt;LOSS&gt;</b>         |                                  | <u>\$ (198,370)</u>            |                                  | <u>\$ (123,868)</u>            |

The Statement of Revenues, Expenses and Changes in Fund Net Position for this proprietary fund will further detail the actual results of operations.

**THE DISTRICT FUNDS**

At June 30, 2016, the District governmental funds reported a combined fund balance of \$307,756, which is a decrease of \$86,675 from June 30, 2015. The decrease in fund balance was mainly due to \$128,599 of capital expenses in the Capital Project Fund. Total revenues of the General Fund (excluding transfers from the Capital project Fund) increased \$378,391 (.5%) from the prior fiscal year. Total expenditures of the General Fund decreased by \$2,170,673 (3%) from the prior fiscal year. As previously mentioned, the District generated savings most notably in the areas of instruction, maintenance of District facilities, and pupil transportation.

A brief summary of each fund is as follows:

**Capital Projects Fund:**

The Capital Project fund balance decreased by \$236,255 in 2015-2016. The net decrease was primarily due to capital expenses totaling \$128,599 and a transfer of \$107,966 to the General Fund to cover additional capital expenditures.

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
*Management's Discussion and Analysis (MD&A)*

**THE DISTRICT FUNDS (Continued)**

General Fund

The General Fund had an operational increase in fund balance of \$149,579 in 2015-2016. The change in Fund Balance is also reflected after a prior period adjustment of (\$440,476) to the June 30, 2015 ending balance. It was determined by Administration that Earned Income Taxes were incorrectly recorded 60 days past the fiscal year end. This adjustment was required to allow for the proper revenue recognition method going forward. The General Fund's fund balance at June 30, 2016 is \$210,266 which is unassigned.

General Fund Budget

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

The Board approved a budget for 2015-2016 that included a real estate tax millage increase from 12.6 to 12.9528. Actual revenues were under budgeted revenues (\$69,390,063) by \$84,935. Actual state subsidy revenues were under budget by \$893,929 mainly due to the fact that the District was unable to recognize 2015-2016 'rental subsidy' reimbursement of \$677,206 per PDE directive as a result of delays by the State in funding this revenue to all School Districts. Local revenues exceeded budget by \$725,427 mainly as a result of the real estate tax millage increase mentioned above. This millage increase resulted in additional real estate tax revenues of \$518,288. Federal subsidies were over budget by \$141,030 primarily due to the District recognizing approximately \$180,092 of Title II funds in excess of projected amounts.

Actual expenditures (\$69,155,549) were under budgeted expenditures (\$69,389,343) by \$233,794. There were various functional areas that were under budget as reflected on page 7 of the audit report. The one notable area of savings was related to 'special programs' which were over budget by \$943,327.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**CAPITAL ASSETS:**

At June 30, 2016, the District had \$97,805,125 invested in a broad range of capital assets, including land, site improvements, buildings and furniture and equipment (net of depreciation). This amount includes \$51,672,160 of expenses incurred during the 2007-2008 through 2014-2015 years for renovations to the District and Connellsville Area Career and Technical Center. The overall investment in fixed assets represents a net decrease (including additions, deletions and depreciation) of \$4,778,434, or 4.7% from last year. Depreciation expense for 2015-2016 amounted to \$4,605,922 for governmental activities and \$8,172 for business-type activities.

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
*Management's Discussion and Analysis (MD&A)*

**CAPITAL ASSETS: (Continued)**

A comparative summary of the District's investment in fixed assets is as follows:

|                            | ----- JUNE 30, 2016 -----  |                             |                      | JUNE 30, 2015         |
|----------------------------|----------------------------|-----------------------------|----------------------|-----------------------|
|                            | GOVERNMENTAL<br>ACTIVITIES | BUSINESS-TYPE<br>ACTIVITIES | TOTAL                | TOTAL                 |
| Land                       | \$ 259,084                 | \$ -                        | \$ 259,084           | \$ 259,084            |
| Site Improvements          | 86,388                     | -                           | 86,388               | 134,596               |
| Buildings and Improvements | 95,899,024                 | -                           | 95,899,024           | 100,188,476           |
| Furniture and Equipment    | 1,546,238                  | 14,391                      | 1,560,629            | 2,001,403             |
| <b>TOTAL</b>               | <b>\$ 97,790,734</b>       | <b>\$ 14,391</b>            | <b>\$ 97,805,125</b> | <b>\$ 102,583,559</b> |

**DEBT ADMINISTRATION**

As of July 1, 2015, the District had total outstanding bond, note, and lease principal of \$100,389,977. The District made payments against principal of \$3,376,842 resulting in ending outstanding debt as of June 30, 2016 of \$97,013,135. The District is scheduled to make principal and interest payments of \$7,742,245 during the 2016-2017 fiscal year.

The District's general obligation bond and note rating is "AAA" by Standard & Poor's Ratings Services Group.

Other obligations include long-term portion of compensated absences amounting to \$3,174,208 for specific employees of the District, a net OPEB obligation of \$323,478, and a net pension liability of \$109,631,000 as more detailed in the notes to the financial statements.

**MAJOR FINANCIAL NEWS**

The Connellsville Area School District had some major financial successes in the 2015-2016 fiscal year. For the first time since the 2010-2011 fiscal year, the District did not spend more than it took in. Cost savings in salaries, transportation and supplies made up what was a projected \$2M shortfall. The District received over \$500K in additional real estate taxes from the millage increase, the first in seven years. The District also survived the State budget impasse by successfully meeting all cash-flow obligations with no reserves.

Administration continues to address the underlying issues to right size the District both programmatically and operationally. It is the goal of the District to succeed both financially and academically.

The District does not expect significant growth in the near future given the residential nature of the local economy. Most of the industry is located in and around Connellsville with farming and recreational opportunities such as hiking, biking, white water rafting and skiing confined to portions of the District. There does not appear to be any significant growth in area industries including glass, closures (lids), bituminous coal, metal working machinery, wood products and service related industries.

The expenditure budget for the 2016-2017 year is \$2,182,892 more than the final budget for 2015-2016. Increases in salaries, healthcare and pension were the responsible factors. The Board of Education approved the budget with an increase in millage from 12.9528 to 14.2481 and was adopted as a balanced budget.

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
*Management's Discussion and Analysis (MD&A)*

**CONTACTING THE DISTRICT FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the Board of Director's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact the Business Office at Connellsville Area School District, 732 Rockridge Road, P.O. Box 861, Connellsville, PA 15425-0861.

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

|                                                                               | <u>Governmental<br/>Activities</u> | <u>Business-Type<br/>Activities</u> | <u>Total</u>            |
|-------------------------------------------------------------------------------|------------------------------------|-------------------------------------|-------------------------|
| <b>ASSETS</b>                                                                 |                                    |                                     |                         |
| <b>Current Assets:</b>                                                        |                                    |                                     |                         |
| Cash and Cash Equivalents                                                     | \$ 2,345,612                       | \$ 120,335                          | \$ 2,465,947            |
| Investments                                                                   | 1,145,919                          | 132,085                             | 1,278,004               |
| Taxes Receivable, net                                                         | 2,124,860                          | -                                   | 2,124,860               |
| Internal Balances                                                             | 886,420                            | (886,420)                           | -                       |
| Due From Other Governments                                                    | 2,705,398                          | 6,525                               | 2,711,923               |
| Inventories                                                                   | -                                  | 186,996                             | 186,996                 |
| Other Accounts Receivable                                                     | 24,443                             | 1,187                               | 25,630                  |
| <b>Total Current Assets</b>                                                   | <b>\$ 9,232,652</b>                | <b>\$ (439,292)</b>                 | <b>\$ 8,793,360</b>     |
| <b>Noncurrent Assets:</b>                                                     |                                    |                                     |                         |
| Land                                                                          | \$ 259,084                         | \$ -                                | \$ 259,084              |
| Site Improvements (net)                                                       | 86,388                             | -                                   | 86,388                  |
| Building and Building Improvements (net)                                      | 95,899,024                         | -                                   | 95,899,024              |
| Furniture and Equipment (net)                                                 | 1,546,238                          | 14,391                              | 1,560,629               |
| <b>Total Noncurrent Assets</b>                                                | <b>\$ 97,790,734</b>               | <b>\$ 14,391</b>                    | <b>\$ 97,805,125</b>    |
| <b>TOTAL ASSETS</b>                                                           | <b>\$ 107,023,386</b>              | <b>\$ (424,901)</b>                 | <b>\$ 106,598,485</b>   |
| <b>Deferred Outflows of Resources:</b>                                        |                                    |                                     |                         |
| Deferred Interest on Refunding                                                | \$ 344,769                         | \$ -                                | \$ 344,769              |
| Deferred Outflows Related to Pension                                          | 9,175,619                          | 349,148                             | 9,524,767               |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>                                   | <b>\$ 9,520,388</b>                | <b>\$ 349,148</b>                   | <b>\$ 9,869,536</b>     |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS<br/>OF RESOURCES</b>                    | <b>\$ 116,543,774</b>              | <b>\$ (75,753)</b>                  | <b>\$ 116,468,021</b>   |
| <b>LIABILITIES</b>                                                            |                                    |                                     |                         |
| <b>Current Liabilities:</b>                                                   |                                    |                                     |                         |
| Accounts Payable                                                              | \$ 827,789                         | \$ 54,724                           | \$ 882,513              |
| Accrued Salaries and Benefits                                                 | 6,419,909                          | -                                   | 6,419,909               |
| Payroll Deductions and Withholdings                                           | 101,646                            | -                                   | 101,646                 |
| Bonds and Notes Payable (Current Portion)                                     | 3,429,353                          | -                                   | 3,429,353               |
| Lease Purchase Obligations (Current Portion)                                  | 100,328                            | -                                   | 100,328                 |
| Accrued Interest                                                              | 1,185,882                          | -                                   | 1,185,882               |
| Unearned Revenue                                                              | 31,443                             | 8,199                               | 39,642                  |
| Other Current Liabilities                                                     | 139,642                            | -                                   | 139,642                 |
| <b>Total Current Liabilities</b>                                              | <b>\$ 12,235,992</b>               | <b>\$ 62,923</b>                    | <b>\$ 12,298,915</b>    |
| <b>Noncurrent Liabilities:</b>                                                |                                    |                                     |                         |
| Bonds Payable - Long-Term Portion (Net)                                       | \$ 79,710,621                      | \$ -                                | \$ 79,710,621           |
| Notes Payable - Long-Term Portion (Net)                                       | 13,272,816                         | -                                   | 13,272,816              |
| Lease Purchase Obligations (Long-Term Portion)                                | 25,638                             | -                                   | 25,638                  |
| Net Pension Liability                                                         | 105,555,880                        | 4,075,120                           | 109,631,000             |
| Net OPEB Obligation                                                           | 323,478                            | -                                   | 323,478                 |
| Compensated Absences                                                          | 3,174,208                          | -                                   | 3,174,208               |
| <b>Total Noncurrent Liabilities</b>                                           | <b>\$ 202,062,641</b>              | <b>\$ 4,075,120</b>                 | <b>\$ 206,137,761</b>   |
| <b>TOTAL LIABILITIES</b>                                                      | <b>\$ 214,298,633</b>              | <b>\$ 4,138,043</b>                 | <b>\$ 218,436,676</b>   |
| <b>Deferred Inflows of Resources:</b>                                         |                                    |                                     |                         |
| Deferred Inflows Related to Pension                                           | \$ 1,952,680                       | \$ 79,320                           | \$ 2,032,000            |
| <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>                                    | <b>\$ 1,952,680</b>                | <b>\$ 79,320</b>                    | <b>\$ 2,032,000</b>     |
| <b>TOTAL LIABILITIES AND DEFERRED INFLOWS<br/>OF RESOURCES</b>                | <b>\$ 216,251,313</b>              | <b>\$ 4,217,363</b>                 | <b>\$ 220,468,676</b>   |
| <b>NET POSITION</b>                                                           |                                    |                                     |                         |
| Net Investment in Capital Assets                                              | \$ 1,596,747                       | \$ 14,391                           | \$ 1,611,138            |
| Unrestricted (Deficit)                                                        | (101,304,286)                      | (4,307,507)                         | (105,611,793)           |
| <b>TOTAL NET POSITION (Deficit)</b>                                           | <b>\$ (99,707,539)</b>             | <b>\$ (4,293,116)</b>               | <b>\$ (104,000,655)</b> |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF<br/>RESOURCES, AND NET POSITION</b> | <b>\$ 116,543,774</b>              | <b>\$ (75,753)</b>                  | <b>\$ 116,468,021</b>   |

The accompanying notes are an integral part of these financial statements

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**EXHIBIT B**

| Functions/Programs                                       | Expenses             | Program Revenues     |                                    |                                  | Net (Expense) Revenue and Changes in Net Position |                          |                         |
|----------------------------------------------------------|----------------------|----------------------|------------------------------------|----------------------------------|---------------------------------------------------|--------------------------|-------------------------|
|                                                          |                      | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities                           | Business-Type Activities | Total                   |
| <b>Governmental Activities:</b>                          |                      |                      |                                    |                                  |                                                   |                          |                         |
| Instruction                                              | \$ 46,942,474        | \$ 295,791           | \$ 14,150,673                      | \$ -                             | \$ (32,496,010)                                   |                          | \$ (32,496,010)         |
| Instructional Student Support                            | 3,836,888            | -                    | 890,897                            | -                                | (2,945,991)                                       |                          | (2,945,991)             |
| Administrative and Financial Support Services            | 5,764,202            | -                    | 726,348                            | -                                | (5,037,854)                                       |                          | (5,037,854)             |
| Operation and Maintenance of Plant Services              | 7,006,287            | 53,281               | 552,208                            | -                                | (6,400,798)                                       |                          | (6,400,798)             |
| Pupil Transportation                                     | 5,753,368            | -                    | 4,965,797                          | -                                | (787,571)                                         |                          | (787,571)               |
| Student Activities                                       | 1,189,492            | 96,365               | 111,145                            | -                                | (981,982)                                         |                          | (981,982)               |
| Community Services                                       | 34,564               | -                    | 25,564                             | -                                | (9,000)                                           |                          | (9,000)                 |
| Capital Outlay                                           | 78,559               | -                    | -                                  | -                                | (78,559)                                          |                          | (78,559)                |
| Interest on Long-Term Debt/Refunds                       | 2,949,411            | -                    | -                                  | 15,982                           | (2,933,429)                                       |                          | (2,933,429)             |
| <b>Total Governmental Activities</b>                     | <b>\$ 73,555,245</b> | <b>\$ 445,437</b>    | <b>\$ 21,422,632</b>               | <b>\$ 15,982</b>                 | <b>\$ (51,671,194)</b>                            |                          | <b>\$ (51,671,194)</b>  |
| <b>Business-Type activities:</b>                         |                      |                      |                                    |                                  |                                                   |                          |                         |
| Food Service                                             | \$ 3,213,995         | \$ 300,741           | \$ 2,718,023                       | \$ -                             | \$ -                                              | \$ (195,231)             | \$ (195,231)            |
| Other Enterprise                                         | -                    | -                    | -                                  | -                                | -                                                 | -                        | -                       |
| <b>Total Business-Type Activities</b>                    | <b>\$ 3,213,995</b>  | <b>\$ 300,741</b>    | <b>\$ 2,718,023</b>                | <b>\$ -</b>                      | <b>\$ -</b>                                       | <b>\$ (195,231)</b>      | <b>\$ (195,231)</b>     |
| <b>Total Primary Government</b>                          | <b>\$ 76,769,240</b> | <b>\$ 746,178</b>    | <b>\$ 24,140,655</b>               | <b>\$ 15,982</b>                 | <b>\$ (51,671,194)</b>                            | <b>\$ (195,231)</b>      | <b>\$ (51,866,425)</b>  |
| <b>General Revenues:</b>                                 |                      |                      |                                    |                                  |                                                   |                          |                         |
| Taxes:                                                   |                      |                      |                                    |                                  |                                                   |                          |                         |
| Property Taxes Levied for General Purposes (net)         |                      |                      |                                    |                                  | \$ 12,006,534                                     | \$ -                     | \$ 12,006,534           |
| Other Taxes Levied for General Purposes                  |                      |                      |                                    |                                  | 4,323,973                                         | -                        | 4,323,973               |
| Property Tax Relief Payment                              |                      |                      |                                    |                                  | 1,462,652                                         | -                        | 1,462,652               |
| Grants and Contributions - Unrestricted                  |                      |                      |                                    |                                  | 29,729,026                                        | -                        | 29,729,026              |
| Investment Earnings                                      |                      |                      |                                    |                                  | 15,785                                            | 432                      | 16,217                  |
| Gain/(Loss) on Disposal of Fixed Assets                  |                      |                      |                                    |                                  | (221,238)                                         | -                        | (221,238)               |
| Miscellaneous Income                                     |                      |                      |                                    |                                  | 572,293                                           | 21                       | 572,314                 |
| Transfers between Governmental, Business-Type Activities |                      |                      |                                    |                                  | 3,592                                             | (3,592)                  | -                       |
| <b>Total General Revenues</b>                            |                      |                      |                                    |                                  | <b>\$ 47,892,617</b>                              | <b>\$ (3,139)</b>        | <b>\$ 47,889,478</b>    |
| <b>Change in Net Position</b>                            |                      |                      |                                    |                                  | <b>\$ (3,778,577)</b>                             | <b>\$ (198,370)</b>      | <b>\$ (3,976,947)</b>   |
| Net Position — July 1, 2015 (Deficit)                    |                      |                      |                                    |                                  | (95,488,486)                                      | (4,094,746)              | (99,583,232)            |
| Prior Period Adjustment                                  |                      |                      |                                    |                                  | (440,476)                                         | -                        | (440,476)               |
| <b>Net Position — June 30, 2016 (Deficit)</b>            |                      |                      |                                    |                                  | <b>\$ (99,707,539)</b>                            | <b>\$ (4,293,116)</b>    | <b>\$ (104,000,655)</b> |

The accompanying notes are an integral part of these financial statements

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2016**

|                                                                               | <b>GENERAL<br/>FUND</b> | <b>CAPITAL<br/>PROJECT<br/>FUND</b> | <b>DEBT<br/>SERVICE<br/>FUND</b> | <b>CAREER AND<br/>TECHNICAL CENTER<br/>FUND</b> | <b>TOTAL<br/>GOVERNMENTAL<br/>FUNDS</b> |
|-------------------------------------------------------------------------------|-------------------------|-------------------------------------|----------------------------------|-------------------------------------------------|-----------------------------------------|
| <b>ASSETS:</b>                                                                |                         |                                     |                                  |                                                 |                                         |
| Cash and Cash Equivalents                                                     | \$ 2,205,603            | \$ -                                | \$ 13,914                        | \$ 126,095                                      | \$ 2,345,612                            |
| Investments                                                                   | 991,542                 | 154,377                             | -                                | -                                               | 1,145,919                               |
| Taxes Receivable, net                                                         | 2,124,860               | -                                   | -                                | -                                               | 2,124,860                               |
| Due from Other Funds                                                          | 886,420                 | -                                   | -                                | 1,443                                           | 887,863                                 |
| Due from Other Governments                                                    | 2,504,061               | -                                   | -                                | 201,337                                         | 2,705,398                               |
| Other Accounts Receivable                                                     | 24,443                  | -                                   | -                                | -                                               | 24,443                                  |
| <b>TOTAL ASSETS</b>                                                           | <b>\$ 8,736,929</b>     | <b>\$ 154,377</b>                   | <b>\$ 13,914</b>                 | <b>\$ 328,875</b>                               | <b>\$ 9,234,095</b>                     |
| <b>LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCES</b>           |                         |                                     |                                  |                                                 |                                         |
| <b>LIABILITIES:</b>                                                           |                         |                                     |                                  |                                                 |                                         |
| Due to Other Funds                                                            | \$ 1,443                | \$ -                                | \$ -                             | \$ -                                            | \$ 1,443                                |
| Accounts Payable                                                              | 690,148                 | 70,801                              | -                                | 66,840                                          | 827,789                                 |
| Accrued Salaries and Benefits                                                 | 6,168,267               | -                                   | -                                | 251,642                                         | 6,419,909                               |
| Payroll Deductions and Withholdings                                           | 91,253                  | -                                   | -                                | 10,393                                          | 101,646                                 |
| Unearned Revenue                                                              | 31,443                  | -                                   | -                                | -                                               | 31,443                                  |
| Other Current Liabilities                                                     | 139,642                 | -                                   | -                                | -                                               | 139,642                                 |
| <b>TOTAL LIABILITIES</b>                                                      | <b>\$ 7,122,196</b>     | <b>\$ 70,801</b>                    | <b>\$ -</b>                      | <b>\$ 328,875</b>                               | <b>\$ 7,521,872</b>                     |
| <b>DEFERRED INFLOW OF RESOURCES:</b>                                          |                         |                                     |                                  |                                                 |                                         |
| Delinquent Real Estate Taxes                                                  | \$ 1,404,467            | \$ -                                | \$ -                             | \$ -                                            | \$ 1,404,467                            |
| <b>TOTAL DEFERRED INFLOW OF RESOURCES</b>                                     | <b>\$ 1,404,467</b>     | <b>\$ -</b>                         | <b>\$ -</b>                      | <b>\$ -</b>                                     | <b>\$ 1,404,467</b>                     |
| <b>FUND BALANCES:</b>                                                         |                         |                                     |                                  |                                                 |                                         |
| Assigned                                                                      | \$ -                    | \$ 83,576                           | \$ 13,914                        | \$ -                                            | \$ 97,490                               |
| Unassigned                                                                    | 210,266                 | -                                   | -                                | -                                               | 210,266                                 |
| <b>TOTAL FUND BALANCES</b>                                                    | <b>\$ 210,266</b>       | <b>\$ 83,576</b>                    | <b>\$ 13,914</b>                 | <b>\$ -</b>                                     | <b>\$ 307,756</b>                       |
| <b>TOTAL LIABILITIES, DEFERRED INFLOW OF<br/>RESOURCES, AND FUND BALANCES</b> | <b>\$ 8,736,929</b>     | <b>\$ 154,377</b>                   | <b>\$ 13,914</b>                 | <b>\$ 328,875</b>                               | <b>\$ 9,234,095</b>                     |

The accompanying notes are an integral part of these financial statements

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

**Total Fund Balances - Governmental Funds** **\$ 307,756**

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

Capital assets used in governmental activities are not financial resources, and therefore, are not reported as assets in governmental funds. The cost of assets is \$158,476,813 and the accumulated depreciation is \$60,686,079. 97,790,734

Property taxes receivable in the statement of net position, which will not be available soon enough to pay for the current period's expenditures, are deferred and not recognized as revenue in governmental funds. 1,404,467

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.

Deferred outflows of resources related to pensions 9,175,619

Deferred inflows of resources related to pensions (1,952,680)

Long term liabilities, including bonds and notes payable, are not due and payable in the current period, and therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:

|                                |                 |               |
|--------------------------------|-----------------|---------------|
| Bonds and Notes Payable (Net)  | \$ (96,412,790) |               |
| Leases Payable (Net)           | (125,966)       |               |
| Deferred Interest on Refunding | 344,769         |               |
| Accrued Interest on Debt       | (1,185,882)     |               |
| Net Pension Liability          | (105,555,880)   |               |
| Net OPEB Obligation            | (323,478)       |               |
| Accrued Compensated Absences   | (3,174,208)     | (206,433,435) |
|                                |                 |               |

**TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES** **\$ (99,707,539)**

The accompanying notes are an integral part of these financial statements

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

|                                                              | <b>GENERAL FUND</b>   | <b>CAPITAL<br/>PROJECT<br/>FUND</b> | <b>DEBT<br/>SERVICE<br/>FUND</b> | <b>CAREER AND<br/>TECHNICAL CENTER<br/>FUND</b> | <b>TOTAL<br/>GOVERNMENTAL<br/>FUNDS</b> |
|--------------------------------------------------------------|-----------------------|-------------------------------------|----------------------------------|-------------------------------------------------|-----------------------------------------|
| <b>REVENUES</b>                                              |                       |                                     |                                  |                                                 |                                         |
| Local Sources                                                | \$ 18,439,542         | \$ 310                              | \$ 1                             | \$ 32,558                                       | \$ 18,472,411                           |
| State Sources                                                | 47,733,188            | -                                   | -                                | 1,002,457                                       | 48,735,645                              |
| Federal Sources                                              | 2,679,483             | -                                   | -                                | 96,655                                          | 2,776,138                               |
| <b>Total Revenue</b>                                         | <b>\$ 68,852,213</b>  | <b>\$ 310</b>                       | <b>\$ 1</b>                      | <b>\$ 1,131,670</b>                             | <b>\$ 69,984,194</b>                    |
| <b>EXPENDITURES</b>                                          |                       |                                     |                                  |                                                 |                                         |
| Instruction                                                  | \$ 39,264,556         | \$ -                                | \$ -                             | \$ 2,798,918                                    | \$ 42,063,474                           |
| Support Services                                             | 20,035,332            | -                                   | -                                | 899,558                                         | 20,934,890                              |
| Noninstructional Services                                    | 1,079,944             | -                                   | -                                | 25,419                                          | 1,105,363                               |
| Debt Service                                                 | -                     | -                                   | 6,175,600                        | -                                               | 6,175,600                               |
| Capital Outlay                                               | -                     | 128,599                             | -                                | -                                               | 128,599                                 |
| <b>Total Expenditures</b>                                    | <b>\$ 60,379,832</b>  | <b>\$ 128,599</b>                   | <b>\$ 6,175,600</b>              | <b>\$ 3,723,895</b>                             | <b>\$ 70,407,926</b>                    |
| <b>Excess ( Deficiency) of Revenue<br/>over Expenditures</b> | <b>\$ 8,472,381</b>   | <b>\$ (128,289)</b>                 | <b>\$ (6,175,599)</b>            | <b>\$ (2,592,225)</b>                           | <b>\$ (423,732)</b>                     |
| <b>OTHER FINANCING SOURCES (USES)</b>                        |                       |                                     |                                  |                                                 |                                         |
| Sale of Fixed Assets                                         | \$ 206,950            | \$ -                                | \$ -                             | \$ -                                            | \$ 206,950                              |
| Insurance Recoveries                                         | 137,999               | -                                   | -                                | -                                               | 137,999                                 |
| Refund of Prior Year Revenues                                | (11,484)              | -                                   | -                                | -                                               | (11,484)                                |
| Operating Transfers In                                       | 107,966               | -                                   | 6,175,600                        | 2,592,225                                       | 8,875,791                               |
| Operating Transfers Out                                      | (8,764,233)           | (107,966)                           | -                                | -                                               | (8,872,199)                             |
| <b>Total Other Financing Sources (Uses)</b>                  | <b>\$ (8,322,802)</b> | <b>\$ (107,966)</b>                 | <b>\$ 6,175,600</b>              | <b>\$ 2,592,225</b>                             | <b>\$ 337,057</b>                       |
| <b>NET CHANGE IN FUND BALANCES</b>                           | <b>\$ 149,579</b>     | <b>\$ (236,255)</b>                 | <b>\$ 1</b>                      | <b>\$ -</b>                                     | <b>\$ (86,675)</b>                      |
| FUND BALANCE - JULY 1, 2015                                  | 501,163               | 319,831                             | 13,913                           | -                                               | 834,907                                 |
| Prior Period Adjustment                                      | (440,476)             | -                                   | -                                | -                                               | (440,476)                               |
| <b>FUND BALANCE - JUNE 30, 2016</b>                          | <b>\$ 210,266</b>     | <b>\$ 83,576</b>                    | <b>\$ 13,914</b>                 | <b>\$ -</b>                                     | <b>\$ 307,756</b>                       |

The accompanying notes are an integral part of these financial statements

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENT FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS** **\$ (86,675)**

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$4,605,922) exceeds capital outlay (\$263,849) in the period. (4,342,073)

Governmental funds report district pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense. (1,971,539)

Bond issue premiums/discounts are recognized as revenue/expense in the fund statements when the bond is issued. These amounts are recognized as part of long-term debt in the government-wide financial statements and accreted over the life of the bond. (22,087)

Deferred interest on the advance refunding of a bond issue is recognized as a contra long-term liability in the government-wide financial statements and amortized as a component of interest expense over the life of the bond issue. (23,235)

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of fixed assets. (428,189)

Repayment of bond, note, and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 3,376,842

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 9,306

Because certain property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred inflow of resources increased by this amount this year. (140,239)

In the statement of activities, certain operating expenses - compensated absences and retiree benefits - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (paid). This is the amount by which compensated absences and retiree health benefits earned exceeded the amount paid. (150,689)

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** **\$ (3,778,578)**

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES, BUDGET AND ACTUAL**  
**GOVERNMENTAL FUNDS - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2016**

|                                                              | Budgeted Amounts      |                       | Actual                | Variance with<br>Final Budget<br>Over (Under) |
|--------------------------------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------------------------------|
|                                                              | Original              | Final                 | (Budgetary Basis)     |                                               |
| <b>REVENUES</b>                                              |                       |                       |                       |                                               |
| Local Sources                                                | \$ 17,714,115         | \$ 17,714,115         | \$ 18,439,542         | \$ 725,427                                    |
| State Sources                                                | 48,627,117            | 48,627,117            | 47,733,188            | (893,929)                                     |
| Federal Sources                                              | 2,538,453             | 2,538,453             | 2,679,483             | 141,030                                       |
| <b>Total Revenues</b>                                        | <b>\$ 68,879,685</b>  | <b>\$ 68,879,685</b>  | <b>\$ 68,852,213</b>  | <b>\$ (27,472)</b>                            |
| <b>EXPENDITURES</b>                                          |                       |                       |                       |                                               |
| Regular Programs                                             | \$ 26,897,843         | \$ 26,897,843         | \$ 26,924,033         | \$ 26,190                                     |
| Special Programs                                             | 7,857,468             | 7,857,468             | 8,800,795             | 943,327                                       |
| Vocational Programs                                          | 1,610,488             | 1,610,488             | 1,571,307             | (39,181)                                      |
| Other Instructional Programs                                 | 1,946,280             | 1,946,280             | 1,923,156             | (23,124)                                      |
| Non-Public School Programs                                   | 30,000                | 30,000                | 45,265                | 15,265                                        |
| Pupil Personnel Services                                     | 1,138,186             | 1,138,186             | 1,101,448             | (36,738)                                      |
| Instructional Staff Services                                 | 1,312,561             | 1,312,561             | 1,476,663             | 164,102                                       |
| Administrative Services                                      | 3,151,615             | 3,151,615             | 2,825,191             | (326,424)                                     |
| Pupil Health                                                 | 662,838               | 662,838               | 666,891               | 4,053                                         |
| Business Services                                            | 774,018               | 774,018               | 753,592               | (20,426)                                      |
| Operation & Maintenance of Plant Services                    | 6,334,661             | 6,334,661             | 6,059,223             | (275,438)                                     |
| Student Transportation Services                              | 6,005,281             | 6,005,281             | 5,736,585             | (268,696)                                     |
| Central Services                                             | 1,380,294             | 1,380,294             | 1,346,347             | (33,947)                                      |
| Other Support Services                                       | 41,000                | 41,000                | 69,392                | 28,392                                        |
| Student Activities                                           | 1,071,309             | 1,071,309             | 1,045,380             | (25,929)                                      |
| Community Services                                           | 19,000                | 19,000                | 34,564                | 15,564                                        |
| <b>Total Expenditures</b>                                    | <b>\$ 60,232,842</b>  | <b>\$ 60,232,842</b>  | <b>\$ 60,379,832</b>  | <b>\$ 146,990</b>                             |
| <b>Excess (Deficiency) of Revenues<br/>over Expenditures</b> | <b>\$ 8,646,843</b>   | <b>\$ 8,646,843</b>   | <b>\$ 8,472,381</b>   | <b>\$ (174,462)</b>                           |
| <b>OTHER FINANCING SOURCES (USES)</b>                        |                       |                       |                       |                                               |
| Sale of Fixed Assets                                         | \$ 20,000             | \$ 20,000             | \$ 206,950            | \$ 186,950                                    |
| Insurance Recoveries                                         | -                     | -                     | 137,999               | 137,999                                       |
| Refund of Prior Year Revenues                                | -                     | -                     | (11,484)              | (11,484)                                      |
| Budgetary Reserve                                            | (97,414)              | (97,414)              | -                     | 97,414                                        |
| Operating Transfers In                                       | 490,378               | 490,378               | 107,966               | (382,412)                                     |
| Operating Transfers Out                                      | (9,059,807)           | (9,059,807)           | (8,764,233)           | 295,574                                       |
| <b>Total Other Financing Sources (Uses)</b>                  | <b>\$ (8,646,843)</b> | <b>\$ (8,646,843)</b> | <b>\$ (8,322,802)</b> | <b>\$ 324,041</b>                             |
| <b>NET CHANGE IN FUND BALANCES</b>                           | <b>\$ -</b>           | <b>\$ -</b>           | <b>\$ 149,579</b>     | <b>\$ 149,579</b>                             |
| FUND BALANCE - JULY 1, 2015                                  | (2,100,886)           | (2,100,886)           | 501,163               | 2,602,049                                     |
| Prior Period Adjustment                                      | -                     | -                     | (440,476)             | (440,476)                                     |
| <b>FUND BALANCE - JUNE 30, 2016</b>                          | <b>\$ (2,100,886)</b> | <b>\$ (2,100,886)</b> | <b>\$ 210,266</b>     | <b>\$ 2,311,152</b>                           |

The accompanying notes are an integral part of these financial statements

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2016**

|                                                                           | FOOD<br>SERVICES      | NON-MAJOR<br>ENTERPRISE<br>FUNDS | TOTAL                 |
|---------------------------------------------------------------------------|-----------------------|----------------------------------|-----------------------|
| <b>ASSETS</b>                                                             |                       |                                  |                       |
| <b>Current Assets:</b>                                                    |                       |                                  |                       |
| Cash and Cash Equivalents                                                 | \$ 120,335            | \$ -                             | \$ 120,335            |
| Investments                                                               | 132,085               | -                                | 132,085               |
| Due from Other Governments                                                | 6,525                 | -                                | 6,525                 |
| Other Accounts Receivable                                                 | 1,187                 | -                                | 1,187                 |
| Inventories                                                               | 186,996               | -                                | 186,996               |
| <b>TOTAL CURRENT ASSETS</b>                                               | <b>\$ 447,128</b>     | <b>\$ -</b>                      | <b>\$ 447,128</b>     |
| <b>Noncurrent Assets:</b>                                                 |                       |                                  |                       |
| Furniture & Equipment                                                     | \$ 14,391             | \$ -                             | \$ 14,391             |
| <b>TOTAL NONCURRENT ASSETS</b>                                            | <b>\$ 14,391</b>      | <b>\$ -</b>                      | <b>\$ 14,391</b>      |
| <b>TOTAL ASSETS</b>                                                       | <b>\$ 461,519</b>     | <b>\$ -</b>                      | <b>\$ 461,519</b>     |
| <b>Deferred Outflows of Resources:</b>                                    |                       |                                  |                       |
| Deferred Outflows Related to Pension                                      | \$ 349,148            | \$ -                             | \$ 349,148            |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>                               | <b>\$ 349,148</b>     | <b>\$ -</b>                      | <b>\$ 349,148</b>     |
| <b>TOTAL ASSETS &amp; DEFERRED OUTFLOWS OF RESOURCES</b>                  | <b>\$ 810,667</b>     | <b>\$ -</b>                      | <b>\$ 810,667</b>     |
| <b>LIABILITIES</b>                                                        |                       |                                  |                       |
| <b>Current Liabilities:</b>                                               |                       |                                  |                       |
| Accounts Payable                                                          | \$ 54,724             | \$ -                             | \$ 54,724             |
| Due to Other Funds                                                        | 886,420               | -                                | 886,420               |
| Unearned Revenue                                                          | 8,199                 | -                                | 8,199                 |
| <b>TOTAL CURRENT LIABILITIES</b>                                          | <b>\$ 949,343</b>     | <b>\$ -</b>                      | <b>\$ 949,343</b>     |
| <b>Noncurrent Liabilities:</b>                                            |                       |                                  |                       |
| Net Pension Liability                                                     | \$ 4,075,120          | \$ -                             | \$ 4,075,120          |
| <b>TOTAL NONCURRENT LIABILITIES</b>                                       | <b>\$ 4,075,120</b>   | <b>\$ -</b>                      | <b>\$ 4,075,120</b>   |
| <b>TOTAL LIABILITIES</b>                                                  | <b>\$ 5,024,463</b>   | <b>\$ -</b>                      | <b>\$ 5,024,463</b>   |
| <b>Deferred Inflows of Resources:</b>                                     |                       |                                  |                       |
| Deferred Inflows Related to Pension                                       | \$ 79,320             | \$ -                             | \$ 79,320             |
| <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>                                | <b>\$ 79,320</b>      | <b>\$ -</b>                      | <b>\$ 79,320</b>      |
| <b>TOTAL LIABILITIES &amp; DEFERRED INFLOWS OF RESOURCES</b>              | <b>\$ 5,103,783</b>   | <b>\$ -</b>                      | <b>\$ 5,103,783</b>   |
| <b>NET POSITION</b>                                                       |                       |                                  |                       |
| Net Investment in Capital Assets                                          | \$ 14,391             | \$ -                             | \$ 14,391             |
| Unrestricted (Deficit)                                                    | (4,307,507)           | -                                | (4,307,507)           |
| <b>TOTAL NET POSITION (Deficit)</b>                                       | <b>\$ (4,293,116)</b> | <b>\$ -</b>                      | <b>\$ (4,293,116)</b> |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b> | <b>\$ 810,667</b>     | <b>\$ -</b>                      | <b>\$ 810,667</b>     |

The accompanying notes are an integral part of these financial statements

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

|                                                | <b>FOOD<br/>SERVICES</b> | <b>NON-MAJOR<br/>ENTERPRISE<br/>FUNDS</b> | <b>TOTAL</b>          |
|------------------------------------------------|--------------------------|-------------------------------------------|-----------------------|
| <b><u>OPERATING REVENUES</u></b>               |                          |                                           |                       |
| Food Services Revenue                          | \$ 300,741               | \$ -                                      | \$ 300,741            |
| <b>Total Operating Revenues</b>                | <b>\$ 300,741</b>        | <b>\$ -</b>                               | <b>\$ 300,741</b>     |
| <b><u>OPERATING EXPENSES</u></b>               |                          |                                           |                       |
| Personnel Services - Salaries                  | \$ 1,278,209             | \$ -                                      | \$ 1,278,209          |
| Personnel Services - Employee Benefits         | 617,559                  | -                                         | 617,559               |
| Purchased Property Services                    | 53,282                   | -                                         | 53,282                |
| Food/Milk/Donated Commodities                  | 1,217,786                | -                                         | 1,217,786             |
| Supplies                                       | 20,443                   | -                                         | 20,443                |
| Other Operating Expenses                       | 18,544                   | -                                         | 18,544                |
| Depreciation                                   | 8,172                    | -                                         | 8,172                 |
| <b>Total Operating Expenses</b>                | <b>\$ 3,213,995</b>      | <b>\$ -</b>                               | <b>\$ 3,213,995</b>   |
| <b>OPERATING INCOME/(LOSS)</b>                 | <b>\$ (2,913,254)</b>    | <b>\$ -</b>                               | <b>\$ (2,913,254)</b> |
| <b><u>NONOPERATING REVENUES (EXPENSES)</u></b> |                          |                                           |                       |
| Earnings on Investments                        | \$ 432                   | \$ -                                      | \$ 432                |
| State Sources                                  | 401,805                  | -                                         | 401,805               |
| Federal Sources                                | 2,316,218                | -                                         | 2,316,218             |
| Refund of Prior Year Expenditures              | -                        | 21                                        | 21                    |
| Transfers (Out)                                |                          | (3,592)                                   | (3,592)               |
| <b>Total Nonoperating Revenues (Expenses)</b>  | <b>\$ 2,718,455</b>      | <b>\$ (3,571)</b>                         | <b>\$ 2,714,884</b>   |
| <b>CHANGE IN NET POSITION</b>                  | <b>\$ (194,799)</b>      | <b>\$ (3,571)</b>                         | <b>\$ (198,370)</b>   |
| NET POSITION - JULY 1, 2015 (Deficit)          | (4,098,317)              | 3,571                                     | (4,094,746)           |
| <b>NET POSITION - JUNE 30, 2016 (Deficit)</b>  | <b>\$ (4,293,116)</b>    | <b>\$ -</b>                               | <b>\$ (4,293,116)</b> |

The accompanying notes are an integral part of these financial statements

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

|                                                                                                              | <b>FOOD<br/>SERVICES</b> | <b>NON-MAJOR<br/>ENTERPRISE<br/>FUNDS</b> | <b>TOTAL</b>          |
|--------------------------------------------------------------------------------------------------------------|--------------------------|-------------------------------------------|-----------------------|
| <b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>                                                           |                          |                                           |                       |
| Cash Received from Users                                                                                     | \$ 301,119               | \$ -                                      | \$ 301,119            |
| Cash Payments to Employees for Services                                                                      | (1,895,768)              | -                                         | (1,895,768)           |
| Cash Payments to Suppliers for Goods and Services                                                            | (688,847)                | -                                         | (688,847)             |
| <b>Net Cash Provided by (Used for) Operating Activities</b>                                                  | <b>\$ (2,283,496)</b>    | <b>\$ -</b>                               | <b>\$ (2,283,496)</b> |
| <b><u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u></b>                                               |                          |                                           |                       |
| State Sources                                                                                                | \$ 113,886               | \$ -                                      | \$ 113,886            |
| Federal Sources                                                                                              | 2,061,210                | -                                         | 2,061,210             |
| Refund of Prior Year Expenditures                                                                            | -                        | 21                                        | 21                    |
| Operating Transfers                                                                                          | -                        | (3,592)                                   | (3,592)               |
| <b>Net Cash Provided by (Used for) Non-Capital Financing Activities</b>                                      | <b>\$ 2,175,096</b>      | <b>\$ (3,571)</b>                         | <b>\$ 2,171,525</b>   |
| <b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>                                                           |                          |                                           |                       |
| Earnings on Investments                                                                                      | \$ 432                   | \$ -                                      | \$ 432                |
| Deposits into Investment Pool (PLGIT)                                                                        | (54,849)                 | -                                         | (54,849)              |
| <b>Net Cash Provided by (Used for) Investing Activities</b>                                                  | <b>\$ (54,417)</b>       | <b>\$ -</b>                               | <b>\$ (54,417)</b>    |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                                                  | <b>\$ (162,817)</b>      | <b>\$ (3,571)</b>                         | <b>\$ (166,388)</b>   |
| CASH AND CASH EQUIVALENTS - JULY 1, 2015                                                                     | 283,152                  | 3,571                                     | 286,723               |
| <b>CASH AND CASH EQUIVALENTS - JUNE 30, 2016</b>                                                             | <b>\$ 120,335</b>        | <b>\$ -</b>                               | <b>\$ 120,335</b>     |
| <b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>        |                          |                                           |                       |
| Operating Income (Loss)                                                                                      | \$ (2,913,254)           | \$ -                                      | \$ (2,913,254)        |
| <b>ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b> |                          |                                           |                       |
| Depreciation                                                                                                 | 8,172                    | -                                         | 8,172                 |
| Donated Commodities                                                                                          | 223,983                  | -                                         | 223,983               |
| Accrual of GASB 68 Pension Expense                                                                           | 74,781                   | -                                         | 74,781                |
| (Increase) Decrease in Other Accounts Receivable                                                             | 378                      | -                                         | 378                   |
| (Increase) Decrease in Inventories                                                                           | (22,988)                 | -                                         | (22,988)              |
| Increase (Decrease) in Accounts Payable                                                                      | 39,130                   | -                                         | 39,130                |
| Increase (Decrease) in Unearned Revenue                                                                      | (9,932)                  | -                                         | (9,932)               |
| Increase (Decrease) in Due to Other Funds                                                                    | 316,234                  | -                                         | 316,234               |
| <b>Total Adjustments</b>                                                                                     | <b>\$ 629,758</b>        | <b>\$ -</b>                               | <b>\$ 629,758</b>     |
| <b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>                                                  | <b>\$ (2,283,496)</b>    | <b>\$ -</b>                               | <b>\$ (2,283,496)</b> |

**NONCASH NONCAPITAL FINANCING ACTIVITIES:**

During the year, the District received \$223,983 in food commodities from the U.S. Department of Agriculture

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2016**

|                           | <u>SCHOLARSHIP FUND</u>  | <u>ACTIVITY FUNDS</u>    | <u>CACTC ACTIVITY FUND</u> |
|---------------------------|--------------------------|--------------------------|----------------------------|
| <b>ASSETS</b>             |                          |                          |                            |
| Cash and Cash Equivalents | \$ -                     | \$ 158,214               | \$ 13,907                  |
| Investments               | 218,884                  | -                        | -                          |
| <b>TOTAL ASSETS</b>       | <b><u>\$ 218,884</u></b> | <b><u>\$ 158,214</u></b> | <b><u>\$ 13,907</u></b>    |
| <b>LIABILITIES</b>        |                          |                          |                            |
| Other Current Liabilities | \$ -                     | \$ 158,214               | \$ 13,907                  |
| <b>TOTAL LIABILITIES</b>  | <b><u>\$ -</u></b>       | <b><u>\$ 158,214</u></b> | <b><u>\$ 13,907</u></b>    |
| <b>NET POSITION</b>       |                          |                          |                            |
| Restricted                | \$ 218,884               |                          |                            |
| <b>TOTAL NET POSITION</b> | <b><u>\$ 218,884</u></b> |                          |                            |

The accompanying notes are an integral part of these financial statements

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**STATEMENT OF CHANGES IN NET POSITION**  
**FIDUCIARY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2016**

|                                     | <b>SCHOLARSHIP<br/>FUND</b> |
|-------------------------------------|-----------------------------|
| <b>ADDITIONS:</b>                   |                             |
| Interest                            | \$ 11,255                   |
| Realized/Unrealized Gain            | 3,407                       |
| Other                               | 332                         |
| <b>TOTAL ADDITIONS</b>              | <b>\$ 14,994</b>            |
| <b>DEDUCTIONS:</b>                  |                             |
| Scholarships Awarded                | \$ 9,785                    |
| Fees                                | 3,192                       |
| <b>TOTAL DEDUCTIONS</b>             | <b>\$ 12,977</b>            |
| <b>CHANGE IN NET POSITION</b>       | <b>\$ 2,017</b>             |
| <b>NET POSITION - JULY 1, 2015</b>  | <b>216,867</b>              |
| <b>NET POSITION - JUNE 30, 2016</b> | <b>\$ 218,884</b>           |

The accompanying notes are an integral part of these financial statements

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Connellsville Area School District was established under the authority of an act of the state legislature that designated a school board as the governing body. The District operates eight elementary schools, two junior high schools and one high school. This District also serves several surrounding municipalities, which include the Townships of Bullskin, Connellsville, Dunbar, Saltlick and Springfield, the City of Connellsville, and the Boroughs of Dawson, Dunbar, South Connellsville and Vanderbilt. The District operates under a locally-elected nine member Board form of government and provides educational services as mandated by the Commonwealth of Pennsylvania and selected federal agencies. The Board of Education has complete authority over the operations and administration of the school district's activities. The Superintendent is the chief administrative officer of the School District, with overall responsibility for all aspects of operations, including education and finance. The Business Manager is responsible for budget and financial operations. Both of these officials are appointed by the School District.

The financial statements of the Connellsville Area School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). During the 2015-2016 year, the School District adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 72, *'Fair Value Measurement and Application'*; Statement No. 76, *'The Hierarchy of Generally Accepted Principles for State and Local Governments'*; and Statement No. 79, *'Certain External Investment Pools and Pool Participates'*. The most significant of the School District's accounting policies are as follows:

**REPORTING ENTITY**

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure the financial statements are not misleading. The primary government of the Connellsville Area School District consists of all funds, departments, boards and agencies that are not legally separate from the District. As defined by GASB Statement No. 14, component units are legally separate entities that are included in the School District's reporting entity because of the significance of their operating or financial relationships with the School District. For the Connellsville Area School District, this includes general operations of the District and the Connellsville Area Career and Technical Center, food service, and student related activities of the School District.

Effective July 1, 2000, the Board of Education of the School District assumed sole responsibility for the operation of the Connellsville Area Career and Technical Center (CACTC), formerly the North Fayette Area Vocational Technical School. Although the Career and Technical Center is a legally separate organization, the School District's Board of Education is also the governing body for the Career and Technical Center and is financially accountable for their operations. In addition, the Career and Technical Center's student enrollment consisted of students from the Connellsville Area School District exclusively. Accordingly the Career and Technical Center meets the criteria for inclusion as a component unit of the School District and their financial activity is included (blended) in the accompanying financial statements.

The School District is associated with one jointly governed organization (Note 13) and one public entity risk pool (Note 15). These organizations are:

- Jointly Governed Organization:  
Intermediate Unit 1
  
- Public Entity Risk Pool:  
Intermediate Unit 1 Health Consortium Trust

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**BASIS OF PRESENTATION**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS** – The statement of net position (Exhibit A) and the statement of activities (Exhibit B) display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

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

The government-wide statement of activities (Exhibit B) presents a comparison between direct expenses and program revenues for the District's business-type activities (food service operations) and for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants, subsidies and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which the business-type activity or government function is self-financing or draws from the general revenues of the School District.

**FUND FINANCIAL STATEMENTS** – Fund financial statements report detailed information about the School District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Major funds represent the School District's most important funds and are determined based on percentages of assets, liabilities, revenues, and expenditures/expenses. For the Connellsville Area School District, the General Fund is always considered a major fund. Each major fund is presented in a separate column. Non-major funds are segregated and presented in a single column. Fiduciary funds are reported by fund type.

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

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

Fiduciary funds are reported using the economic resources measurement focus.

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**FUND ACCOUNTING**

The School District uses funds to report on its financial position and the results of its operations during the year. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Funds are classified into three categories: governmental, proprietary and fiduciary. Fund categories are defined as follows:

**Governmental Funds** – Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major and non-major governmental funds:

**MAJOR GOVERNMENTAL FUNDS:**

**GENERAL FUND** - The general fund is used to account for all financial resources not required to be accounted for in some other fund. The general fund balance is available for any purpose provided it is expended according to the Commonwealth of Pennsylvania Public School Code.

**CAPITAL PROJECT FUND** - The capital project fund accounts for financial resources used for the acquisition, construction, or improvement of capital facilities and other assets financed through the issuance of the District's general obligation general obligation bonds - Series A of 2009, Series of 2012, and Series of 2013.

**DEBT SERVICE FUND** - The debt service fund is used to account for transfers from the general fund for the payment of principal and interest on general obligation bond/ note issues outstanding.

**NON-MAJOR GOVERNMENTAL FUNDS:**

**CAREER AND TECHNICAL CENTER FUND** - The career and technical center fund represents the activities of the District's blended component unit – The Connellsville Area Career and Technical Center as described on page 13.

**Proprietary Funds** - used to account for activities similar to those found in the private sector, where the determination of net income is necessary and useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies within the School District (internal service funds). The following are the School District's major and non-major proprietary (enterprise) funds:

**MAJOR ENTERPRISE FUNDS:**

**FOOD SERVICE FUND** - The food service fund is used to account for all financial resources of the District's food service operations.

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**FUND ACCOUNTING (Continued)**

**NON-MAJOR ENTERPRISE FUNDS:**

**OTHER NON-MAJOR ENTERPRISE FUNDS** - The Connellsville Area Career and Technical Center operates an enterprise fund for culinary arts as an instructional tool for student career learning purposes.

**Fiduciary Funds** – Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments are therefore not available to support the School District's own programs. Agency funds are custodial in nature and do not involve measuring income or any other results from operations. The School District maintains one private-purpose trust fund. The private-purpose trust fund accounts for student scholarships and is funded through the Eleanor Roland Memorial Scholarship Fund. The School District also maintains Agency Funds which account for various student organization activity accounts administered by the District on behalf of the various student organizations of the District and the Career and Technical Center.

**BASIS OF ACCOUNTING AND MEASUREMENT FOCUS**

The basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Government funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year-end.

Revenue resulting from non-exchange transactions, in which the School District receives value without directly giving equal value in return, includes property taxes, grants and contributions. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants and contributions are recognized in the fiscal year in which all eligibility requirements have been satisfied. On a modified accrual basis, revenue from non-exchange transactions must also be 'available' before it can be recognized.

The management of the Connellsville Area School District has determined that the revenues most susceptible to accrual (measurable and available) at June 30, 2016 under the modified accrual basis are **(1)** delinquent real estate and certain Act 511 taxes collected by the district within 60 days following the close of the fiscal year, **(2)** federal and state subsidies earned in the fiscal year 2015-2016, **(3)** tuition due from other Pennsylvania school districts, and **(4)** other miscellaneous revenues earned in fiscal year 2015-2016 but received subsequent to June 30, 2016. On the governmental fund financial statements, delinquent real estate tax receivables that will not be collected within the 'available' period have been reported as 'deferred inflows of resources'.

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**BASIS OF ACCOUNTING AND MEASUREMENT FOCUS (Continued)**

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses.

Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. The primary expenditures deemed susceptible to accrual at June 30, 2016 are those for which the Board of Education's intention was to expense these items as budgeted for the 2015-2016 official budget, and for which the District has incurred an obligation during 2016, but has not paid as of June 30, 2016.

Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds but are included as part of expenses in the government-wide statement of activities.

**BUDGETS**

In June of 2015, the Connellsville Area School District adopted its fiscal year June 30, 2016 annual budget for the general fund totaling \$69,390,063 in accordance with the provisions of the Pennsylvania School Code. The budget is prepared utilizing the modified accrual method of accounting. Budgetary transfers among various expenditure line items can be performed by the district, as approved by the board of education, only during the last nine months of the fiscal year. The original and adjusted budgetary amounts are reflected in these financial statements (Exhibit G). All annual appropriations of the general fund lapse at fiscal year end.

**CASH AND CASH EQUIVALENTS**

For the purposed of these basic financial statements, cash and cash equivalents include amounts in demand deposit accounts and any other highly liquid, short-term investments, with original maturity terms of less than three months.

**INVESTMENTS**

Investments include certificates of deposit with original maturity terms in excess of three months, deposits pooled for investment purposes with the Pennsylvania Local Government Investment Trust (PLGIT), the Pennsylvania School District Liquid Asset Fund (PSDLAF), and mutual fund investments through S and T Wealth Management. Investments are stated at fair value. State statutes authorize the School District to invest in:

- I. U.S. Treasury Bills.
- II. Short-term obligations of the United States Government of its agencies or instrumentalities
- III. Deposits in savings accounts, time deposits and share accounts of institutions insured by the Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation and National Credit Union Share Insurance Fund.

**CONNELLVILLE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**INVESTMENTS (Continued)**

- IV. Obligations of the United States of America, the Commonwealth of Pennsylvania or any political subdivision of the Commonwealth of Pennsylvania, or any of their agencies or instrumentalities backed by the full faith and credit of the governmental units.
- V. Shares of an investment company registered under the Investment Company Act of 1940, and registered under the Securities Act of 1933.
- VI. Any investment authorized by 20 Pa. C.S. Ch. 73 relating to fiduciaries investments.

Pooled investments such as PLGIT and PSDLAF are authorized by Section 440.1 of the Pennsylvania Public School Code of 1949, as amended.

**SHORT-TERM INTERFUND RECEIVABLES/PAYABLES**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as 'due from/to other funds' on the governmental funds balance sheet. For the purposes of the government-wide statement of net position, governmental interfund receivables and payables have been eliminated. Amounts due between governmental activities and business-type activities, if any, are presented as off-setting internal balances on the statement of net position.

**INVENTORIES**

Inventories on the government-wide statement of net position (Exhibit A) and the proprietary fund statement of net position (Exhibit H) are recorded at a combination of actual cost and fair value on a first-in first-out basis. This inventory consists of purchased food and supplies and donated commodities from the U.S. Department of Agriculture as part of the food service program. The School District does not inventory the cost of such items as books and supplies, but rather records these items as expenditures in the governmental funds and an expense in the government-wide statement of activities at the time of purchase.

**CAPITAL ASSETS AND DEPRECIATION**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets are reported in the governmental activities column of the government-wide statement of net position. Capital assets used by the proprietary fund are reported in both the business-type activity column of the government-wide statement of net position and on the proprietary fund statement of net position.

All capital assets are recorded at cost (or estimated historical cost). Donated fixed assets are recorded at fair value at the time of receipt. The School District maintains a capitalization threshold of \$1,000. The cost of infrastructure is included as part of site improvements in the government-wide statement of net position. Routine repair and maintenance costs that do not add to the value of the asset or extend its useful life are charged as an expense in the government-wide statement of activities.

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**CAPITAL ASSETS AND DEPRECIATION (Continued)**

All reported capital assets, except land and construction in progress, are depreciated using the straight-line method over the following useful lives:

| <u>CATEGORY</u>            | <u>GOVERNMENTAL<br/>ACTIVITIES</u> | <u>BUSINESS TYPE<br/>ACTIVITIES</u> |
|----------------------------|------------------------------------|-------------------------------------|
| Site Improvements          | 15-20 years                        | N/A                                 |
| Buildings and Improvements | 15-50 years                        | N/A                                 |
| Furniture and Fixtures     | 5-10 years                         | N/A                                 |
| Vehicles                   | 7-10 years                         | 5 Years                             |
| Equipment                  | 5-10 years                         | 3-10 years                          |

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets purchased by governmental funds are recorded as expenditures in the fund financial statements (Exhibit E). The results of capitalizing fixed assets net of depreciation on the government-wide statement of net position and statement of activities, as opposed to recording these same assets as an expenditure in the fund financial statements (Exhibit E), is reflected in the required reconciliations of fund balance to net position (Exhibit D) and the changes in fund balances to the changes in net position (Exhibit F).

**LONG-TERM DEBT FINANCING COSTS**

Bond issue costs are recorded as expenditures in the governmental fund financial statements in the year paid. The School District did not incur any bond issuance costs during the 2015-2016 fiscal year.

**PENSIONS**

For the 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. Investment assets are reported at fair value. More information on pension activity is included in Note 12.

**COMPENSATED ABSENCES**

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, 'Accounting for Compensated Absences'. Sick leave and vacation benefits are accrued as a liability at the time individuals become eligible in accordance with the terms of the District's collective bargaining agreements. With regard to sick leave, teachers and twelve-month employees are credited with ten days of sick leave annually to an unlimited maximum. Upon retirement, administrators with at least ten years of service will be reimbursed for unused sick days at a per diem rate of .002 times annual salary up to 210 days. Teachers receive \$100 per day for each accumulated unused sick day up to 300 days. Custodians and secretaries are paid at one-half rate for each accumulated unused sick day and \$45 per day, respectively, up to a maximum of 200 days. Cafeteria personnel are paid for each accumulated unused sick day up to a maximum of 180 days.

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**COMPENSATED ABSENCES (Continued)**

With regard to vacation pay, District employees who are required to work on a twelve-month schedule are credited with vacation rates which vary with length of service or job classification. Unused vacation days for administrators and secretaries are added to sick days. Vacation days of other twelve-month employees are noncumulative. The entire compensated absences liability of \$3,174,208 is shown as a non-current liability in the government-wide statement of net position. This amount includes \$170,073 for the Connellsville Area Career and Technical Center. For governmental fund financial statements, compensated absences are recorded as expenditures when paid rather than accrued when earned as the likelihood of payment in the immediate fiscal year with available expendable resources is not assured.

**ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. For the business-type activities, these obligations and all similar obligations are reported again on the proprietary fund statement of net position (Exhibit H).

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the non-current portion of compensated absences, retiree health benefits and health insurance consortium liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, liabilities that mature or come due for payment during the fiscal year are considered to have been paid with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements when due. The District's General Fund is typically used to liquidate long-term liability obligations.

The results of recognizing these long-term obligations as liabilities on the government-wide statement of net position and statement of activities, as opposed to recording these same obligations as an expenditure in the fund financial statements (Exhibit E) only when paid, is reflected in the required reconciliations of fund balance to net position (Exhibit D) and the changes in fund balances to the changes in net position (Exhibit F).

**UNEARNED REVENUE**

Unearned revenue arises when the District receives resources before it has legal claim to them. This occurs when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the School District has a legal claim to the resources, the unearned revenue liability is removed and revenue is recognized.

**DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES**

In addition to assets and liabilities, the statement of net position and/or the balance sheet will sometimes report a separate section for deferred outflows and/or inflows of resources. These separate financial statement elements represent a decrease and/or increase in net position that applies to a future period and will not be recognized as an outflow and/or inflow of resources (expense/expenditure or income/revenue) in the current period.

**CONNELLVILLE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**NET POSITION**

Net position is classified into three categories according to external donor or legal restrictions or availability of assets to satisfy District obligations. Net position is classified as follows:

- Net Investment in Capital Assets – This component of net position consists of capital assets net of accumulated depreciation, and reduced by the outstanding balances of debt that is attributable to the acquisition, construction and improvement of the capital assets, plus deferred outflows of resources less deferred inflows of resources related to those assets.
- Restricted Net Position – This component of net position consists of restricted assets reduced by liabilities and deferred inflows related to those assets.
- Unrestricted – Consists of net position that does not meet the definition of ‘restricted’ or ‘net investment in capital assets’.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the School District’s policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

**FUND EQUITY**

In the Balance Sheet – Governmental Funds (Exhibit C), fund balances are reported in specific categories to make the nature and extent of the constraints placed on any entity’s fund balance more transparent in accordance with GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Non-spendable fund balance – amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and high levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance – amount constrained to specific purposes by the School District itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.
- Assigned fund balance – amounts the School District intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- Unassigned fund balance – amount that are available for any purpose

Act 48 of 2003 prohibits school districts from increasing real property taxes unless the school district has adopted a budget for such school year that includes an estimated ending unassigned fund balance which is not more than a specified percentage of the district’s total budgeted expenditures.

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**FUND EQUITY (Continued)**

The School District establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. The Board of Education has given authority to assign fund balance to the Business Manager.

When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the District's general policy to spend the committed resources first, followed by assigned amounts and then unassigned amounts.

**ESTIMATES**

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

**OPERATING REVENUES AND EXPENSES**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary (enterprise) fund. For the Connellsville Area School District, these revenues are food service charges for lunch and breakfast service. For the Connellsville Career and Technical Center, these revenues are sales from the bake shop and culinary arts. Operating expenses are the necessary costs incurred to provide the aforementioned food service. Non-operating revenues of the District's food service proprietary fund are (1) investment earnings and (2) state and federal subsidies, including donated commodities, received from the U.S. Department of Agriculture, and (3) transfers from the General Fund. The District did not have non-operating expenses during the fiscal year.

**NOTE 2 - CASH DEPOSITS AND INVESTMENTS**

**CASH DEPOSITS:**

At June 30, 2016, Connellsville Area School District had the following carrying values on its cash and cash equivalents accounts:

|                                | <b><u>BANK<br/>BALANCE</u></b> | <b><u>CARRYING<br/>VALUE</u></b> |
|--------------------------------|--------------------------------|----------------------------------|
| General Fund                   | \$ 2,155,718                   | \$ 2,205,603                     |
| Career & Technical Center Fund | 125,995                        | 126,095                          |
| Debt Service Fund              | 13,914                         | 13,914                           |
| Enterprise Fund                | 120,335                        | 120,335                          |
| Agency Fund                    | 158,826                        | 158,214                          |
| CACTC Agency Fund              | 13,907                         | 13,907                           |
|                                | <b><u>\$ 2,588,695</u></b>     | <b><u>\$ 2,638,068</u></b>       |

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 2 - CASH DEPOSITS AND INVESTMENTS (Continued)**

**CASH DEPOSITS: (Continued)**

The difference between the bank balance and carrying value represents year-end reconciling items such as deposits in transit and outstanding checks. The Federal Deposit Insurance Corporation (FDIC) coverage threshold for government accounts is \$250,000 per official custodian. This coverage includes checking and savings accounts, money market deposits accounts, and certificates of deposit.

**Custodial Credit Risk:**

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a separate policy for custodial credit risk in addition to the requirements of State Law. As of June 30, 2016, \$2,224,202 of the District's bank balance total is exposed to custodial credit risk as this amount represents uninsured deposits collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the School District's name. In accordance with Act Number 72-1971 Session of the Commonwealth of Pennsylvania, the aforementioned deposits, in excess of \$250,000 are collateralized by securities pledged to a pooled public funds account with the Federal Reserve System.

**INVESTMENTS:**

The fair value and maturity term of the District's investments as of June 30, 2016 is as follows:

|                       | <u>Fair Value</u>   | <u>No Stated<br/>Maturity</u> |
|-----------------------|---------------------|-------------------------------|
| <b>Governmental:</b>  |                     |                               |
| PLGIT                 | \$ 1,145,913        | \$ 1,145,913                  |
| PSDLAF                | 6                   | 6                             |
|                       | <u>\$ 1,145,919</u> | <u>\$ 1,145,919</u>           |
| <b>Business-Type:</b> |                     |                               |
| PLGIT                 | \$ 532,472          | \$ 532,472                    |
| Outstanding Checks    | (400,387)           |                               |
|                       | <u>\$ 132,085</u>   |                               |
| <b>Fiduciary:</b>     |                     |                               |
| Mutual Funds          | \$ 218,884          | \$ 218,884                    |

The purpose of the Pennsylvania Local Government Investment Trust (PLGIT) and the Pennsylvania School District Liquid Asset Fund (PSDLAF) is to enable their available funds for investments authorized under the Intergovernmental Cooperation Act of 1972. The funds operate in a manner consistent with the SEC's Rule 2(a)7 of the Investment Company Act of 1940. The funds use amortized cost to report net position to compute share prices. These funds maintain net asset values of \$1 per share. Accordingly, the fair value of the position in these funds is the same as the value of these shares.

**CONNELLVILLE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 2 - CASH DEPOSITS AND INVESTMENTS (Continued)**

**INVESTMENTS: (Continued)**

**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's investments in PLGIT, PSDLAF, and the mutual fund investments held through S & T Wealth Management are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The District does not have a specific policy that would limit its investment choices to those with certain credit ratings.

**Interest Rate Risk:**

The District has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk:**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District has no formal policy, in addition to the requirements of the Pennsylvania School Code that limits its investment choices based on credit ratings by nationally recognized rating organizations. As of June 30, 2016, PLGIT was rated A-1+ and PSDLAF was rated AAAM by the Standard and Poors nationally recognized statistical rating organization.

**Fair Value Measurements:**

The Connellsville Area School District's investments are reported at fair value within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No 72, *Fair Value Measurement and Application*, provides a framework for measuring fair value which establishes a three-level fair value hierarchy that prioritizes the inputs to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable (level 3 measurements). The three levels of the fair value hierarchy are described below:

**Level 1** – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets such as stock quotes

**Level 2** – Includes inputs other than level 1 inputs that are directly or indirectly observable in the marketplace such as yield curves or other market data

**Level 3** – Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability including assumptions about risk such as bid/ask spreads and liquidity discounts.

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 2 - CASH DEPOSITS AND INVESTMENTS (Continued)**

**INVESTMENTS: (Continued)**

**Fair Value Measurements (Continued)**

The following schedule presents the Investments of the District by level within the fair value hierarchy:

|                                       | <b>Value<br/>at 6/30/16</b> | <b>Fair Value Measurements</b> |                |                |
|---------------------------------------|-----------------------------|--------------------------------|----------------|----------------|
|                                       |                             | <b>Level 1</b>                 | <b>Level 2</b> | <b>Level 3</b> |
| Equity and Fixed<br>Income Securities | \$ 218,884                  | \$ 218,884                     | \$ -           | \$ -           |

Investments held in external investment pools such as PLGIT and PSDLAF are not subject to the provisions of fair value measurements as they are recorded at amortized cost.

**NOTE 3 - PROPERTY TAXES**

The Connellsville Area School District levies property taxes August 1 of each fiscal year. The tax millage assessment for the 2015-2016 fiscal year was 12.9528 mills, which represents \$12.9528 of revenue for every \$1,000 of assessed property value. Taxpayers are entitled to a 2% discount if taxes are paid subsequent to October 1. Taxes paid after November 30 are assessed a 10% penalty. Unpaid taxes are submitted to Fayette County for collection. Tax collectors are required under Act 169 of the Commonwealth of Pennsylvania to submit a reconciliation of their tax duplicate to the District by January 15<sup>th</sup> of the year following levy. The final tax collector reconciliations reflected \$1,197,712 in unpaid 2015 property taxes, which represents 9.0% of the total assessed property taxes (\$13,316,940) for the current fiscal year.

Taxes receivable as shown in the government-wide statement of net position includes delinquent property taxes of \$1,404,467. For purposes of the governmental fund financial statements, these delinquent property taxes receivable, although measurable, do not meet the available criteria to finance current fiscal year operations. Accordingly, this amount is equally off-set as a credit to 'deferred inflows of resources' in the fund financial statements.

The effect of recognizing property tax revenue when taxes are levied, as opposed to when they are received using the 'measurable and available' criteria under the modified accrual basis of accounting, is reflected in the required reconciliations of fund balance to net position (Exhibit D) and the changes in fund balances to the changes in net position (Exhibit F).

Taxes receivable are comprised of the following at June 30, 2016:

|                           |              |
|---------------------------|--------------|
| Delinquent Property Taxes | \$ 1,779,510 |
| Wage Taxes                | 329,734      |
| Deed Transfer Taxes       | 15,616       |
|                           | \$ 2,124,860 |

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 4 – DUE FROM OTHER GOVERNMENTS**

The amount of 'due from other governments', as reflected on the government-wide statement of net position and the governmental funds balance sheet, is comprised of the following:

|                               | <b>GOVERNMENTAL<br/>ACTIVITIES</b> |
|-------------------------------|------------------------------------|
| Commonwealth of Pennsylvania: |                                    |
| State Subsidies               | \$ 2,322,251                       |
| Federal Grants                | 29,352                             |
| Tuition - Other LEA's         | 353,795                            |
|                               | \$ 2,705,398                       |

**NOTE 5 – INTER-FUND RECEIVABLES/PAYABLES/TRANSFERS**

Inter-fund receivables and payables as reflected on the governmental and proprietary funds balance sheets (Exhibits C and H) are as follows:

|                                | <b>RECEIVABLE</b> | <b>PAYABLE</b> |
|--------------------------------|-------------------|----------------|
| General Fund                   | \$ 886,420        | \$ 1,443       |
| Career & Technical Center Fund | 1,443             | -              |
| Food Service Fund              | -                 | 886,420        |
|                                | \$ 887,863        | \$ 887,863     |

These inter-fund obligations represent reimbursements due for routine operating costs paid by each respective fund on behalf of the other funds. These obligations have been eliminated in the government-wide statement of net position. Inter-fund transfers for the fiscal year were as follows:

|                                | <b>TRANSFERS IN</b> | <b>TRANSFERS OUT</b> |
|--------------------------------|---------------------|----------------------|
| General Fund                   | \$ 107,966          | \$ 8,764,233         |
| Career & Technical Center Fund | 2,592,225           | -                    |
| Capital Project Fund           |                     | 107,966              |
| Debt Service Fund              | 6,175,600           | -                    |
| Food Service Fund              | -                   | 3,592                |
|                                | \$ 8,875,791        | \$ 8,875,791         |

Transfers from the General Fund to the Debt Service Fund totaling \$6,175,600 were made to meet required debt obligation payments of the School District. The District transferred \$2,588,633 to the Connellsville Area Career and Technical Center (CACTC) to subsidize general operations. The Capital Project Fund transferred \$107,966 to the General Fund to offset the cost of certain capital outlays incurred by the General Fund. The CACTC enterprise fund transferred remaining funds of \$3,592 into the General Fund of the CACTC.

**NOTE 6 – OTHER ACCOUNTS RECEIVABLE**

Other accounts receivable totaling \$24,443 as reflected on the government-wide statement of net position and the governmental funds balance sheet, is comprised of miscellaneous amounts due to the District as of June 30, 2016 for services provided by, or revenues earned by, the District through June 30, 2016.

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 7 - OTHER CURRENT LIABILITIES**

The 'other current liabilities' balance of \$139,642 represents monies received and earmarked for the following programs and projects:

|                                    |                   |
|------------------------------------|-------------------|
| Sam Glick Scholarship              | \$ 100,142        |
| Madeline T. VanNosdein Scholarship | 35,030            |
| Health Fair                        | 3,067             |
| Miscellaneous                      | 1,403             |
|                                    | <u>\$ 139,642</u> |

**NOTE 8 - CAPITAL ASSETS**

A summary of the governmental and business-type fixed asset activity for the 2015-2016 fiscal year is as follows:

|                                                         | <b>Balance<br/>7/1/2015</b> | <b>Additions</b>      | <b>Deductions</b>     | <b>Balance<br/>6/30/2016</b> |
|---------------------------------------------------------|-----------------------------|-----------------------|-----------------------|------------------------------|
| <b>Governmental Activities</b>                          |                             |                       |                       |                              |
| Land                                                    | \$ 259,084                  | \$ -                  | \$ -                  | \$ 259,084                   |
| Site Improvements                                       | 2,607,926                   | -                     | 126,100               | 2,481,826                    |
| Building and Improvements                               | 137,841,356                 | -                     | 2,080,009             | 135,761,347                  |
| Furniture and Equipment                                 | 19,710,705                  | 263,849               | -                     | 19,974,554                   |
|                                                         | <u>\$ 160,419,071</u>       | <u>\$ 263,849</u>     | <u>\$ 2,206,109</u>   | <u>\$ 158,476,811</u>        |
| <b>Less: Accumulated depreciation</b>                   |                             |                       |                       |                              |
| Site Improvements                                       | \$ (2,473,330)              | \$ (48,208)           | \$ (126,100)          | \$ (2,395,438)               |
| Building and Improvements                               | (37,652,879)                | (3,861,264)           | (1,651,820)           | (39,862,323)                 |
| Furniture and Equipment                                 | (17,731,866)                | (696,450)             | -                     | (18,428,316)                 |
|                                                         | <u>\$ (57,858,075)</u>      | <u>\$ (4,605,922)</u> | <u>\$ (1,777,920)</u> | <u>\$ (60,686,077)</u>       |
| <b>Governmental Activities<br/>Capital Assets, Net</b>  | <b>\$ 102,560,996</b>       | <b>\$ (4,342,073)</b> | <b>\$ 428,189</b>     | <b>\$ 97,790,734</b>         |
| <b>Business-Type Activities</b>                         |                             |                       |                       |                              |
| Furniture and Equipment                                 | \$ 280,694                  | \$ -                  | \$ -                  | \$ 280,694                   |
| Less: Accumulated<br>Depreciation                       | (258,130)                   | (8,172)               | -                     | (266,302)                    |
| <b>Business-Type Activities<br/>Capital Assets, Net</b> | <b>\$ 22,564</b>            | <b>\$ (8,172)</b>     | <b>\$ -</b>           | <b>\$ 14,392</b>             |

Depreciation expense was charged to governmental functions as follows:

|                                             |                     |
|---------------------------------------------|---------------------|
| Instruction                                 | \$ 3,429,994        |
| Instructional Student Support               | 292,753             |
| Administration & Financial Support Services | 387,915             |
| Operation & Maintenance of Plant Services   | 399,385             |
| Pupil Transportation                        | 11,972              |
| Student Activities                          | 83,903              |
|                                             | <u>\$ 4,605,922</u> |

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 9 – UNEARNED REVENUE**

The amount of 'unearned revenue', as reflected on the government-wide statement of net position, the governmental funds balance sheet, and the proprietary fund statement of net position, is comprised of the following:

|                          | <b>GOVERNMENTAL<br/>ACTIVITIES</b> | <b>BUSINESS<br/>TYPE<br/>ACTIVITIES</b> |
|--------------------------|------------------------------------|-----------------------------------------|
| Federal Grant - Title I  | \$ 31,443                          | \$ -                                    |
| Student Account Balances | -                                  | 8,199                                   |
|                          | \$ 31,443                          | \$ 8,199                                |

**NOTE 10 - LONG-TERM LIABILITIES**

**GENERAL OBLIGATION NOTES - SERIES OF 2011**

On June 9, 2011, the Connellsville Area School District issued General Obligation Note (State Public School Building Authority) Series of 2011 in the amount of \$15,300,000. The proceeds from the note are for the complete renovation, including general construction, HVAC, plumbing, asbestos abatement, food service and pool construction at Connellsville Area High School and to pay the costs associated with issuance of the note. The note interest rate is 5.426% and is payable on September 1 and March 1 each year through maturity. The note is scheduled to mature on September 1, 2026.

**GENERAL OBLIGATION BONDS – SERIES A OF 2009**

On December 1, 2009, the Connellsville Area School District issued General Obligation Bonds, Series A of 2009 in the amount of \$30,000,000. The proceeds from the bond issue are for the renovations of and an addition to the High School, construction of new district wide administration offices at the High School, completion of renovations and improvements of Connellsville Area Career and Technical Center, and to pay the costs associated with issuance of the bonds. The bonds were issued in denominations of \$5,000 with interest payable on February 15 and August 15 each year through maturity. Interest rates on the bonds range between 5.862% and 6.472%, with the bonds scheduled to mature on August 15, 2039. The bonds provide for early redemption options for the school district as more fully described in the detailed Official Statement.

**GENERAL OBLIGATION BONDS – SERIES A OF 2011**

On April 6, 2011, the Connellsville Area School District issued General Obligation Bonds, Series A of 2011 in the amount of \$7,095,000. The proceeds from the bond issue were used to currently refund the School District's General Obligation Bonds, Refunding Series of 2006 and to pay the costs associated with issuance of the bonds. The bonds were issued in denominations of \$5,000 with interest payable on May 15 and November 15 each year through maturity. Interest rates on the bonds range between 1.5% and 3.5%, with the bonds scheduled to mature on November 15, 2020. The bonds provide for early redemption options for the school district as more fully described in the detailed Official Statement.

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 10 - LONG-TERM LIABILITIES (Continued)**

**GENERAL OBLIGATION BONDS – SERIES OF 2012**

On October 16, 2012 the Connellsville Area School District issued General Obligation Bonds, Series of 2012 in the amount of \$9,995,000. The proceeds from the bond issue will be used to provide funds for and toward renovations, additions and alterations to the Junior/Senior High School, various other improvements to School District facilities, and to pay the costs associated with issuance of the bonds. The bonds were issued in denominations of \$5,000 with interest payable on May 15 and November 15 each year through maturity. Interest rates on the bonds range between .40% and 3.70%, with the bonds scheduled to mature on May 15, 2040. The bonds provide for early redemption options for the school district as more fully described in the detailed Official Statement.

**GENERAL OBLIGATION BONDS – SERIES OF 2013**

On November 19, 2012 the Connellsville Area School District issued General Obligation Bonds, Series of 2013 in the amount of \$19,080,000. The proceeds from the bond issue will be used to advance refund the District's outstanding General Obligation Notes, Series B of 2008, perform various capital improvements to School District facilities, and to pay the costs associated with issuance of the bonds. The bonds were issued in denominations of \$5,000 with interest payable on May 15 and November 15 each year through maturity. Interest rates on the bonds range between .80% and 3.30%, with the bonds scheduled to mature on November 15, 2037. The bonds provide for early redemption options for the school district as more fully described in the detailed Official Statement.

**GENERAL OBLIGATION BONDS – SERIES A OF 2013**

On October 30, 2013 the Connellsville Area School District issued General Obligation Bonds, Series A of 2013 in the amount of \$9,450,000. The proceeds from the bond issue will be used to currently refund the District's outstanding General Obligation Notes, Series A of 2008, perform various capital improvements to School District facilities, and to pay the costs associated with issuance of the bonds. The bonds were issued in denominations of \$5,000 with interest payable on May 15 and November 15 each year through maturity. Interest rates on the bonds range between .40% and 3.55%, with the bonds scheduled to mature on November 15, 2024. The bonds provide for early redemption options for the school district as more fully described in the detailed Official Statement.

**GENERAL OBLIGATION BONDS – SERIES A OF 2014**

On July 31, 2014 the Connellsville Area School District issued General Obligation Bonds, Series A of 2014 in the amount of \$9,900,000. The proceeds from the bond issue will be used to currently refund the District's outstanding General Obligation Notes, Series of 2009, and to pay the costs associated with issuance of the bonds. The bonds were issued in denominations of \$5,000 with interest payable on February 15 and August 15 each year through maturity. Interest rates on the bonds range between 2.0% and 4.0%, with the bonds scheduled to mature on August 15, 2027. The bonds provide for early redemption options for the school district as more fully described in the detailed Official Statement.

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 10 - LONG-TERM LIABILITIES (Continued)**

**GENERAL OBLIGATION BONDS – SERIES B OF 2014**

On July 31, 2014 the Connellsville Area School District issued General Obligation Bonds, Series B of 2014 in the amount of \$3,040,000. The proceeds from the bond issue will be used to advance refund a portion of the District's outstanding General Obligation Notes, Series C of 2008, and to pay the costs associated with issuance of the bonds. The bonds were issued in denominations of \$5,000 with interest payable on February 15 and August 15 each year through maturity. Interest rates on the bonds range between 1.028% and 3.198%, with the bonds scheduled to mature on August 15, 2020. The bonds are not subject to optional redemption.

In connection with the District's General Obligation Bond Issue – Series of 2013 and Series B of 2014, the District entered into irrevocable trust agreements to purchase U.S. Government Securities in an amount sufficient to fully service the defeased Series B and C of 2008 General Obligation Bond Issue debt as it matures or is called. For financial reporting purposes, this debt is considered defeased and therefore removed as a liability from the District's financial statements.

The difference between the District's defeased debt and the reacquisition price (amounts deposited with escrow agent for refunding purposes) is considered 'deferred interest' and is being amortized over the life of the new bond issue. The remaining amount of deferred interest on refunding totaling \$344,769 is reflected as 'deferred outflows of resources' on the government-wide statement of net position. Total amortization for the 2015-2016 fiscal year was \$23,236 and was charged to the 'Interest on Long-Term Debt' expense category in the statement of activities.

The School District paid bond discount costs in connection with its various outstanding general obligation bond issues. These costs are being amortized on a straight-line basis over the life of the bond issues. The un-amortized amount of bond discount totaling \$592,701 is reflected as a component of 'Bonds Payable – Long-Term Portion (Net)' in the governmental activities column on the government-wide statement of net position. Amortization expense on bond discount for the year ended June 30, 2016 was \$36,910. This amount was charged to the 'Interest on Long-Term Debt' expense category in the statement of activities.

The School District's various general obligation bond issues were issued at premiums totaling \$191,690. These premiums are being accreted as a component of interest expense on a straight-line basis over the life of the bond issues. The un-accreted amount of bond premiums totaling \$118,321 is reflected as a component of 'Bonds Payable – Long-Term Portion (Net)' in the governmental activities column on the government-wide statement of net position. Premium accretion for the year ended June 30, 2016 was \$14,823. This amount was credited to the 'Interest on Long-Term Debt' expense category in the statement of activities.

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 10 - LONG-TERM LIABILITIES (Continued)**

A summary of the Connellsville Area School District's general obligation bonds and notes outstanding at June 30, 2016 is as follows:

| <b>YEAR END<br/>JUNE 30,</b> | <b>2009A<br/>PRINCIPAL</b> | <b>2009A<br/>INTEREST</b> | <b>2011<br/>PRINCIPAL</b> | <b>2011<br/>INTEREST</b> | <b>2011<br/>PRINCIPAL</b> | <b>2011<br/>INTEREST</b> |
|------------------------------|----------------------------|---------------------------|---------------------------|--------------------------|---------------------------|--------------------------|
| 2017                         | \$ 5,000                   | \$ 1,915,938              | \$ 504,353                | \$ 830,178               | \$ 730,000                | \$ 107,164               |
| 2018                         | 5,000                      | 1,915,645                 | 287,044                   | 830,178                  | 750,000                   | 88,183                   |
| 2019                         | 5,000                      | 1,915,351                 | 292,005                   | 830,178                  | 770,000                   | 66,320                   |
| 2020                         | 5,000                      | 1,915,058                 | 317,362                   | 830,178                  | 790,000                   | 41,735                   |
| 2021                         | 5,000                      | 1,914,765                 | 315,364                   | 830,178                  | 820,000                   | 14,350                   |
| 2022-2026                    | 25,000                     | 9,569,430                 | 10,191,930                | 4,150,890                | -                         | -                        |
| 2027-2031                    | 5,960,000                  | 8,926,499                 | 1,869,111                 | 415,089                  | -                         | -                        |
| 2032-2036                    | 10,640,000                 | 6,084,574                 | -                         | -                        | -                         | -                        |
| 2037-2040                    | 13,335,000                 | 1,864,098                 | -                         | -                        | -                         | -                        |
|                              | <b>\$ 29,985,000</b>       | <b>\$ 36,021,358</b>      | <b>\$ 13,777,169</b>      | <b>\$ 8,716,869</b>      | <b>\$ 3,860,000</b>       | <b>\$ 317,752</b>        |

| <b>YEAR END<br/>JUNE 30,</b> | <b>2012<br/>PRINCIPAL</b> | <b>2012<br/>INTEREST</b> | <b>2013<br/>PRINCIPAL</b> | <b>2013<br/>INTEREST</b> | <b>2013A<br/>PRINCIPAL</b> | <b>2013A<br/>INTEREST</b> |
|------------------------------|---------------------------|--------------------------|---------------------------|--------------------------|----------------------------|---------------------------|
| 2017                         | \$ 5,000                  | \$ 320,989               | \$ 150,000                | \$ 542,164               | \$ 710,000                 | \$ 185,675                |
| 2018                         | 5,000                     | 320,889                  | 215,000                   | 540,339                  | 1,725,000                  | 164,594                   |
| 2019                         | 5,000                     | 320,789                  | 215,000                   | 537,314                  | 1,760,000                  | 130,538                   |
| 2020                         | 5,000                     | 320,689                  | 220,000                   | 532,764                  | 1,790,000                  | 89,918                    |
| 2021                         | 5,000                     | 320,589                  | 225,000                   | 528,314                  | 1,840,000                  | 45,472                    |
| 2022-2026                    | 25,000                    | 1,601,269                | 2,770,000                 | 2,526,478                | 780,000                    | 42,796                    |
| 2027-2031                    | 2,655,000                 | 1,499,388                | 5,815,000                 | 1,910,339                | -                          | -                         |
| 2032-2036                    | 4,130,000                 | 975,140                  | 6,565,000                 | 1,009,047                | -                          | -                         |
| 2037-2040                    | 3,140,000                 | 309,020                  | 2,900,000                 | 96,525                   | -                          | -                         |
|                              | <b>\$ 9,975,000</b>       | <b>\$ 5,988,762</b>      | <b>\$ 19,075,000</b>      | <b>\$ 8,223,284</b>      | <b>\$ 8,605,000</b>        | <b>\$ 658,993</b>         |

| <b>YEAR END<br/>JUNE 30,</b> | <b>2014A<br/>PRINCIPAL</b> | <b>2014A<br/>INTEREST</b> | <b>2014B<br/>PRINCIPAL</b> | <b>2014B<br/>INTEREST</b> |
|------------------------------|----------------------------|---------------------------|----------------------------|---------------------------|
| 2017                         | \$ 5,000                   | \$ 290,070                | \$ 1,320,000               | \$ 17,562                 |
| 2018                         | 5,000                      | 289,970                   | 105,000                    | 8,939                     |
| 2019                         | 5,000                      | 289,870                   | 105,000                    | 6,692                     |
| 2020                         | 5,000                      | 289,770                   | 110,000                    | 3,905                     |
| 2021                         | 40,000                     | 289,320                   | 75,000                     | 1,199                     |
| 2022-2026                    | 7,025,000                  | 983,828                   | -                          | -                         |
| 2027-2030                    | 2,810,000                  | 107,413                   | -                          | -                         |
|                              | <b>\$ 9,895,000</b>        | <b>\$ 2,540,241</b>       | <b>\$ 1,715,000</b>        | <b>\$ 38,297</b>          |

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 10 - LONG-TERM LIABILITIES (Continued)**

**LEASE PURCHASE OBLIGATIONS**

On September 20, 2012, the Connellsville Area School District entered into a lease purchase agreement with Ford Business Machines, Inc. in the amount of \$472,308 for various copiers throughout the District. The terms of the lease call for sixty (60) monthly payments of principal and interest totaling \$8,596, with the last payment due in September of 2017.

A summary of the Connellsville Area School District's lease purchase obligations outstanding at June 30, 2016 is as follows:

| <b>YEAR END</b> | <b>PRINCIPAL</b>         | <b>INTEREST</b>        |
|-----------------|--------------------------|------------------------|
| <b>JUNE 30,</b> |                          |                        |
| 2017            | \$ 100,328               | \$ 2,824               |
| 2018            | 25,638                   | 150                    |
|                 | <b><u>\$ 125,966</u></b> | <b><u>\$ 2,974</u></b> |

The following represents the changes in the District's long-term liabilities during the 2015-2016 fiscal year:

|                            | <b>Balance</b>               |                            |                            | <b>Balance</b>               | <b>Due Within</b>          |
|----------------------------|------------------------------|----------------------------|----------------------------|------------------------------|----------------------------|
|                            | <b>7/1/2015</b>              | <b>Additions</b>           | <b>Reductions</b>          | <b>6/30/2016</b>             | <b>One Year</b>            |
| General Obligation Bonds   | \$ 85,630,000                | \$ -                       | \$ 2,520,000               | \$ 83,110,000                | \$ 2,925,000               |
| General Obligation Notes   | 14,537,147                   | -                          | 759,978                    | 13,777,169                   | 504,353                    |
| Lease Purchase Obligations | 222,830                      | -                          | 96,864                     | 125,966                      | 100,328                    |
| Net Pension Liability      | 101,724,000                  | 7,907,000                  | -                          | 109,631,000                  | -                          |
| Net OPEB Obligation        | 143,761                      | 179,717                    | -                          | 323,478                      | -                          |
| Compensated Absences       | 3,202,237                    | -                          | 28,029                     | 3,174,208                    | -                          |
|                            | <b><u>\$ 205,459,975</u></b> | <b><u>\$ 8,086,717</u></b> | <b><u>\$ 3,404,871</u></b> | <b><u>\$ 210,141,821</u></b> | <b><u>\$ 3,529,681</u></b> |

**LINE OF CREDIT**

On November 30, 2015, the Connellsville Area School District entered into a non-revolving line of credit agreement with Somerset Trust in the amount of \$10,000,000 for operating capital. The line of credit carries a 3% fixed rate of interest. The District borrowed \$8,000,000 on the line of credit during the 2015-2016 year and fully repaid this obligation as of June 30, 2016. The District paid \$10,941.67 of interest on this debt during the 2015-2016 fiscal year.

**TAX ANTICIPATION NOTES**

On July 1, 2015, the Connellsville Area School District issued PNC Bank a Tax and Revenue Anticipation Note in the amount of \$5,000,000 for operating capital at a .85% fixed rate of interest. On August 14, 2015, the Connellsville Area School District issued PNC Bank a Tax and Revenue Anticipation Note in the amount of \$4,500,000 for operating capital at an interest rate of 70% of a month LIBOR plus .79% floating not to exceed 18%. The District fully repaid both of these note obligations as of June 30, 2016. The District paid \$60,355.129 of interest on this debt during the 2015-2016 fiscal year.

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 11 – OPERATING LEASES**

The Connellsville Area School District leases various copier equipment and mailing equipment under non-cancelable operating leases for a period of 60 months. The future minimum lease payments are as follows:

| <b><u>FISCAL YEAR</u></b> | <b><u>AMOUNT</u></b>     |
|---------------------------|--------------------------|
| 2016-2017                 | \$ 195,615               |
| 2017-2018                 | 186,748                  |
| 2018-2019                 | 99,858                   |
| 2019-2020                 | 75,400                   |
|                           | <b><u>\$ 557,621</u></b> |

The District paid approximately \$195,615 in operating lease payments during the 2015-2016 year.

**NOTE 12 - PENSION PLAN**

The Connellsville Area School District participates in the Public School Employees' Retirement System (PSERS). PSERS is a component unit of the Commonwealth of Pennsylvania. A brief description of the plan, and summary of the plan's provisions, are as follows:

**Plan Description:**

PSERS is a governmental cost-sharing multiple-employer defined-benefit plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System include 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](http://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 a least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F).

To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service or attain a total combination of age and service that is equal to or greater than ninety two with a minimum of thirty-five years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 12 - PENSION PLAN (Continued)**

**Benefits Provided: (Continued)**

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

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

**Health Insurance Premium Assistance Program:**

In addition, PSERS provides a Health Insurance Premium Program (Premium Assistance) for all eligible annuitants who qualify and elect to participate. Under this program, employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible annuitants are entitled to receive Premium Assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive Premium Assistance, eligible annuitants must obtain their health insurance through either their school employer or the PSERS' Health Options Program. Premium Assistance is not included in the calculation of the net pension liability as it does not qualify under the provisions of GASB Statement 68.

**Contribution Rates:**

**Member Contributions** - Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class TC) or at 6.5% (Membership Class TD) 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 6.25% (Membership Class TC) or at 7.5% (Membership Class TD) of the members qualifying compensation. Members who joined the System after June 30, 2001 and before June 1, 2011, contribute at 7.5% (automatic Membership Class TD).

For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002. Members who joined the System after June 30, 2011 automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.30% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a 'shared risk' provision in Act 120 of 2010 that in future years could cause the Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.30%.

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 12 - PENSION PLAN (Continued)**

**Contributions Rates: (Continued)**

**Employer Contributions** – The District’s contractually required contribution rate for the fiscal year ended June 30, 2016 was 25.84% 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 25.84% is comprised of a pension contribution rate of 25.00% for pension benefits and .84% for healthcare insurance premium assistance. Contributions to the pension plan from the District and CACTC (Special Revenue Fund) were \$7,894,398 for the year ended June 30, 2016.

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

At June 30, 2016, the School District reported a liability of \$109,631,000 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 School District’s proportion of the net pension liability was calculated utilizing the employer’s one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2015, the School District and CACTC’s proportion was .2352% and .0179 respectively, which was a decrease of .0040% for the School District, and an increase of .0001% for the CACTC from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the School District and CACTC combined recognized pension expense of \$10,013,621 in the Statement of Activities (Exhibit B). At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|                                                                                          | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|------------------------------------------------------------------------------------------|-------------------------------------------|------------------------------------------|
| Difference between expected and actual experience                                        | \$ -                                      | \$ 452,000                               |
| Changes in assumptions                                                                   | -                                         | -                                        |
| Net difference between projected and actual investment earnings                          | -                                         | 223,000                                  |
| Changes in proportions                                                                   | 1,887,000                                 | 1,357,000                                |
| Difference between employer contributions and proportionate share of total contributions | -                                         | -                                        |
| Contributions subsequent to the measurement date                                         | 7,637,767                                 | -                                        |
|                                                                                          | <u>\$ 9,524,767</u>                       | <u>\$ 2,032,000</u>                      |

The \$7,637,767 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 10 - PENSION PLAN (Continued)**

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

Other amounts reported as deferred inflows/outflows of resources related to pensions will be recognized in pension expense as follows:

| Measurement<br>Date<br>Year ended<br><u>June 30,</u> | Reporting<br>Date<br>Year ended<br><u>June 30,</u> | Amortization<br>Amount |
|------------------------------------------------------|----------------------------------------------------|------------------------|
| 2016                                                 | 2017                                               | \$ (359,000)           |
| 2017                                                 | 2018                                               | (359,000)              |
| 2018                                                 | 2019                                               | (359,000)              |
| 2019                                                 | 2020                                               | 932,000                |

**Actuarial Assumptions**

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

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.50%, includes inflation at 3%
- Salary increases – Effective average of 5.5%, which reflects an allowance for inflation of 3%, real wage growth of 1%, and merit or seniority increases of 1.5%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back three (3) years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back seven (7) years for males and three (3) years for females

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment 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.

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 12 - PENSION PLAN (Continued)**

**Investment Asset Allocation:**

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

| <u>Asset Class</u>           | <u>Target Allocation</u> | <u>Expected Real Rate of Return</u> |
|------------------------------|--------------------------|-------------------------------------|
| Public markets global equity | 22.5%                    | 4.80%                               |
| Private markets (equity)     | 15.0%                    | 6.60%                               |
| Private real estate          | 12.0%                    | 4.50%                               |
| Global fixed income          | 7.5%                     | 2.40%                               |
| U.S. long treasuries         | 3.0%                     | 1.40%                               |
| TIPS                         | 12.0%                    | 1.10%                               |
| High yield bonds             | 6.0%                     | 3.30%                               |
| Cash                         | 3.0%                     | 0.70%                               |
| Absolute return              | 10.0%                    | 4.90%                               |
| Risk parity                  | 10.0%                    | 3.70%                               |
| MLPs/Infrastructure          | 5.0%                     | 5.20%                               |
| Commodities                  | 8.0%                     | 3.10%                               |
| Financing (LIBOR)            | -14.0%                   | 1.10%                               |
|                              | <u>100%</u>              |                                     |

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

**Discount Rate:**

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

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 12 - PENSION PLAN (Continued)**

**Sensitivity of the School District's proportionate share of the net pension liability to changes in the discount rate:**

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

|                                                                    | <b>1%<br/>Decrease<br/>6.50%</b> | <b>Current<br/>Discount<br/>Rate<br/>7.50%</b> | <b>1%<br/>Increase<br/>8.50%</b> |
|--------------------------------------------------------------------|----------------------------------|------------------------------------------------|----------------------------------|
| School District's proportionate share of the net pension liability | \$ 135,131,000                   | \$ 109,631,000                                 | \$ 88,199,000                    |

**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](http://www.psers.state.pa.us).

The allocation of the net pension liability and related deferred inflows and outflows, as stated on Exhibits A and H, are as follows:

|                                      | <b>Governmental<br/>Activities</b> | <b>Business-Type<br/>Activities</b> | <b>Total</b>   |
|--------------------------------------|------------------------------------|-------------------------------------|----------------|
| Net Pension Liability                | \$ 105,555,880                     | \$ 4,075,120                        | \$ 109,631,000 |
| Deferred Outflows Related to Pension | 9,175,619                          | 349,148                             | 9,524,767      |
| Deferred Inflows Related to Pension  | 1,952,680                          | 79,320                              | 2,032,000      |

**NOTE 13 - JOINTLY GOVERNED ORGANIZATION**

**INTERMEDIATE UNIT 1**

The Connellsville Area School District participates with other local educational agencies located in Fayette, Washington, and Greene Counties in the Intermediate Unit 1 (IU1). The IU1 was established in 1971 by Act 102 of the Commonwealth of Pennsylvania to function as a regional educational service agency for specific school districts located within the aforementioned tri-county region. The Intermediate Unit 1 is governed by a thirteen (13) member board appointed by the participating school districts on a rotating basis. The IU1 provides services relative to curriculum development, continuing education, educational planning, instructional materials, pupil personnel, state and federal agency liaison and managerial oversight. The Board of Education of each participating school district approves the IU1 annual operating budget.

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 13 - JOINTLY GOVERNED ORGANIZATION (Continued)**

The Connellsville Area School District's operating contribution to IU1 for the 2015-2016 year was \$38,537. In addition, the District paid \$13,134 for transportation recovery and institutionalized children, through state subsidy withholdings during the 2015-2016 year. The Intermediate Unit 1 issues separate financial statements annually which can be obtained by contacting the IU1 directly.

**NOTE 14 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION**

**PLAN DESCRIPTION**

The Connellsville Area School District provides for post-employment health care benefits to all eligible employees covered by specific collective bargaining agreements entered into between the District and its personnel. To be eligible, participants must have at least ten (10) years of continuous service in the Connellsville Area School District and be of normal retirement age as defined by the PSERS (Note 12).

The above program was established by the authority of The Connellsville Area School District Board of Education. The program entitles eligible employees to health care benefits (health insurance only) for varying terms which range between 4 and 8 years. Employees are responsible for reimbursing the District for the PSERS health benefit contribution and any premium share in effect at the date of retirement.

**FUNDING POLICY**

The governmental fund financial statements account for these benefits on a pay-as-you-go basis and are budgeted for and paid from the School District's General Fund. During the 2014-2015 fiscal year, the Connellsville Area School District paid approximately \$875,142 in health care costs for 194 participants. This amount includes \$44,013 paid for 5 participants from the Connellsville Area Career and Technical Center.

**ANNUAL OPEB COST AND NET OPEB OBLIGATION**

The District's annual other post-employment 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 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following show the components of the Connellsville Area School District's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the Connellsville Area School District's net OPEB obligation:

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 14 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (Continued)**

**ANNUAL OPEB COST AND NET OPEB OBLIGATION (Continued)**

|                                            | <b>SCHOOL<br/>DISTRICT</b> | <b>CAREER &amp;<br/>TECH CENTER</b> | <b>TOTAL</b>      |
|--------------------------------------------|----------------------------|-------------------------------------|-------------------|
| Annual required contribution               | \$ 986,766                 | \$ 70,807                           | \$ 1,057,573      |
| Interest on net OPEB obligation            | 4,180                      | 1,571                               | 5,751             |
| Adjustment to annual required contribution | (6,153)                    | (2,312)                             | (8,465)           |
| Annual OPEB cost (expense)                 | \$ 984,793                 | \$ 70,066                           | \$ 1,054,859      |
| Contributions made (estimate)              | (831,129)                  | (44,013)                            | (875,142)         |
| Increase in net OPEB obligation            | \$ 153,664                 | \$ 26,053                           | \$ 179,717        |
| Net OPEB obligation at July 1, 2015        | 104,498                    | 39,263                              | 143,761           |
| Net OPEB obligation at June 30, 2016       | <b>\$ 258,162</b>          | <b>\$ 65,316</b>                    | <b>\$ 323,478</b> |

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for the for the two latest fiscal years calculated as stated in the actuarial report are as follows:

|                      | <b>FISCAL YEAR<br/>ENDED</b> | <b>ANNUAL OPEB<br/>COST</b> | <b>PERCENTAGE<br/>CONTRIBUTED</b> | <b>NET OPEB<br/>OBLIGATION</b> |
|----------------------|------------------------------|-----------------------------|-----------------------------------|--------------------------------|
| School District      | 2016                         | \$ 984,793                  | 84%                               | \$ 258,162                     |
| Career & Tech Center | 2016                         | 70,066                      | 63%                               | 65,316                         |
|                      |                              | <b>\$ 1,054,859</b>         |                                   | <b>\$ 323,478</b>              |
| School District      | 2015                         | \$ 986,766                  | 89%                               | \$ 104,498                     |
| Career & Tech Center | 2015                         | 7,087                       | 45%                               | 39,263                         |
|                      |                              | <b>\$ 993,853</b>           |                                   | <b>\$ 143,761</b>              |

**FUNDED STATUS AND FUNDING PROGRESS**

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 health care cost trend. Actuarial amounts determined regarding the funded status of the plan and the annual required contributions of the School District 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 is presented in the required supplementary information section of this report. This schedule presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 14 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (Continued)**

**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 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 to 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.

The July 1, 2014 actuarial valuation report utilized the Entry Age Normal Cost Method. The actuarial assumptions included a 4.0% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The UAAL, if any, is being amortized as a level dollar amount over 30 years. The remaining amortization period at June 30, 2016 was 29 years.

**NOTE 15 - RISK MANAGEMENT**

**GENERAL INSURANCE**

The Connellsville Area School District is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties.

**HEALTH INSURANCE**

The Connellsville Area School District participates with 24 other school districts, 5 vocational-technical schools, and Intermediate Unit 1 (IU1) in the IU1 Health Insurance Consortium Trust (Consortium) which purchases health benefits on behalf of participating public school districts who comprise the IU1. The Trust's general objectives are to 1) formulate, develop, administer, on behalf of its subscribers, a program of insurance, 2) to obtain lower costs for the coverage, 3) reward subscribers for lower usage of the coverage, 4) establish a continuing voice with insurance providers, and 5) manage the Trust's healthcare dollar most effectively. During the 2015-2016 year, the Connellsville Area School District contributed \$8,334,930 to the Consortium for healthcare benefits. This amount includes \$391,409 paid for the Connellsville Area Career and Technical Center.

Participating school districts are permitted to withdraw from the Consortium under terms specified in the agreement. As of June 30, 2016, the net position of the Consortium was \$11,429,290. The Connellsville Area School District's share of this net asset balance is \$1,134,851. This amount includes the Connellsville Area Career and Technical Center's share of \$90,351.

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 16 - CONTINGENCIES**

**STATE AND FEDERAL SUBSIDIES**

The Connellsville Area School District state and federally funded programs are subject to audit by various governmental agencies. The District is potentially liable for any expenditure disallowed by the results of these audits. Management is not aware of any items of noncompliance, which would result in the disallowance of program expenditures.

The Commonwealth of Pennsylvania Department of the Auditor General conducted a Performance Audit of the Connellsville Area School District for the period ending June 29, 2012 through January 20, 2016. The District was required to submit a Corrective Action Plan based on the findings contained in the audit. The Board approved the formal Corrective Action Plan at their meeting held May 11, 2016.

**NOTE 17 – PRIOR PERIOD ADJUSTMENT**

The prior period adjustment of \$440,476 to the July 1, 2015 fund balance of the District's General Fund represents a change in the method by which the District estimates its delinquent earned income taxes receivable at year end.

**NOTE 18 – PENDING GASB PRONOUNCEMENTS**

In June of 2015, GASB issued Statement No. 74, 'Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans'. The primary objective of this Statement is to address reporting by governments that provide Other Post-Employment Benefits (OPEB) to their employees. The provisions of this Statement are effective for Connellsville Area School District's June 30, 2017 financial statements.

In June of 2015, the GASB issued Statement No. 75, 'Accounting and Financial Reporting for Postemployment Benefits Other Than Pension.' The primary objective of this Statement is to replace GASB 45 with a requirement to report a liability on the financial statements for the OPEB that governments provide to employees. The provisions of this Statement are effective for Connellsville Area School District's June 30, 2018 financial statements.

In August of 2015, the Government Accounting Standards Board (GASB) issued Statement No. 77, *Tax Abatement Disclosures*. The primary objective of this Statement is the requirement of certain disclosures in regards to tax abatement agreements. The provisions of this Statement are effective for the Connellsville Area School District's June 30, 2017 financial statements.

In March of 2016, the GASB issued Statement No. 82, 'Pension Issues'. The primary objective of this Statement is to address for certain issues that have been raised with respect to GASB Statements No. 67, 68 and 73. The provisions of this Statement are effective for the Connellsville Area School District's June 30, 2017 financial statements

The effects of the implementation of these standards on Connellsville Area School District's financial statements have not yet been determined.

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 19 – SUBSEQUENT EVENTS**

In connection with the Connellsville Area School District's general obligation bond indebtedness (Note 10), the District receives a reimbursement from the Pennsylvania Department of Education based on an approved calculated aid ratio as a percentage of its semi-annual debt payments to the Bond Trustee. For the 2015-2016 school year, the District did not receive this reimbursement until November of 2016. The criteria for recognition of revenue under the modified accrual basis of accounting at fiscal year-end, is that the revenue must be both 'estimable' and 'available'. PDE has determined that although the rental subsidy is estimable, since funding at the Commonwealth of Pennsylvania had not been secured for this reimbursement, and is not guaranteed, it did not meet the availability criteria and therefore should not be recognized as revenue in the 2015-2016 year. The effect of the General Fund balance of not reporting this revenue for the 2015-2016 fiscal year was a reduction in fund balance of \$677,206.

In February of 2017 the Connellsville Area School District issued General Obligation Bonds, Series of 2017 in the amount of \$3,160,000. The proceeds from the bond issue will be used to 1) currently refund the District's outstanding General Obligation Notes, Series of 2011, 2) fund various capital improvements throughout the District, and 3) pay the costs associated with issuance of the bonds. The bonds were issued in denominations of \$5,000 with interest payable on May 15 and November 15 each year through maturity. Interest rates on the bonds range between 2% and 3%, with the bonds scheduled to mature on November 20, 2015. The bonds provide for early redemption options for the school district as more fully described in the detailed Official Statement.

On July 1, 2016, the Connellsville Area School District entered into a loan agreement with PNC Bank in the form of a Tax and Revenue Anticipation Loan in the amount of \$5,000,000. The interest rate on the loan is 1% and the maturity date is June 30, 2017.

Management has determined that there are no other events subsequent to June 30, 2016 through the February 13, 2017 date of the 'Independent Auditor's Report' date, which is the date the financial statements were available to be issued, that require additional disclosure in the financial statements.

# **REQUIRED SUPPLEMENTARY INFORMATION**

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**DEFINED BENEFIT PENSION PLAN**  
**JUNE 30, 2016**

**SCHEDULE OF DISTRICT CONTRIBUTIONS:**

| <b>June 30,</b>                                                     | <b><u>2016</u></b> | <b><u>2015</u></b> | <b><u>2014</u></b> | <b><u>2013</u></b> |
|---------------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|
| Contractually required contributions                                | \$ 7,313,452       | \$ 6,333,271       | \$ 5,006,357       | \$ 3,562,788       |
| Contribution in relation to the contractually required contribution | (7,313,452)        | (6,333,271)        | (5,006,357)        | (3,562,788)        |
| Contribution deficiency (excess)                                    | <u>\$ -</u>        | <u>\$ -</u>        | <u>\$ -</u>        | <u>\$ -</u>        |
| District's covered-employee payroll                                 | \$ 28,302,833      | \$ 30,260,164      | \$ 30,526,874      | \$ 29,849,984      |
| Contributions as a percentage of covered-employee payroll           | 25.84%             | 20.93%             | 16.40%             | 11.94%             |

**SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY:**

| As of the measurement date                                                                                  | <b><u>2015</u></b> | <b><u>2014</u></b> | <b><u>2013</u></b> |
|-------------------------------------------------------------------------------------------------------------|--------------------|--------------------|--------------------|
| District's proportion of the net pension liability                                                          | 0.2352%            | 0.2392%            | 0.2326%            |
| District's proportionate share of the net pension liability                                                 | \$ 101,878,000     | \$ 94,678,000      | \$ 95,218,000      |
| District's covered-employee payroll                                                                         | \$ 30,260,164      | \$ 30,526,874      | \$ 29,849,984      |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 336.67%            | 310.15%            | 318.99%            |
| Plan fiduciary net position as a percentage of the total pension liability                                  | 54.36%             | 57.24%             | 54.49%             |

The amounts presented for each fiscal year were determined as of the measurement date, which is June 30 of the preceding fiscal year. This schedule is intended to illustrate information for a ten (10) year period. Information for that ten year period will be presented as information becomes available.

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**CONNELLSVILLE AREA CAREER AND TECHNICAL CENTER**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**DEFINED BENEFIT PENSION PLAN**  
**JUNE 30, 2016**

**SCHEDULE OF CACTC CONTRIBUTIONS:**

| <b>June 30,</b>                                                     | <b><u>2016</u></b> | <b><u>2015</u></b> | <b><u>2014</u></b> | <b><u>2013</u></b> |
|---------------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|
| Contractually required contributions                                | \$ 580,946         | \$ 482,855         | \$ 372,085         | \$ 259,770         |
| Contribution in relation to the contractually required contribution | (580,946)          | (482,855)          | (372,085)          | (259,770)          |
| Contribution deficiency (excess)                                    | <u>\$ -</u>        | <u>\$ -</u>        | <u>\$ -</u>        | <u>\$ -</u>        |
| CACTC's covered-employee payroll                                    | \$ 2,471,162       | \$ 2,307,141       | \$ 2,267,868       | \$ 2,182,454       |
| Contributions as a percentage of covered-employee payroll           | 23.51%             | 20.93%             | 16.41%             | 11.90%             |

**SCHEDULE OF CACTC'S PROPORTIONATE SHARE OF NET PENSION LIABILITY:**

| As of the measurement date                                                                               | <b><u>2015</u></b> | <b><u>2014</u></b> | <b><u>2013</u></b> |
|----------------------------------------------------------------------------------------------------------|--------------------|--------------------|--------------------|
| CACTC's proportion of the net pension liability                                                          | 0.0179%            | 0.0178%            | 0.0170%            |
| CACTC's proportionate share of the net pension liability                                                 | \$ 7,753,000       | \$ 7,046,000       | \$ 6,959,000       |
| CACTC's covered-employee payroll                                                                         | \$ 2,307,141       | \$ 2,267,868       | \$ 2,182,454       |
| CACTC's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 336.04%            | 310.69%            | 318.86%            |
| Plan fiduciary net position as a percentage of the total pension liability                               | 54.36%             | 57.24%             | 54.49%             |

The amounts presented for each fiscal year were determined as of the measurement date, which is June 30 of the preceding fiscal year. This schedule is intended to illustrate information for a ten (10) year period. Information for that ten year period will be presented as information becomes available.

**CONNELLSVILLE AREA SCHOOL DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFIT PLANS  
 JUNE 30, 2016**

The schedule of funding progress, as shown below, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**CONNELLSVILLE AREA SCHOOL DISTRICT:**

|                                | (A)                             | (B)                               | (B-A)<br>(UAAL)<br>UNFUNDED       | (A/B)           | (C)                | (B-A)/C                                 |
|--------------------------------|---------------------------------|-----------------------------------|-----------------------------------|-----------------|--------------------|-----------------------------------------|
| ACTUARIAL<br>VALUATION<br>DATE | ACTUARIAL<br>VALUE OF<br>ASSETS | ACTUARIAL<br>ACCRUED<br>LIABILITY | ACTUARIAL<br>ACCRUED<br>LIABILITY | FUNDED<br>RATIO | COVERED<br>PAYROLL | UAAL AS A<br>% OF<br>COVERED<br>PAYROLL |
| 7/1/14                         | \$ -                            | \$ 10,063,238                     | \$ 10,063,238                     | 0%              | \$ 29,594,725      | 34.00%                                  |

**CONNELLSVILLE AREA CAREER AND TECHNICAL CENTER:**

|                                | (A)                             | (B)                               | (B-A)<br>(UAAL)<br>UNFUNDED       | (A/B)           | (C)                | (B-A)/C                                 |
|--------------------------------|---------------------------------|-----------------------------------|-----------------------------------|-----------------|--------------------|-----------------------------------------|
| ACTUARIAL<br>VALUATION<br>DATE | ACTUARIAL<br>VALUE OF<br>ASSETS | ACTUARIAL<br>ACCRUED<br>LIABILITY | ACTUARIAL<br>ACCRUED<br>LIABILITY | FUNDED<br>RATIO | COVERED<br>PAYROLL | UAAL AS A<br>% OF<br>COVERED<br>PAYROLL |
| 7/1/14                         | \$ -                            | \$ 630,174                        | \$ 630,174                        | 0%              | \$ 2,256,332       | 27.90%                                  |

**CONNELLSVILLE AREA  
SCHOOL DISTRICT**

***OTHER INFORMATION  
AS REQUIRED BY  
GOVERNMENT AUDITING STANDARDS  
AND UNIFORM GUIDANCE***

**Mark C. Turnley**

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Certified Public Accountant

**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 Management and Board of Education  
Connellsville Area School District**

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standard* 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 Connellsville Area School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Connellsville Area School District's basic financial statements, and have issued my report thereon dated February 13, 2017.

**Internal Control over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Connellsville Area School District'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.

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

**To the Board of Education  
Connellsville Area School District**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Connellsville Area School District's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Connellsville Area School District'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 Connellsville Area School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Mark C. Turnley  
Certified Public Accountant

February 13, 2017  
New Brighton, Pennsylvania

**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 Education  
Connellsville Area School District**

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM**

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

**Management's Responsibility**

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

**Auditor's Responsibility**

My responsibility is to express an opinion on compliance for each of the Connellsville Area School District's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Connellsville Area School District's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

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

**Opinion on Each Major Federal Program**

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

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

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

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

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

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



Mark C. Turnley  
Certified Public Accountant

February 13, 2017  
New Brighton, Pennsylvania

**CONNELLSVILLE AREA SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016**

| FEDERAL GRANTOR /<br>PROJECT TITLE                   | FUNDING<br>SOURCE | FEDERAL<br>CFDA<br>NUMBER | PASS-<br>THROUGH<br>GRANTOR<br>NUMBER | GRANT<br>PERIOD<br>BEGINNING /<br>ENDING DATE | PROGRAM<br>AWARD<br>AMOUNT | TOTAL<br>RECEIVED<br>THIS PERIOD | ACCRUED<br>(DEFERRED)<br>REVENUE<br>JULY 1 | REVENUE<br>RECOGNIZED | EXPENDITURES        | ACCRUED<br>(DEFERRED)<br>REVENUE<br>JUNE 30 |
|------------------------------------------------------|-------------------|---------------------------|---------------------------------------|-----------------------------------------------|----------------------------|----------------------------------|--------------------------------------------|-----------------------|---------------------|---------------------------------------------|
| <b>U.S. Department of Education:</b>                 |                   |                           |                                       |                                               |                            |                                  |                                            |                       |                     |                                             |
| <b>Passed through Pa. Dept. of Education:</b>        |                   |                           |                                       |                                               |                            |                                  |                                            |                       |                     |                                             |
| Title I                                              | Indirect          | 84.010                    | 13-160099                             | 7/1/15-9/30/16                                | \$ 1,972,388               | \$ 1,581,783                     | \$ -                                       | \$ 1,550,340          | \$ 1,550,340        | (1) \$ (31,443)                             |
| Title I                                              | Indirect          | 84.010                    | 13-150099                             | 7/1/14-9/30/15                                | 2,096,561                  | 971,598                          | 560,500                                    | 411,098               | 411,098             | (1) -                                       |
| Title II - Improving Teacher Quality                 | Indirect          | 84.367                    | 20-160099                             | 7/1/15-9/30/16                                | 442,424                    | 354,159                          | -                                          | 362,061               | 362,061             | 7,902                                       |
| Title II - Improving Teacher Quality                 | Indirect          | 84.367                    | 20-150099                             | 7/1/14-9/30/15                                | 440,957                    | 264,536                          | 3,348                                      | 261,188               | 261,188             | -                                           |
|                                                      |                   |                           |                                       |                                               |                            | \$ 3,172,076                     | \$ 563,848                                 | \$ 2,584,687          | \$ 2,584,687        | \$ (23,541)                                 |
| <b>Passed through Intermediate Unit 1:</b>           |                   |                           |                                       |                                               |                            |                                  |                                            |                       |                     |                                             |
| IDEA                                                 | Indirect          | 84.027                    | 062-16-0-001                          | 7/1/15-6/30/16                                | \$ 1,022,592               | \$ 1,022,592                     | \$ -                                       | \$ 1,022,592          | \$ 1,022,592        | \$ -                                        |
| IDEA - Section 619                                   | Indirect          | 84.173                    | N/A                                   | 7/1/15-6/30/16                                | 6,639                      | 6,639                            | -                                          | 6,639                 | 6,639               | -                                           |
| Total Special Education (IDEA) Cluster               |                   |                           |                                       |                                               |                            | \$ 1,029,231                     | \$ -                                       | \$ 1,029,231          | \$ 1,029,231        | \$ -                                        |
| <b>TOTAL DEPARTMENT OF EDUCATION</b>                 |                   |                           |                                       |                                               |                            | <b>\$ 4,201,307</b>              | <b>\$ 563,848</b>                          | <b>\$ 3,613,918</b>   | <b>\$ 3,613,918</b> | <b>\$ (23,541)</b>                          |
| <b>U.S. Department of Agriculture:</b>               |                   |                           |                                       |                                               |                            |                                  |                                            |                       |                     |                                             |
| <b>Passed through Pa. Dept. of Education:</b>        |                   |                           |                                       |                                               |                            |                                  |                                            |                       |                     |                                             |
| National School                                      |                   |                           |                                       |                                               |                            |                                  |                                            |                       |                     |                                             |
| Lunch Program                                        | Indirect          | 10.555                    | N/A                                   | 7/1/15-6/30/16                                | N/A                        | \$ 1,492,660                     | \$ -                                       | \$ 1,492,660          | \$ 1,492,660        | \$ -                                        |
| Breakfast Program                                    | Indirect          | 10.553                    | N/A                                   | 7/1/15-6/30/16                                | N/A                        | 484,641                          | -                                          | 484,641               | 484,641             | -                                           |
| Summer Food Service Program                          | Indirect          | 10.559                    | N/A                                   | 7/1/15-6/30/16                                | N/A                        | 25,000                           | -                                          | 31,525                | 31,525              | 6,525                                       |
| Summer Food Service Program                          | Indirect          | 10.559                    | N/A                                   | 7/1/14-6/30/15                                | N/A                        | 58,909                           | (24,500)                                   | 83,409                | 83,409              | -                                           |
| <b>Passed through Pa. Dept. of Agriculture:</b>      |                   |                           |                                       |                                               |                            |                                  |                                            |                       |                     |                                             |
| National School Lunch Program (Comm)                 | Indirect          | 10.555                    | N/A                                   | 7/1/15-6/30/16                                | N/A                        | 223,983                          | *(64,307)**                                | 208,510               | 208,510             | (79,780)***                                 |
| Total Child Nutrition Cluster                        |                   |                           |                                       |                                               |                            | \$ 2,285,193                     | \$ (88,807)                                | \$ 2,300,745          | \$ 2,300,745        | \$ (73,255)                                 |
| <b>TOTAL DEPARTMENT OF AGRICULTURE</b>               |                   |                           |                                       |                                               |                            | <b>\$ 2,285,193</b>              | <b>\$ (88,807)</b>                         | <b>\$ 2,300,745</b>   | <b>\$ 2,300,745</b> | <b>\$ (73,255)</b>                          |
| <b>U.S. Department of Health and Human Services:</b> |                   |                           |                                       |                                               |                            |                                  |                                            |                       |                     |                                             |
| <b>Passed through Pa. Dept. of Public Welfare:</b>   |                   |                           |                                       |                                               |                            |                                  |                                            |                       |                     |                                             |
| Title 19                                             | Indirect          | 93.778                    | N/A                                   | 7/1/15-6/30/16                                | N/A                        | \$ 8,883                         | \$ -                                       | \$ 9,773              | \$ 9,773            | \$ 890                                      |
| Title 19                                             | Indirect          | 93.778                    | N/A                                   | 7/1/14-6/30/15                                | N/A                        | 2,987                            | 2,987                                      | -                     | -                   | -                                           |
| <b>TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES</b> |                   |                           |                                       |                                               |                            | <b>\$ 11,870</b>                 | <b>\$ 2,987</b>                            | <b>\$ 9,773</b>       | <b>\$ 9,773</b>     | <b>\$ 890</b>                               |
| <b>U.S. Department of Defense:</b>                   |                   |                           |                                       |                                               |                            |                                  |                                            |                       |                     |                                             |
| <b>Passed through Pa. Dept. of Defense:</b>          |                   |                           |                                       |                                               |                            |                                  |                                            |                       |                     |                                             |
| Department of Army ROTC                              | Direct            | N/A                       | N/A                                   | 7/1/15-6/30/16                                | N/A                        | \$ 82,037                        | \$ -                                       | 82,037                | 82,037              | \$ -                                        |
| Department of Army ROTC                              | Direct            | N/A                       | N/A                                   | 7/1/14-6/30/15                                | N/A                        | 6,783                            | 6,783                                      | -                     | -                   | -                                           |
| <b>TOTAL DEPARTMENT OF DEFENSE</b>                   |                   |                           |                                       |                                               |                            | <b>\$ 88,820</b>                 | <b>\$ 6,783</b>                            | <b>\$ 82,037</b>      | <b>\$ 82,037</b>    | <b>\$ -</b>                                 |
| <b>TOTAL FEDERAL ASSISTANCE</b>                      |                   |                           |                                       |                                               |                            | <b>\$ 6,587,190</b>              | <b>\$ 484,811</b>                          | <b>\$ 6,006,473</b>   | <b>\$ 6,006,473</b> | <b>\$ (95,906)</b>                          |

# **Reconciliation with federal subsidy confirmation:**

|                                         |                     |
|-----------------------------------------|---------------------|
| Per above                               | \$ 6,587,190        |
| School Lunch/Breakfast matching subsidy | 113,886             |
| IDEA                                    | (1,029,231)         |
| Donated commodities                     | (223,983)           |
| Title 19                                | (11,870)            |
| Department of Army ROTC                 | (88,820)            |
| Per confirmation                        | <b>\$ 5,347,172</b> |

- \* Total USDA Commodity Received
- \*\* Represents beginning inventory - 7/1/15
- \*\*\* Represents ending inventory - 6/30/16
- (1) Denotes Major Program

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2016**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the 'Schedule') includes the federal grant activity administered by the Connellsville Area School District 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 Grant Guidance – UGG)*. Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position or changes in net position of the Connellsville Area School District.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**BASIS OF ACCOUNTING**

Expenditures reported on the Schedule are presented using the accrual method of accounting. Under this method, grant revenue is recognized to the extent expenditures are incurred. Expenditures are recognized when the liability for the expenditure is incurred rather than when the disbursement is actually made.

The federal expenditures are recognized, as applicable, under the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or limited to reimbursement.

**NOTE 3 - RELATIONSHIP TO FINANCIAL STATEMENTS**

Federal financial award revenues are included in the financial statements as 'local source' and 'federal source' revenues.

**NOTE 4 – RECEIVABLES AND UNEARNED REVENUE**

Federal grants receivable are included as part of 'due from other governments' in Exhibit A, Exhibit C, and Exhibit H as referenced in Note 4 to the Financial Statements. Unearned federal grant revenue is included as part of 'unearned revenue' in the above referenced Exhibits, and is referenced in Note 9 to the Financial Statements.

**NOTE 5 - NON-CASH ASSISTANCE**

The Connellsville Area School District received donated commodities from the Department of Agriculture in connection with its food service program. The amount of non-cash assistance expended in the accompanying schedule of expenditures of federal awards reflects the fair market value of the commodities used during the 2015-2016 fiscal year.

**NOTE 6 – INDIRECT COST RATE**

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

**CONNELLSVILLE AREA 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? \_\_\_yes   X  no
- Significant deficiency(ies) identified? \_\_\_yes   X  no

Noncompliance material to financial statements noted? \_\_\_yes   X  no

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? \_\_\_yes   X  no
- Significant deficiency(ies) identified? \_\_\_yes   X  no

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 200.516(a)? \_\_\_yes   X  no

Identification of major programs:

| <u>CFDA number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|-------------------------------------------|
| 84.010                | Title I Improving Basic Programs          |

The dollar threshold for distinguishing type A and type B programs: \$750,000

Auditee qualified as low-risk auditee?   X  yes       no

**Section II – Financial Statement Findings**

Findings related to the financial statements which are required to be report in accordance with Government Auditing Standards.

None

**Section III – Federal Award Findings and Questioned Costs**

Findings and questioned costs related to Federal Awards which are required to be reported in accordance with the Uniform Guidance 2 CFR 200.516(a):

None

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**STATUS OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDING JUNE 30, 2016**

The audit report of the Connellsville Area School District for the year ended June 30, 2015, dated February 4, 2016, contained the following audit findings:

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

- **2015-1:** The School District did not maintain an accounting system (double-entry) for its Food Service Fund in a manner consistent with its General Fund throughout the 2014-2015 fiscal year. At the close of the 2014-2015 fiscal year, the District began the process of establishing the use of the District's accounting software to record the activities of the Food Service Fund for the 2014-2015 year. In specific, adjusting journal entries were made to reflect the activity of the food service operations for the fiscal year, and these journal entries are being recorded by the District's business office into the Food Service Fund general ledger. I would recommend that the District continue this process going forward into the 2015-2016 fiscal year and beyond, however on a monthly basis similar to its General Fund. All balance sheet accounts will need be reconciled monthly (cash, receivables, inventory, and payables) to insure that the financial operations of the Food Service Fund are being timely recorded and properly accounted for in accordance with generally accepted accounting principles. In this manner, District management and the Board of Education will be able to monitor the fiscal operations of the District's food service operations with timely and accurate information.

**CURRENT STATUS:** During the 2015-2016 fiscal year, the School District fully implemented a double-entry accounting system for its Food Service Fund in a manner consistent with the General Fund.

- **2015-2:** The School District does not currently have a formal anti-fraud program or policy. I would recommend that the District adopt a formal anti-fraud policy.

**CURRENT STATUS:** In March of 2016, the Board of Education adopted a 'fraud policy' for the Connellsville Area School District.

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT**

- **2015-3:** The School District did not maintain an accounting system (double-entry) for its Food Service Fund in a manner consistent with its General Fund throughout the 2014-2015 fiscal year. At the close of the 2014-2015 fiscal year, the District began the process of establishing the use of the District's accounting software to record the activities of the Food Service Fund for the 2014-2015 year. In specific, adjusting journal entries were made to reflect the activity of the food service operations for the fiscal year, and these journal entries are being recorded by the District's business office into the Food Service Fund general ledger. I would recommend that the District continue this process going forward into the 2015-2016 fiscal year and beyond, however on a monthly basis similar to its General Fund. All balance sheet accounts will need be reconciled monthly (cash, receivables, inventory, and payables) to insure that the financial operations of the Food Service Fund are being timely recorded and properly accounted for in accordance with generally accepted accounting principles. In this manner, District management and the Board of Education will be able to monitor the fiscal operations of the District's food service operations with timely and accurate information.

**CONNELLSVILLE AREA SCHOOL DISTRICT**  
**STATUS OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDING JUNE 30, 2016**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT (Continued)**

**CORRECTIVE ACTION PLAN:** Now that the audited balances of the District's Food Service Fund have been recorded into the District's accounting software as of June 30, 2015, the District will continue to record the financial activities of the Food Service Fund on a monthly basis in a manner similar to the General Fund as recommended above throughout the 2015-2016 fiscal year and beyond. The account balances will be reconciled monthly to underlying supporting documentation so as to present the financial results of the Food Service operations in conformity with generally accepted accounting principles.

**CURRENT STATUS:** During the 2015-2016 fiscal year, the School District fully implemented a double-entry accounting system for its Food Service Fund in a manner consistent with the General Fund.