



**Donegal School District
Mount Joy, Pennsylvania
Lancaster County**

Financial Statements
Year Ended June 30, 2016



1835 Market Street, 26th Floor
Philadelphia, PA 19103

215/567-7770 | bbdcpa.com

DONEGAL SCHOOL DISTRICT

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
<i>Statement of Net Position (Deficit)</i>	15
<i>Statement of Activities</i>	16
Fund Financial Statements	
<i>Balance Sheet – Governmental Funds</i>	17
<i>Reconciliation of Governmental Funds Balance Sheet to Net Position (Deficit) of Governmental Activities on the Statement of Net Position (Deficit)</i>	18
<i>Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds</i>	19
<i>Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Change in Net Position (Deficit) of Governmental Activities on the Statement of Activities</i>	20
<i>Statement of Net Position (Deficit) – Proprietary Fund</i>	21
<i>Statement of Revenues, Expenses and Changes in Net Position (Deficit) – Proprietary Fund</i>	22
<i>Statement of Cash Flows – Proprietary Fund</i>	23
<i>Statement of Net Position – Fiduciary Fund</i>	24
Notes to Financial Statements	25
REQUIRED SUPPLEMENTARY INFORMATION	
<i>Budgetary Comparison Schedule – General Fund</i>	46
<i>Other Post-Employment Benefits Schedule of Funding Progress</i>	47
<i>Schedule of the District's Proportionate Share of the Net Pension Liability</i>	48
<i>Schedule of the District's Pension Plan Contributions</i>	49
SINGLE AUDIT	
<i>Schedule of Expenditures of Federal Awards and Certain State Grants</i>	50
<i>Notes to Schedule of Expenditures of Federal Awards and Certain State Grants</i>	52
<i>Summary Schedule of Prior Audit Findings</i>	53

DONEGAL SCHOOL DISTRICT

CONTENTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	54
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE	56
<i>Schedule of Findings and Questioned Costs</i>	58



INDEPENDENT AUDITOR'S REPORT

**Board of School Directors
Donegal School District
Mount Joy, Pennsylvania**

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Report on Summarized Comparative Information

The financial statements of Donegal School District as of and for the year ended June 30, 2015, were audited by other auditors whose report, dated October 22, 2015, expressed unmodified opinions on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule – General Fund, the other post-employment benefits schedule of funding progress and the schedules of the District's proportionate share of the net pension liability and pension plan contributions on pages 3 through 14 and 46 through 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Donegal School District's basic financial statements. The schedule of expenditures of federal awards and certain state grants 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 not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2016, on our consideration of Donegal School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Donegal School District's internal control over financial reporting and compliance.

BBD, LLP

**Philadelphia, Pennsylvania
October 25, 2016**

DONEGAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

Management's discussion and analysis ("**MD&A**") of the financial performance of the Donegal School District (the "**District**") provides an overview of the District's financial performance for fiscal year ended June 30, 2016. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

DISTRICT PROFILE

The District consists of one elementary school, an intermediate school, a junior high school and a senior high school consisting of approximately 3,000 students. The District covers 34 square miles 10 miles east of the City of Lancaster and is comprised of the Marietta and Mount Joy Boroughs, East Donegal Township and approximately one third of Mount Joy Township. During 2015-2016, there were 400 employees in the District, consisting of 205 teachers, 20 administrators, including general administration, principals, and supervisors, and 175 support personnel including administrative assistants, maintenance staff, custodial staff, transportation staff, food service staff and technology staff.

The mission of the District is to develop each learner as a productive citizen who thoughtfully meets personal, community and global challenges.

FINANCIAL HIGHLIGHTS

- On a government-wide basis including all governmental activities and the business type activities, the liabilities and deferred inflows of resources of the District exceeded the assets and deferred outflows of resources resulting in a deficit in total net position at the close of the 2015-2016 fiscal year of \$5,013,189. During the 2015-2016 fiscal year, the District had an increase in total net position of \$1,064,535. The net position of governmental activities increased by \$1,036,386 and the net position of the business-type activities increased by \$28,149.
- The General Fund reported an increase of fund balance of \$46,487, bringing the cumulative balance to \$10,685,491 at the conclusion of the 2015-2016 fiscal year.
- At June 30, 2016, the General Fund fund balance includes \$7,410,000 committed or assigned by the School Board or Management for the following purposes:
 - ◆ \$1,810,000 committed to fund future self insurance expenditures
 - ◆ \$1,890,000 committed to fund future curriculum initiatives
 - ◆ \$1,810,000 committed to fund future technology initiatives
 - ◆ \$1,350,000 committed for equipment and capital improvements
 - ◆ \$250,000 committed for anticipated increases in the District's required share of retirement contributions
 - ◆ \$300,000 assigned for capital projects
- Actual revenues were \$1,273,200 more than budgeted amounts and actual expenditures and other financing uses were \$20,567 less than budgeted amounts resulting in a net positive variance of \$1,293,767.

DONEGAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS

The MD&A is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net Position (Deficit)* presents information on all of the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating. To assess the District's overall health, the reader will need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish the functions of the District that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

In the government-wide financial statements, the District's activities are divided into two categories:

Governmental Activities

Most of the District's basic services are included here, such as regular and special education, support services, maintenance, transportation and administration.

Business-Type Activities

The District charges fees to cover the costs of its food services program.

The government-wide financial statements can be found on Pages 15 and 16 of this report.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the District's funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

DONEGAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

Governmental Funds

Most of the District's activities are included in the governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the governmental near-term financing decisions. Both the *Balance Sheet – Governmental Funds* and *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds* provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains three major individual governmental funds. Information is presented separately in the *Balance Sheet – Governmental Funds* and *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds* for each of the major funds.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the budget.

The governmental fund financial statements can be found on Pages 17 through 20 of this report.

Proprietary Fund

The District maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Food Service Fund is reported as an enterprise fund of the proprietary fund type.

The proprietary fund financial statements provide separate financial information for its major fund. The proprietary fund financial statements can be found on Pages 21 through 23 of this report.

Fiduciary Fund

The District is the trustee, or fiduciary, for assets that belong to others, consisting of a student activity fund. The District is responsible for ensuring that the assets reported in this fund are used for their intended purpose and by those to whom the assets belong. This fund is used to account for resources held for the benefit of parties outside the District. The fiduciary fund is not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

The fiduciary fund financial statements can be found on Page 24 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The notes to the financial statements can be found on Pages 25 through 45 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which consists of the budgetary comparison schedule for the General Fund, a schedule of the District's progress in funding its obligation to provide other post-employment benefits and schedules of net pension liability and District's pension contributions.

DONEGAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

The required supplementary information can be found on Pages 46 through 49 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted above, net position may serve over time as a useful indicator of the District's financial condition. At the close of the 2015-2016 fiscal year the District's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$5,013,189. The following table presents condensed information for the *Statement of Net Position (Deficit)* of the District at June 30, 2016 and 2015.

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
ASSETS						
Current assets	\$ 24,820,726	\$ 26,858,516	\$ 649,493	\$ 559,041	\$ 25,470,219	\$ 27,417,557
Noncurrent assets	83,239,990	81,794,526	403,344	490,270	83,643,334	82,284,796
Total assets	<u>108,060,716</u>	<u>108,653,042</u>	<u>1,052,837</u>	<u>1,049,311</u>	<u>109,113,553</u>	<u>109,702,353</u>
DEFERRED OUTFLOWS						
Deferred changes - pension	6,569,475	4,987,106	173,266	119,936	6,742,741	5,107,042
LIABILITIES						
Current liabilities	5,877,170	5,876,101	42,793	53,051	5,919,963	5,929,152
Noncurrent liabilities	113,242,194	110,015,890	1,350,326	1,240,997	114,592,520	111,256,887
Total liabilities	<u>119,119,364</u>	<u>115,891,991</u>	<u>1,393,119</u>	<u>1,294,048</u>	<u>120,512,483</u>	<u>117,186,039</u>
DEFERRED INFLOWS						
Deferred credits - pension	340,446	3,614,162	16,554	86,918	357,000	3,701,080
NET POSITION (DEFICIT)						
Net investment in capital assets	28,465,152	23,966,871	403,344	490,270	28,868,496	24,457,141
Restricted	8,052,500	10,120,949	-	-	8,052,500	10,120,949
Unrestricted (deficit)	<u>(41,347,271)</u>	<u>(39,953,825)</u>	<u>(586,914)</u>	<u>(701,989)</u>	<u>(41,934,185)</u>	<u>(40,655,814)</u>
Total net position (deficit)	<u>\$ (4,829,619)</u>	<u>\$ (5,866,005)</u>	<u>\$ (183,570)</u>	<u>\$ (211,719)</u>	<u>\$ (5,013,189)</u>	<u>\$ (6,077,724)</u>

The District's total assets as of June 30, 2016 were \$109,113,553 of which \$20,827,158 or 19.09% consisted of unrestricted cash and investments and \$83,643,334 or 76.66% consisted of the District's net investment in capital assets. The District's total liabilities as of June 30, 2016 were \$120,512,483 of which \$54,774,838 or 45.45% consisted of general obligation debt used to acquire and construct capital assets and \$58,042,000 or 48.16% consisted of the actuarially determined net pension liability.

The District had a deficit in unrestricted net position of \$41,934,185 at June 30, 2016. The District's unrestricted net position decreased by \$1,278,371 during 2015-2016 primarily due to the results of current year operations.

A portion of the District's net position reflects its restricted net position which totaled \$8,052,500 as of June 30, 2016. All of the District's restricted net position related to amounts restricted for capital expenditures and debt service.

DONEGAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

Another portion of the District's net position reflects its investment in capital assets net of accumulated depreciation less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. For the year ended June 30, 2016, the District's net investment in capital assets, increased by \$4,411,355 because the debt used to acquire the capital assets was being repaid faster than the capital assets were being depreciated and capital assets were acquired with funding sources other long-term debt.

The following table presents condensed information for the *Statement of Activities* of the District for 2016 and 2015:

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
REVENUES						
Program revenues						
Charges for services	\$ 138,532	\$ 213,601	\$ 640,651	\$ 637,164	\$ 779,183	\$ 850,765
Operating grants and contributions	8,276,092	7,648,950	902,459	837,742	9,178,551	8,486,692
Capital grants and contributions	357,500	-	-	-	357,500	-
General revenues						
Property taxes levied for general purposes	26,212,966	26,064,217	-	-	26,212,966	26,064,217
Earned income taxes levied for general purposes	2,771,493	2,630,914	-	-	2,771,493	2,630,914
Other taxes	678,301	705,528	-	-	678,301	705,528
Grants and entitlements not restricted to specific programs	7,477,255	7,299,934	-	-	7,477,255	7,299,934
Gain on sale of capital assets	-	400,404	-	-	-	400,404
Investment earnings	273,367	106,616	582	548	273,949	107,164
Total revenues	<u>46,185,506</u>	<u>45,070,164</u>	<u>1,543,692</u>	<u>1,475,454</u>	<u>47,729,198</u>	<u>46,545,618</u>
EXPENSES						
Instruction	29,257,581	28,296,918	-	-	29,257,581	28,296,918
Instructional student support services	3,765,296	3,503,822	-	-	3,765,296	3,503,822
Administrative and financial support services	3,442,352	3,412,169	-	-	3,442,352	3,412,169
Operation and maintenance of plant services	3,897,123	4,053,567	-	-	3,897,123	4,053,567
Pupil transportation	1,571,553	1,468,981	-	-	1,571,553	1,468,981
Student activities	757,249	679,257	-	-	757,249	679,257
Interest and amortization expense related to non-current liabilities	2,457,966	2,664,757	-	-	2,457,966	2,664,757
Food service	-	-	1,515,543	1,508,235	1,515,543	1,508,235
Total expenses	<u>45,149,120</u>	<u>44,079,471</u>	<u>1,515,543</u>	<u>1,508,235</u>	<u>46,664,663</u>	<u>45,587,706</u>
CHANGE IN NET POSITION (DEFICIT)	<u>\$ 1,036,386</u>	<u>\$ 990,693</u>	<u>\$ 28,149</u>	<u>\$ (32,781)</u>	<u>\$ 1,064,535</u>	<u>\$ 957,912</u>

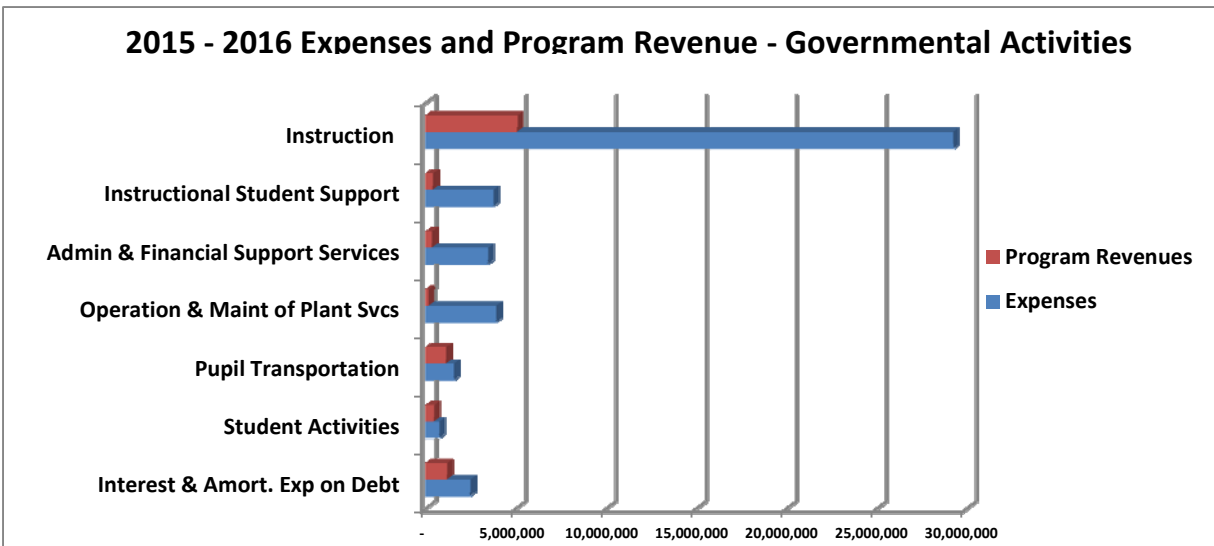
Overall, the District's financial position has been improving but challenges such as increased medical costs, pension contributions, state-mandated programs and negotiated contracts have a potential to offset these gains in future fiscal years. Management of the District continues to aggressively implement cost efficiencies and revenue-generating strategies to combat these factors. In the governmental activities, the District's assessed property tax base drives the majority of the revenue generated. A majority of the District's property tax base is in the form of residential housing. Although the District is primarily a residential community, the District also has a property tax base derived from commercial facilities.

DONEGAL SCHOOL DISTRICT

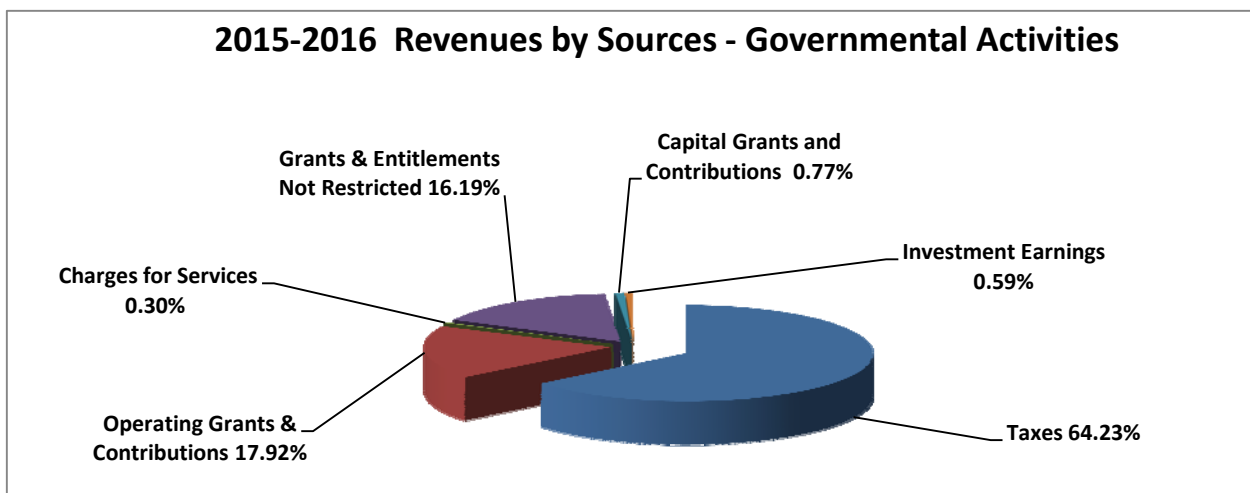
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

The *Statement of Activities* provides detail that focuses on how the District finances its services. The *Statement of Activities* compares the costs of the District functions and programs with the resources those functions and programs generate themselves in the form of program revenues. As demonstrated by the following graph, all of the District's governmental activities are not self-supporting, raising enough program revenue to cover their costs, as most traditional governmental services are not.



To the degree that the District's functions or programs cost more than they raise, the *Statement of Activities* shows how the District chose to finance the difference through general revenues. The following chart shows that the District relies on tax revenues to finance its governmental activities.



DONEGAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

GOVERNMENTAL FUNDS

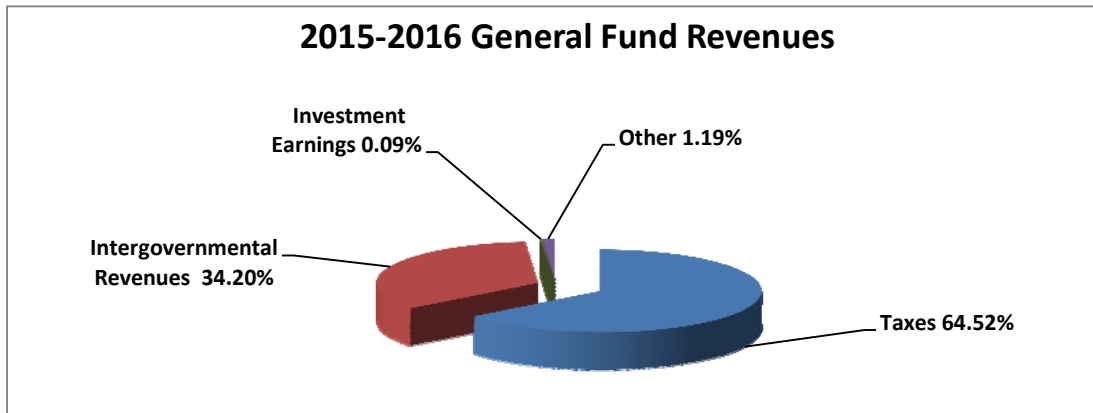
The governmental fund financial statements provide detailed information of the District's major funds. Some funds are required to be established by State statute while other funds are established by the District to manage monies restricted for a specific purpose. As of June 30, 2016, the District's governmental funds reported a combined fund balance of \$18,737,991 which is a decrease of \$2,021,962 from the prior year. The following table summarizes the District's total governmental fund balances as of June 30, 2016 and 2015 and the total 2016 change in governmental fund balances.

	<u>2016</u>	<u>2015</u>	<u>Change</u>
General Fund	\$10,685,491	\$10,639,004	\$ 46,487
Capital Projects Fund	6,504,274	9,092,216	(2,587,942)
Debt Service Fund	<u>1,548,226</u>	<u>1,028,733</u>	<u>519,493</u>
	<u>\$18,737,991</u>	<u>\$20,759,953</u>	<u>\$(2,021,962)</u>

GENERAL FUND

The General Fund is the District's primary operating fund. At the conclusion of the 2015-2016 fiscal year, the General Fund fund balance was \$10,685,491 representing an increase of \$46,487 in relation to the prior year. The increase in the District's General Fund fund balance is due to many factors. The following analysis has been provided to assist the reader in understanding the financial activities of the General Fund during the 2015-2016 fiscal year.

The District's reliance upon tax revenues is demonstrated by the graph below that indicates 64.52% of General Fund revenues are derived from local taxes.



General Fund Revenues

	<u>2016</u>	<u>2015</u>	<u>\$ Change</u>	<u>% Change</u>
Tax revenues	\$29,707,615	\$29,404,704	\$ 302,911	1.03
Intergovernmental revenues	15,748,346	14,937,973	810,373	5.42
Investment earnings	40,112	36,507	3,605	9.87
Other	<u>547,841</u>	<u>1,197,597</u>	<u>(649,756)</u>	<u>(54.25)</u>
	<u>\$46,043,914</u>	<u>\$45,576,781</u>	<u>\$ 467,133</u>	<u>1.02</u>

DONEGAL SCHOOL DISTRICT

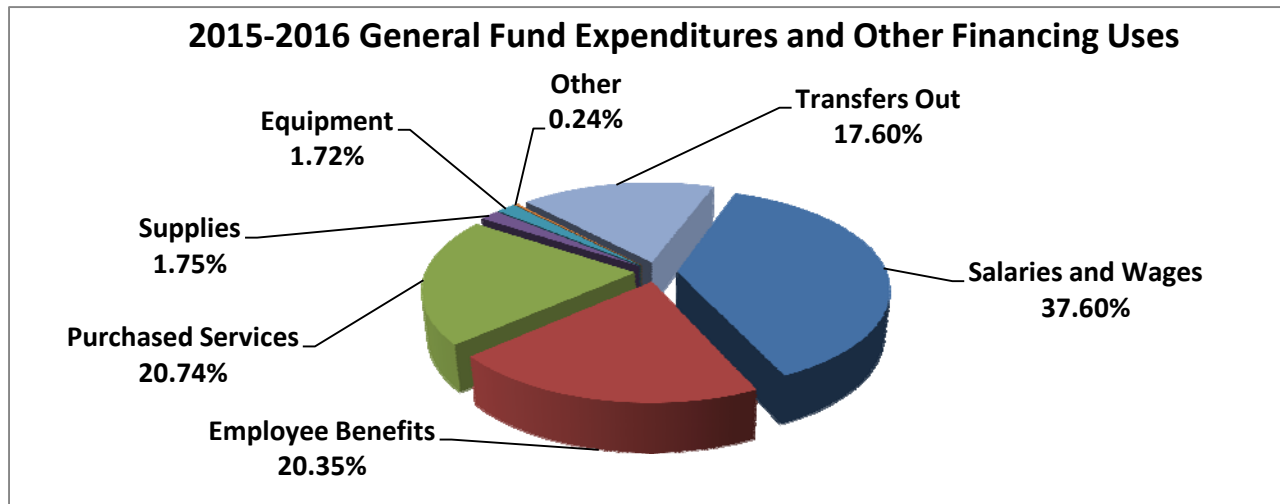
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

Intergovernmental revenues increased primarily due to additional funding received for the state retirement subsidy which increased commensurate with the employer annual contribution percentage.

The decrease in other revenue of \$649,756 from 2014-2015 to 2015-2016 is due to the revenue from sale of the District's Pinkerton property in 2014-2015.

As the graph below illustrates, the largest portion of General Fund expenditures are for salaries and benefits. The District is an educational service entity and as such is labor intensive.



General Fund Expenditures and Other Financing Uses

	<u>2016</u>	<u>2015</u>	<u>\$ Change</u>	<u>% Change</u>
Salaries and wages	\$17,294,939	\$16,880,341	\$ 414,598	2.46
Employee benefits	9,359,914	8,525,527	834,387	9.79
Purchased services	9,538,688	8,914,279	624,409	7.00
Supplies	803,644	1,227,818	(424,174)	(34.55)
Equipment	791,140	680,235	110,905	16.30
Other	114,916	127,257	(12,341)	(9.70)
Transfers out	<u>8,094,186</u>	<u>8,328,542</u>	<u>(234,356)</u>	<u>(2.81)</u>
	<u>\$45,997,427</u>	<u>\$44,683,999</u>	<u>\$1,313,428</u>	<u>2.94</u>

Employee benefits increased by \$834,387 primarily due to the significant increase in the required annual retirement contribution to 25.84% in 2015-2016 from 21.40% in 2014-2015.

The decrease in expenditures for supplies of \$424,174 from 2014-2015 to 2015-2016 was due to our curriculum refresh cycle. The subjects that were addressed in 2015-2016 had fewer supply demands than the subjects that were addressed in 2014-2015.

The increase in our equipment expenditures of \$110,905 in 2015-2016 when compared to 2014-2015 was due to some additional equipment needs in our facility department as well as purchases of computers to start our one to one initiative.

DONEGAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

CAPITAL PROJECTS FUND

The Capital Projects Fund accounts for construction and renovation activity associated with the District's buildings and major equipment purchases. The Capital Projects Fund receives the majority of its revenues from the issuance of general obligation debt and transfers from the General Fund. During 2015-2016, the Capital Projects Fund reported a decrease in fund balance of \$2,587,942 due to amounts expended for capital expenditures in excess of transfers from the General Fund. The remaining fund balance of \$6,504,274 as of June 30, 2016 is restricted for future capital expenditures.

DEBT SERVICE FUND

The Debt Service Fund accounts for the interest and principal payments due on the District's outstanding general obligation debt. Transfers are made during the year from the General Fund to finance debt service payments as they become due.

Pursuant to loan agreements with the State Public School Building Authority under its Qualified School Construction Bonds program, the District established a Debt Sinking Fund. The District is required to make deposits annually into the Debt Sinking Fund. The deposits and investment earnings on the deposits are available for payment of maturities under the loan agreement.

As of June 30, 2016, the fund balance in the Debt Service Fund was \$1,548,226 and is restricted for future debt service expenditures.

GENERAL FUND BUDGET INFORMATION

Actual revenues were \$1,273,200 more than budgeted amounts and actual expenditures and other financing uses were \$20,567 less than budgeted amounts resulting in a net positive variance of \$1,293,767. Major budgetary highlights for 2015-2016 were as follows:

Local source revenues exceeded budgeted amounts by \$822,189, resulting from higher than anticipated collections for earned income taxes and realty transfer taxes. The taxable real estate assessment at July 1 was also higher than anticipated. The contribution by the Donegal Athletic Club in the amount of \$355,000 also contributed to the variance. These funds were then transferred to the Capital Projects Fund and utilized on the athletic complex.

State and Federal revenues exceeded budgeted amounts by \$451,011 and was due to the District budgeting either modest to no increases in their Basic Education and Ready to Learn Grant subsidies as well as Title I program revenues. This was done in response to the 2015-2016 State budget impasse.

Regular program expenditures were \$653,143 less than budget. The favorable variance is primarily due to amounts under expended for professional salaries and corresponding benefits. Health insurance costs across the District continue to be favorable and are not increasing at the same rate as industry standards suggest.

Special education costs were \$395,714 less than budget. The favorable variance is primarily due to amounts under expended for salaries and benefits. The District also realized savings with its special education contract with the Lancaster-Lebanon Intermediate Unit #13.

The budget variances in our pupil support services, instructional staff services and support services – central office were mainly due to changes in the reporting structure that were made by the Pennsylvania Department of Education after the original budget was submitted.

Total operation and maintenance of plant services were \$354,145 less than budget. The favorable variance can be attributed to amounts under expended for salaries and benefits and cost savings related to utility usage and pricing.

Total transfers out were over budget by \$2,068,388 due to excess revenues received over budget and expenditures under budget being appropriated in the amount of \$1,800,000 by the School Board to the Capital Projects Fund to subsidize future capital needs.

DONEGAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

BUSINESS-TYPE ACTIVITIES AND FOOD SERVICE FUND

During 2015-2016, the net position of the business-type activities and Food Service Fund increased by \$28,149. As of June 30, 2016, the business-type activities and Food Service Fund had a deficit in net position of \$183,570.

CAPITAL ASSETS

The District's net investment in capital assets for its governmental and business-type activities as of June 30, 2016 amounted to \$83,643,334 net of accumulated depreciation. This investment in capital assets includes land, site improvements, buildings and improvements, furniture and equipment and vehicles. The total increase in the District's net investment in capital assets for the current fiscal year was \$1,358,538 or 1.65%. The increase was the result of current year capital additions in excess of current year depreciation and loss on disposals.

Current year capital additions were \$5,502,819 and depreciation expense and loss on disposals were \$4,144,282.

Major capital additions (including reclass from construction in progress) for the current fiscal year included the following:

- Donegal Athletic Stadium \$4,454,262
- 900 Dell Chromebooks \$ 296,100

NONCURRENT LIABILITIES

At the end of the current fiscal year, the District had total general obligation debt of \$54,774,838 consisting of \$30,365,000 in bonds payable, \$57,823 in notes payable, \$22,950,000 in qualified school construction bonds and net deferred credits of \$1,402,015. The entire amount is backed by the full faith and credit of the District. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior obligation debt. The District's general obligation debt decreased by \$3,052,817 or 5.28% during the fiscal year.

State statutes limit the amount of general obligation debt the District may issue up to 225% of its borrowing base capacity which is calculated as the annual arithmetic average of the total revenues for the preceding three fiscal years. The current debt limitation for the District is \$97,034,922 which exceeds the District's outstanding general obligation debt as of June 30, 2016.

The District reports its allocated portion of its defined benefit unfunded benefit obligation related to its participation in PSERS. The District's allocated portion of the net pension liability is an actuarially determined estimate of the unfunded cost of the pension plan obligation which totaled \$58,042,000 as of June 30, 2016. The District's net pension liability increased by \$6,270,423 or 12.11% during the fiscal year.

The District maintains an AA rating from Standard and Poor's.

Other noncurrent liabilities consist of the District's liabilities for accrued retirement bonuses, compensated absences and its net obligation for post-employment benefits, which totaled \$1,775,682 as of June 30, 2016. These liabilities increased by \$118,027 or 7.12% during the fiscal year.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The actual enrollment in the District at October 1 decreased by 44 students from 2015 to 2016.

The District continues to watch for trends that will impact growth and/or decline in student population; however, no formal study has been undertaken in recent years. The various townships and municipalities within the District have completed a "Comprehensive Regional Planning" initiative and are addressing areas to be targeted for urban growth, high-density vs. traditional housing, agricultural preserve, and industrial/commercial zoning. This plan suggests that the District should prepare for additional growth in student population in the future. If initiatives for bringing commercial and industrial properties to the region are successful, the tax base could be positively impacted.

DONEGAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

The District has completed all major renovation projects on its buildings, all district instructional facilities are in good repair with adequate space to accommodate anticipated enrollment. The Donegal Athletic Stadium officially opened in June 2016. This summer the District also renovated the Varsity Softball Field as well as expanded the Donegal Primary School Parking lot. The District continues to evaluate and make upgrades to our current athletic facilities. A five-year capital improvement plan has been developed and is used to implement a facility maintenance program for the District.

Concerns regarding future employer contributions to fund the Public School Employees' Retirement System ("**PSERS**") continue to linger with no legislative action to date. The employer contribution rate for the 2015-16 school year was 25.84% which was an increase of 20.75% from the 2014-15 employer contribution rate. The employer contribution for the 2016-2017 school year was certified by the legislature to be 30.03%. This is an increase of 16.20% from 2015-2016. The District will take reasonable steps to prepare for anticipated growth, but believes that the only realistic solution must come from Legislative actions.

Actual health care costs continue to remain consistent to last year. However, the District expects to see increases in costs relating to the Federal Health Care provisions. Additional reporting and member fees are two of those expenditures as well as a general overall increase in health care costs. The District also continues to review and plan and evaluate how the Federal Health Care Act requirements will affect it in the future.

The Board has established five committed fund balances; self-insurance, curriculum, technology, equipment and capital projects, and PSERS. The District is self-insured for its health care costs and amounts committed for self-insurance will protect the District's assets from medical claims which may from time to time exceed the current year's budgeted expenses. The fund balance committed for curriculum will help the District to fund major curriculum changes that are expected in the next few years. The committed fund balance for technology will be utilized to fund a seven-year technology refresh cycle and its one to one initiative so that the District can maintain adequate technology to continue its educational programs. The fund balance committed for equipment and capital projects will be utilized to fund major maintenance or instructional equipment or furniture needed that exceed the current year's budget. The fund balance committed for PSERS was established to offset the anticipated, significant increase in mandated contributions to the school employee retirement program.

The District has a contract with the professional staff that remains in effect through June 30, 2018.

In 2006, Act 1 was passed, which provided taxpayer relief through gambling revenues generated at the State level. The intent of this legislation is to provide a mechanism to relieve the burden of funding public education from property owners. This new legislation has put a "ceiling" on the percentage increase of local real estate taxes that can be levied year-to-year in order to balance the school district budget. Pennsylvania school districts are now required to either change their taxing strategies to make up for the shortfall of increases in real estate tax refunds or seek the taxpayers' approval through back-end referendum to increase taxes higher than the approved index. This law puts an already increased burden on the District's revenue stream in future years.

For the 2016-2017 fiscal year, the District was allowed to increase the real estate property tax rate by 3.10% under the Act 1 index. However, the board approved property tax rate increase for the 2015-2016 fiscal year was 2.00%.

Certain exceptions are provided under Act 1 that, if approved by the appropriate authority, may permit increases above the Act 1 index without the need for a back-end referendum. Typically, these exceptions relate to emergencies and cost increases in excess of the Act 1 index (e.g., retirement system contributions or special education) over which the school district has no control.

Gaming revenues distributed under the provision of Act 1 (Act 1 permitted gambling in Pennsylvania) are to be used for the purpose of reducing property taxes for homesteaders and farmsteaders. The District's distribution for 2015-2016 was \$668,494.

DONEGAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

The index for the 2017-2018 budget for the District is 3.30%. The administration will review revenue projections and continue to identify ways to reduce operating costs in an effort to develop a balanced budget that provides adequate current revenue to cover current expenditures.

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Business Services, Donegal School District, 1051 Koser Road, Mount Joy, PA 17552.

DONEGAL SCHOOL DISTRICT

STATEMENT OF NET POSITION (DEFICIT)

June 30, 2016 with summarized comparative totals for 2015

	Governmental	Business-type	Totals	
	Activities	Activities	2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
CURRENT ASSETS				
Cash	\$ 3,025,044	\$ 663,806	\$ 3,688,850	\$ 2,299,794
Investments	17,138,308	-	17,138,308	21,984,710
Restricted assets:				
Cash held by fiscal agent	944	-	944	-
Investments held by fiscal agent	1,547,282	-	1,547,282	-
Taxes receivable	997,259	-	997,259	1,079,235
Due from other governments	1,929,023	16,788	1,945,811	1,780,989
Internal balances	72,122	(72,122)	-	-
Other receivables	106,798	1,789	108,587	230,683
Prepaid expenses	3,946	-	3,946	8,720
Inventories	-	39,232	39,232	33,426
Total current assets	<u>24,820,726</u>	<u>649,493</u>	<u>25,470,219</u>	<u>27,417,557</u>
NONCURRENT ASSETS				
Capital assets, net	83,239,990	403,344	83,643,334	82,284,796
Total assets	<u>108,060,716</u>	<u>1,052,837</u>	<u>109,113,553</u>	<u>109,702,353</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charges on proportionate share of pension	6,569,475	173,266	6,742,741	5,107,042
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)				
CURRENT LIABILITIES				
Accounts payable	986,831	3,006	989,837	1,493,954
Accrued salaries, payroll withholdings and benefits	3,884,915	6,981	3,891,896	3,362,182
Accrued interest payable	521,317	-	521,317	549,276
Unearned revenue	484,107	32,806	516,913	523,740
Total current liabilities	<u>5,877,170</u>	<u>42,793</u>	<u>5,919,963</u>	<u>5,929,152</u>
NONCURRENT LIABILITIES				
Due within one year	1,092,817	-	1,092,817	3,243,379
Due in more than one year	112,149,377	1,350,326	113,499,703	108,013,508
Total noncurrent liabilities	<u>113,242,194</u>	<u>1,350,326</u>	<u>114,592,520</u>	<u>111,256,887</u>
Total liabilities	<u>119,119,364</u>	<u>1,393,119</u>	<u>120,512,483</u>	<u>117,186,039</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred credits on proportionate share of pension	340,446	16,554	357,000	3,701,080
NET POSITION (DEFICIT)				
Net investment in capital assets	28,465,152	403,344	28,868,496	24,457,141
Restricted	8,052,500	-	8,052,500	10,120,949
Unrestricted (deficit)	(41,347,271)	(586,914)	(41,934,185)	(40,655,814)
Total net position (deficit)	<u>\$ (4,829,619)</u>	<u>\$ (183,570)</u>	<u>\$ (5,013,189)</u>	<u>\$ (6,077,724)</u>

See accompanying notes

DONEGAL SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year ended June 30, 2016 with summarized comparative totals for 2015

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position (Deficit)</u>			
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>	
							<u>2016</u>	<u>2015</u>
GOVERNMENTAL ACTIVITIES								
Instruction	\$ 29,257,581	\$ 84,740	\$ 4,991,765	\$ -	\$ (24,181,076)	\$ -	\$ (24,181,076)	\$ (23,706,237)
Instructional student support services	3,765,296	-	400,426	-	(3,364,870)	-	(3,364,870)	(2,966,253)
Administrative and financial support services	3,442,352	9,270	338,881	-	(3,094,201)	-	(3,094,201)	(3,135,785)
Operation and maintenance of plant services	3,897,123	8,255	174,962	-	(3,713,906)	-	(3,713,906)	(3,904,423)
Pupil transportation	1,571,553	-	1,128,674	-	(442,879)	-	(442,879)	(580,176)
Student activities	757,249	36,267	65,295	357,500	(298,187)	-	(298,187)	(604,441)
Interest and amortization expense related to noncurrent liabilities	2,457,966	-	1,176,089	-	(1,281,877)	-	(1,281,877)	(1,318,690)
Total governmental activities	<u>45,149,120</u>	<u>138,532</u>	<u>8,276,092</u>	<u>357,500</u>	<u>(36,376,996)</u>	<u>-</u>	<u>(36,376,996)</u>	<u>(36,216,005)</u>
BUSINESS-TYPE ACTIVITIES								
Food service	1,515,543	640,651	902,459	-	-	27,567	27,567	(34,244)
Total primary government	<u>\$ 46,664,663</u>	<u>\$ 779,183</u>	<u>\$ 9,178,551</u>	<u>\$ 357,500</u>	<u>(36,376,996)</u>	<u>27,567</u>	<u>(36,349,429)</u>	<u>(36,250,249)</u>
GENERAL REVENUES								
Property taxes levied for general purposes					26,212,966	-	26,212,966	26,064,217
Earned income taxes levied for general purposes					2,771,493	-	2,771,493	2,630,914
Other taxes levied for general purposes					678,301	-	678,301	705,528
Grants and entitlements not restricted to specific programs					7,477,255	-	7,477,255	7,299,934
Gain on sale of capital assets					-	-	-	400,404
Investment earnings					273,367	582	273,949	107,164
Total general revenues					<u>37,413,382</u>	<u>582</u>	<u>37,413,964</u>	<u>37,208,161</u>
CHANGE IN NET POSITION (DEFICIT)					1,036,386	28,149	1,064,535	957,912
NET POSITION (DEFICIT)								
Beginning of year					(5,866,005)	(211,719)	(6,077,724)	(7,035,636)
End of year					<u>\$ (4,829,619)</u>	<u>\$ (183,570)</u>	<u>\$ (5,013,189)</u>	<u>\$ (6,077,724)</u>

DONEGAL SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2016 with summarized comparative totals for 2015

	Major Funds			Totals	
	General	Capital	Debt	2016	2015
	Fund	Projects	Service		
ASSETS					
Cash	\$ 1,895,437	\$ 1,129,607	\$ -	\$ 3,025,044	\$ 1,725,958
Investments	13,155,271	3,983,037	-	17,138,308	20,956,835
Restricted assets:					
Cash held by fiscal agent	-	-	944	944	858
Investments held by fiscal agent	-	-	1,547,282	1,547,282	1,027,875
Taxes receivable	997,259	-	-	997,259	1,079,235
Due from other funds	73,835	1,800,000	-	1,873,835	1,567,805
Due from other governments	1,559,501	-	-	1,559,501	1,393,638
Other receivables	106,798	-	-	106,798	228,398
Prepaid items	3,946	-	-	3,946	8,720
Total assets	\$17,792,047	\$6,912,644	\$1,548,226	\$26,252,917	\$27,989,322
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 579,531	\$ 407,300	\$ -	\$ 986,831	\$ 1,489,850
Due to other funds	1,800,643	1,070	-	1,801,713	1,500,328
Accrued salaries, payroll withholdings and benefits	3,884,915	-	-	3,884,915	3,340,105
Unearned revenues	484,107	-	-	484,107	496,870
Total liabilities	6,749,196	408,370	-	7,157,566	6,827,153
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues - property and per capita taxes	357,360	-	-	357,360	402,216
FUND BALANCES					
Nonspendable					
Prepaid items	3,946	-	-	3,946	8,720
Restricted for					
Capital projects	-	6,504,274	-	6,504,274	9,092,216
Debt service	-	-	1,548,226	1,548,226	1,028,733
Committed to					
Self-insured health insurance	1,810,000	-	-	1,810,000	1,810,000
Curriculum initiatives	1,890,000	-	-	1,890,000	1,890,000
Technology initiatives	1,810,000	-	-	1,810,000	1,810,000
Equipment and capital improvements	1,350,000	-	-	1,350,000	1,350,000
Retirement rate stabilization	250,000	-	-	250,000	250,000
Assigned for					
Capital projects	300,000	-	-	300,000	300,000
Unassigned	3,271,545	-	-	3,271,545	3,220,284
Total fund balances	10,685,491	6,504,274	1,548,226	18,737,991	20,759,953
Total liabilities, deferred inflows of resources and fund balances	\$17,792,047	\$6,912,644	\$1,548,226	\$26,252,917	\$27,989,322

See accompanying notes

DONEGAL SCHOOL DISTRICT

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION (DEFICIT)

June 30, 2016

TOTAL GOVERNMENTAL FUND BALANCES	\$ 18,737,991
Amounts reported for governmental activities in the statement of net position (deficit) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.	83,239,990
Deferred outflows of resources and deferred inflows of resources related to pensions are not reported as assets and liabilities in the governmental funds balance sheet.	6,229,029
Some of the District's property and per capita taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflows of resources on the governmental funds balance sheet.	357,360
Receivables related to subsidies for long-term debt are not available to pay for current period expenditures and thus are not recognized in the governmental funds but are recognized in the statement of net position (deficit).	369,522
Noncurrent liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds balance sheet.	(113,242,194)
Accrued interest payable on long-term liabilities is included in the statement of net position (deficit), but is excluded from the governmental funds balance sheet until due and payable.	<u>(521,317)</u>
NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES	<u>\$ (4,829,619)</u>

DONEGAL SCHOOL DISTRICT

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

Year ended June 30, 2016 with summarized comparative totals for 2015

	Major Funds			Totals	
	General	Capital	Debt	2016	2015
	Fund	Projects	Service		
	Fund	Fund	Fund		
REVENUES					
Local sources	\$30,358,376	\$ 16,706	\$ 219,049	\$30,594,131	\$29,826,335
State sources	13,592,865	-	-	13,592,865	12,837,381
Federal sources	2,092,673	-	-	2,092,673	2,100,592
Total revenues	<u>46,043,914</u>	<u>16,706</u>	<u>219,049</u>	<u>46,279,669</u>	<u>44,764,308</u>
EXPENDITURES					
Current					
Instruction	25,551,850	-	-	25,551,850	24,840,001
Support services	11,654,377	-	-	11,654,377	10,888,225
Operation of noninstructional services	697,014	-	-	697,014	627,229
Facilities acquisition, construction and improvement services	-	4,859,648	-	4,859,648	2,727,602
Debt service	-	-	5,538,742	5,538,742	7,670,977
Total expenditures	<u>37,903,241</u>	<u>4,859,648</u>	<u>5,538,742</u>	<u>48,301,631</u>	<u>46,754,034</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES					
	<u>8,140,673</u>	<u>(4,842,942)</u>	<u>(5,319,693)</u>	<u>(2,021,962)</u>	<u>(1,989,726)</u>
OTHER FINANCING SOURCES (USES)					
Sale of/compensation for capital assets	-	-	-	-	882,582
Transfers in	-	2,255,000	5,839,186	8,094,186	8,328,542
Transfers out	(8,094,186)	-	-	(8,094,186)	(8,328,542)
Total other financing sources (uses)	<u>(8,094,186)</u>	<u>2,255,000</u>	<u>5,839,186</u>	<u>-</u>	<u>882,582</u>
NET CHANGE IN FUND BALANCES	46,487	(2,587,942)	519,493	(2,021,962)	(1,107,144)
FUND BALANCES					
Beginning of year	<u>10,639,004</u>	<u>9,092,216</u>	<u>1,028,733</u>	<u>20,759,953</u>	<u>21,867,097</u>
End of year	<u>\$10,685,491</u>	<u>\$ 6,504,274</u>	<u>\$ 1,548,226</u>	<u>\$18,737,991</u>	<u>\$20,759,953</u>

See accompanying notes

DONEGAL SCHOOL DISTRICT

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF ACTIVITIES

Year ended June 30, 2016

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (2,021,962)

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 and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense and loss on disposal of capital assets in the current period.

Capital outlay expenditures	\$ 5,494,331	
Depreciation expense	(4,043,295)	
Loss on disposal of capital assets	<u>(5,573)</u>	1,445,463

Because some property and per capita 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 inflows of resources decreased by this amount in the current period.

Deferred inflows of resources June 30, 2015	(402,216)	
Deferred inflows of resources June 30, 2016	<u>357,360</u>	(44,856)

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

Repayment of bonds and note payable	2,907,823	
Amortization of discounts, premiums and deferred amounts on refunding	<u>144,994</u>	3,052,817

Some expenses reported in the statement of activities do not require the use of current financial resources, and, therefore are not reported as expenditures on governmental funds.

Current year change in accrued interest payable	27,959	
Change in net pension liability and related deferred inflows and outflows	(1,304,048)	
Current year change in accrued retirement bonus	9,337	
Current year change in compensated absences	15,054	
Current year change in net post-employment benefit (OPEB) obligation	<u>(143,378)</u>	<u>(1,395,076)</u>

CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES \$ 1,036,386

DONEGAL SCHOOL DISTRICT

STATEMENT OF NET POSITION (DEFICIT) - PROPRIETARY FUND

June 30, 2016 with summarized comparative totals for 2015

	<u>Food Service Fund</u>	
	<u>2016</u>	<u>2015</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash	\$ 663,806	\$ 572,978
Due from other funds	643	328
Due from other governments	16,788	17,829
Other receivables	1,789	2,285
Inventories	39,232	33,426
Total current assets	<u>722,258</u>	<u>626,846</u>
NONCURRENT ASSETS		
Capital assets, net	403,344	490,270
Total assets	<u>1,125,602</u>	<u>1,117,116</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charges on proportionate share of pension	173,266	119,936
LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION (DEFICIT)		
LIABILITIES		
Accounts payable	3,006	4,104
Due to other funds	72,765	67,805
Accrued salaries, payroll withholdings and benefits	6,981	22,077
Unearned revenue	32,806	26,870
Total current liabilities	<u>115,558</u>	<u>120,856</u>
NONCURRENT LIABILITIES		
Accrued retirement bonus	24,212	25,172
Net pension liability	1,326,114	1,215,825
Total noncurrent liabilities	<u>1,350,326</u>	<u>1,240,997</u>
Total liabilities	<u>1,465,884</u>	<u>1,361,853</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred credits on proportionate share of pension	16,554	86,918
NET POSITION (DEFICIT)		
Net investment in capital assets	403,344	490,270
Unrestricted (deficit)	(586,914)	(701,989)
Total net position (deficit)	<u>\$ (183,570)</u>	<u>\$ (211,719)</u>

See accompanying notes

DONEGAL SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (DEFICIT) - PROPRIETARY FUND

June 30, 2016 with summarized comparative totals for 2015

	<u>Food Service Fund</u>	
	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Charges for services	\$ 640,651	\$ 637,164
OPERATING EXPENSES		
Salaries	427,824	420,728
Employee benefits	214,218	249,389
Purchased professional and technical services	18,122	10,757
Repairs and maintenance	9,526	6,264
Supplies	740,667	725,101
Depreciation	95,414	87,527
Other operating expenses	9,772	8,469
Total operating expenses	<u>1,515,543</u>	<u>1,508,235</u>
Operating income (loss)	<u>(874,892)</u>	<u>(871,071)</u>
NONOPERATING REVENUES		
Earnings on investments	582	548
State sources	118,643	107,391
Federal sources	783,816	730,351
Total nonoperating revenues	<u>903,041</u>	<u>838,290</u>
CHANGE IN NET POSITION	28,149	(32,781)
NET POSITION (DEFICIT)		
Beginning of year	<u>(211,719)</u>	<u>(178,938)</u>
End of year	<u>\$ (183,570)</u>	<u>\$ (211,719)</u>

See accompanying notes

DONEGAL SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year ended June 30, 2016 with summarized comparative totals for 2015

	Food Service Fund	
	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from charges for services	\$ 647,083	\$ 645,340
Cash payments to employees for services	(666,543)	(415,848)
Cash payments to supplies for goods and services	(666,212)	(864,395)
Cash payments for other operating expenses	<u>(9,772)</u>	<u>(8,469)</u>
Net cash provided by (used for) operating activities	<u>(695,444)</u>	<u>(643,372)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State sources	120,329	109,886
Federal sources	<u>673,849</u>	<u>654,759</u>
Net cash provided by noncapital financing activities	<u>794,178</u>	<u>764,645</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	<u>(8,488)</u>	<u>(79,588)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Earnings on investments	<u>582</u>	<u>548</u>
Net increase in cash	90,828	42,233
CASH		
Beginning of year	<u>572,978</u>	<u>530,745</u>
Ending of year	<u>\$ 663,806</u>	<u>\$ 572,978</u>
Reconciliation of operating loss to net cash provided by (used for) operating activities:		
Operating income (loss)	\$(874,892)	\$(871,071)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities		
Depreciation	95,414	87,527
Donated commodities used	109,322	95,698
(Increase) decrease in		
Due from other funds	(315)	(323)
Other receivables	496	3,569
Inventories	(5,806)	(4,659)
Deferred outflows of resources - pension	(53,330)	(58,878)
Increase (decrease) in		
Accounts payable	(1,098)	(315)
Due to other funds	4,960	11,070
Accrued salaries, payroll withholdings and benefits	(15,096)	(8,815)
Unearned revenue	5,936	4,608
Accrued retirement bonus	(960)	2,947
Net pension liability	110,289	8,352
Deferred inflows of resources - pension	<u>(70,364)</u>	<u>86,918</u>
Net cash provided by (used for) operating activities	<u>\$(695,444)</u>	<u>\$(643,372)</u>
SUPPLEMENTAL DISCLOSURE		
Noncash noncapital financing activity		
USDA donated commodities	<u>\$ 109,322</u>	<u>\$ 95,698</u>

See accompanying notes

DONEGAL SCHOOL DISTRICT

STATEMENT OF NET POSITION - FIDUCIARY FUND

June 30, 2016

	Agency Fund	
	<u>2016</u>	<u>2015</u>
ASSETS		
Cash	\$ 72,608	\$ 61,791
Other accounts receivable	<u>199</u>	<u>-</u>
Total assets	<u>72,807</u>	<u>61,791</u>
LIABILITIES		
Accounts payable	17,538	2,132
Due to student groups	<u>55,269</u>	<u>59,659</u>
Total liabilities	<u>\$ 72,807</u>	<u>\$ 61,791</u>

DONEGAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Donegal School District (the "***District***") operates one elementary school, one intermediate school, one junior high school and a senior high school to provide education and related services to the residents in the Boroughs of Marietta and Mount Joy, East Donegal Township and approximately one third of Mount Joy Township. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania as a school district of the third class. The District operates under a locally elected nine-member board form of government (the "***School Board***").

The financial statements of the District have been prepared in accordance with generally accepted accounting principles ("***GAAP***") as applied to governmental units. The Governmental Accounting Standards Board ("***GASB***") is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting policies are as follows:

Reporting Entity

GASB has established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. In evaluating the District as a reporting entity, management has addressed all potential component units which may or may not fall within the District's accountability. The criteria used to evaluate component units for possible inclusion as part of the District's reporting entity are financial accountability and the nature and significance of the relationship. The District is considered to be an independent reporting entity and has no component units.

Basis of Presentation

Government-Wide Financial Statements

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

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flow. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared as further defined below. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements of governmental funds.

The government-wide statement of net position presents the financial position of the District which is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources and is classified in one of three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing or improving those assets. The net position of the District is reported as restricted when constraints placed on net position use is either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Unrestricted net position is the net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

The statement of net position includes separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time.

DONEGAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

The government-wide statement of activities presents a comparison between expenses and program revenues for each function of the business-type activities of the District and for each governmental function. Expenses are those that are specifically associated with a service or program and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the District.

Except for interfund activity and balances between the funds that underlie governmental activities and the funds that underlie business-type activities, which are reported as transfers and internal balances, the effect of interfund activity has been removed from these statements.

Fund Financial Statements

During the school year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Fiduciary fund financial statements are presented by fund type.

Governmental Funds

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. The District reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Projects Fund accounts for financial resources restricted, committed or assigned to be used for capital expenditures or for the acquisition, construction of capital facilities, improvements and/or equipment.

The Debt Sinking Fund is used to account for the accumulation of resources for, and the payment of, long-term principal, interest and other related costs.

Revenue Recognition

In applying the "susceptible to accrual concept" under the modified accrual basis, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Deferred inflows of resources are reported in connection with receivables for tax revenues that are not considered to be available to liquidate liabilities of the current period. Revenue from federal, state and other grants designated for payment of specific District expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as unearned revenues until earned. Other receipts are recorded as revenue when received in cash because they are generally not measurable until actually received.

DONEGAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, special termination benefits, other post-employment benefits and claims and judgments are recorded only when payment is due. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Proprietary Funds

Like the government-wide financial statements, proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Allocations of certain costs, such as depreciation, are recorded in proprietary funds. The District reports the following proprietary fund:

The Food Service Fund accounts for the revenues and costs of providing meals to students during the school year.

These funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the District's proprietary funds are charges for services. Operating expenses for the District's proprietary funds include payroll, employee benefits, supplies and administrative costs. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary Funds

Fiduciary funds account for the assets held by the District as a trustee or agent for individuals, private organizations and/or governmental units and are, therefore, not available to support the District's own programs. The District accounts for these assets in an agency fund. The agency fund accounts for funds held on behalf of the students in the District. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

Investments are stated at fair value based upon quoted market prices, except for certificates of deposit which are recorded at cost.

Fair Value Measurements of Assets and Liabilities

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the District. Unobservable inputs reflect the District's assumptions about the inputs market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

DONEGAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the District has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these assets and liabilities does not require a significant degree of judgment.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable, that is, inputs that reflect the District's own assumptions.

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/due from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes

Taxes are levied on July 1 and are payable in the following periods:

July 1 – August 31	- Discount period, 2% of gross levy
September 1 – October 31	- Face period
November 1 to collection	- Penalty period, 10% of gross levy
January 1	- Lien date

The County Board of Assessments determines assessed valuations of property, and the District bills and collects its own property taxes. The tax on real estate for public school purposes for fiscal 2015-2016 was 22.0243 mills (\$22.02 for \$1,000 of assessed valuation). The District experiences very small losses from uncollectible property taxes. Property taxes constitute a lien against real property and usually can be collected in full when title transfers. Only balances that remain after tax sales are written off each year. Accordingly, an allowance for doubtful accounts has not been established by the District for property taxes receivable.

Taxpayers within the District have the option of paying in three installments. These installments have the following due dates:

Installment One	- August 31
Installment Two	- October 31
Installment Three	- December 31

The discount (two percent) is not applicable to installment payments; however, the penalty (10 percent) will be added if second and third installments are paid subsequent to the due dates.

Unearned Revenues

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Prepaid Items and Inventories

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

All inventories are valued at the lower of cost (first-in, first-out method) or market.

DONEGAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed, inclusive of ancillary costs.

Property, plant and equipment (net of salvage value) of the District is depreciated using the straight-line method over the following estimated useful lives: site improvements – 20-40 years; buildings and improvements – 15-40 years; furniture and equipment – 5-10 years and vehicles – 8-10 years.

Impairment of Long-Lived Assets

The District evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. If a capital asset is considered to be impaired, the amount of impairment is measured by the method that most reflects the decline in service utility of the capital asset at the lower of carrying value or fair value for impaired capital assets that will no longer be used by the District. No impairment losses were recognized in the year ended June 30, 2016.

Compensated Absences

District policies permit employees to accumulate earned but unused vacation, personal and sick days. The liability for these compensated absences is recorded as a noncurrent liability in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only to the extent they have matured, for example, as a result of employee resignations and retirements.

Accrued Retirement Bonus

Upon voluntary retirement, employees with qualifying years of service according to their respective employment contract are eligible to receive a lump sum retirement bonus.

Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bonds payable are reported net of the applicable bond premium or discount. Bond premiums and discounts are deferred and amortized over the life of the bonds. Deferred amounts on refunding are recorded as a deferred outflow of resources and amortized over the life of the old debt or the life of the new debt, whichever is shorter. All amounts are amortized using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources and uses. Premiums received and discounts paid on debt issuances are reported as other financing sources and uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures except for refundings paid from proceeds which are reported as other financing costs.

DONEGAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Fund Equity

As prescribed by GASB, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the fund can be spent. The District reports the following fund balance classifications:

Non-spendable

Non-spendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form – such as inventory or prepaid insurance or (b) legally or contractually required to be maintained intact – such as a trust that must be retained in perpetuity.

Restricted

Restricted fund balances are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Committed

Committed fund balances are amounts that can only be used for specific purposes determined by a formal action of the District's highest level of decision-making authority, the School Board. Committed amounts cannot be used for any other purpose unless the School Board removes those constraints by taking the same type of formal action (e.g., resolution).

Assigned

Assigned fund balances are amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by (a) the Director of Business Services or (b) an appointed body or (c) an official to which the District has delegated the authority to assign, modify or rescind amounts to be used for specific purposes.

Assigned fund balance includes (a) all remaining amounts that are reported in governmental funds (other than the General Fund) that are not classified as non-spendable, restricted or committed, and (b) amounts in the General Fund that are intended to be used for a specific purpose. Specific amounts that are not restricted or committed in a special revenue fund or the capital projects fund are assigned for purposes in accordance with the nature of their fund type.

Unassigned

Unassigned fund balance is the residual classification for the General Fund. This classification represents General Fund balance that has not been assigned to other funds, and that has not been restricted, committed or assigned to specific purposes within the General Fund.

When both restricted and unrestricted resources are available for use, it is the District's policy to use externally restricted resources first, then unrestricted resources—committed, assigned or unassigned—in order as needed.

The School Board has set a policy to maintain an unassigned General Fund fund balance of not less than 5% and a maximum unassigned General Fund fund balance of 8% of the following year's expenditure budget. Unassigned General Fund fund balance in excess of 8% of the following year's expenditure budget may be appropriated by the School Board for nonrecurring expenditures.

Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation. However, presentation of prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the District's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

DONEGAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Use of Estimates

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

Implementation of New Accounting Pronouncements

Effective July 1, 2015, the District adopted the provisions of GASB Statement No. 72, "*Fair Value Measurement and Application*". GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements.

New Accounting Pronouncements

GASB Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*" will be effective for the District for the year ended June 30, 2017. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of GAAP. The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

GASB Statement No. 77, "*Tax Abatement Disclosures*" will be effective for the District for the year ended June 30, 2017. GASB Statement No. 77 is intended to improve financial reporting by requiring governments that enter into tax abatement agreements to disclose certain information about the agreements.

GASB Statement No. 78, "*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*" will be effective for the District for the year ended June 30, 2017. GASB Statement No. 78 amends the scope and applicability of GASB Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan meeting certain criteria.

GASB Statement No. 79, "*Certain External Investment Pools and Pool Participants*" will be effective for the District for the year ended June 30, 2017. The objective of GASB Statement No. 79 is to address for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards.

(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

An annual budget is adopted prior to the beginning of each year for the General Fund on a modified accrual basis of accounting. The General Fund is the only fund for which a budget is legally required, although project-length financial plans are adopted for the Capital Projects fund.

The District is required to publish notice by advertisement at least once in a newspaper of general circulation in the municipalities in which it is located, and within 20 days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative offices of the District. Notice that public hearings will be held on the proposed operating budget must be included in the advertisement; such hearings are required to be scheduled at least 10 days prior to when final action on adoption is taken by the School Board.

DONEGAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

After the legal adoption of the budget, the School Board is required to file a copy of the budget with the Pennsylvania Department of Education by July 31. Additional copies of the budget also are required to be filed with the Housing Education Committee and the Senate Education Committee by September 15.

Legal budgetary control is maintained at the sub-function/major object level. The School Board may make transfers of funds appropriated in any particular item of expenditure by legislative action in accordance with Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without approval from the School Board. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments.

(3) DEPOSITS AND INVESTMENTS

State statutes authorize the District to invest in U.S. Treasury bills, time or share accounts of institutions insured by the Federal Deposit Insurance Corporation or in certificates of deposit when they are secured by proper bond or collateral, repurchase agreements, state treasurer's investment pools or mutual funds.

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At June 30, 2016, the carrying amount of the District's deposits was \$3,762,402 and the bank balance was \$3,978,888. The District is required by state statute to deposit funds in depositories that are either banks, banking institutions or trust companies located in the Commonwealth of Pennsylvania. To the extent that such deposits exceed federal insurance, the depositories must pledge as collateral obligations of the United States, Commonwealth of Pennsylvania or any political subdivision. Under Act 72 of 1971, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit. Of the bank balance, \$250,948 was covered by federal depository insurance and \$2,199,259 was collateralized by the District's depositories in accordance with Act 72. The remaining cash deposits of the District are in the Pennsylvania School District Liquid Asset Fund ("**PSDLAF**"). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF acts like a money market mutual fund in that its objective is to maintain a stable net assets value of \$1 per share, is rated by a nationally recognized statistical rating organization and is subject to an independent annual audit. As of June 30, 2016, PSDLAF was rated as AAA by a nationally recognized statistical rating agency.

Investments

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>			
		<u>Less than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>11 – 15</u>
Certificates of deposit	\$17,138,308	\$17,138,308	\$ -	\$ -	\$ -
U.S. Treasury strips	<u>1,547,282</u>	-	-	-	<u>1,547,282</u>
	<u>\$18,685,590</u>	<u>\$17,138,308</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,547,282</u>

U.S. Treasury strips were valued using Level 2 inputs.

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 the investments or collateral security that are in the possession of an outside party. The District had no investments subject to custodial credit risk as of June 30, 2016.

DONEGAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Interest Rate Risk

The District's investment policy limits investment maturities in accordance with state statutes as a means of managing its exposure to fair value losses arising from increasing interest rates. The District had no investments subject to interest rate risk as of June 30, 2016.

Credit Risk

The District's investment policy limits its investments that are not backed by the "full faith and credit" of the federal and state government to those with the highest credit rating available for such investments issued by a recognized statistical rating organization.

Restricted Deposits and Investments

The District maintains restricted cash and investment balances held by fiscal agents, which are restricted for the repayment of Qualified School Construction Bonds (**See Note 6**). The total carrying amounts and related bank balances of these cash and investment accounts are \$1,548,226 as of June 30, 2016.

(4) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,403,584	\$ -	\$ -	\$ 1,403,584
Construction in progress	1,336,453	256,344	1,279,960	312,837
Total capital assets not being depreciated	<u>2,740,037</u>	<u>256,344</u>	<u>1,279,960</u>	<u>1,716,421</u>
Capital assets being depreciated				
Site improvements	10,023,260	-	-	10,023,260
Buildings and improvements	88,101,317	5,874,925	-	93,976,242
Furniture and equipment	12,984,994	611,497	13,769	13,582,722
Vehicles	390,318	31,525	-	421,843
Total capital assets being depreciated	<u>111,499,889</u>	<u>6,517,947</u>	<u>13,769</u>	<u>118,004,067</u>
Less accumulated depreciation for				
Site improvements	(1,929,015)	(385,502)	-	(2,314,517)
Buildings and improvements	(24,311,594)	(2,342,687)	-	(26,654,281)
Furniture and equipment	(5,951,924)	(1,287,385)	(8,196)	(7,231,113)
Vehicles	(252,866)	(27,721)	-	(280,587)
Total accumulated depreciation	<u>(32,445,399)</u>	<u>(4,043,295)</u>	<u>(8,196)</u>	<u>(36,480,498)</u>
Total capital assets being depreciated, net	<u>79,054,490</u>	<u>2,474,652</u>	<u>5,573</u>	<u>81,523,569</u>
Governmental activities, net	<u>\$ 81,794,527</u>	<u>\$ 2,730,996</u>	<u>\$ 1,285,533</u>	<u>\$ 83,239,990</u>
Business-type activities				
Machinery and equipment	\$ 1,082,902	\$ 8,488	\$ -	\$ 1,091,390
Less accumulated depreciation	(592,632)	(95,414)	-	(688,046)
Business-type activities, net	<u>\$ 490,270</u>	<u>\$ 86,926</u>	<u>\$ -</u>	<u>\$ 403,344</u>

DONEGAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

Governmental activities	
Instruction	\$3,202,812
Instructional student support	155,572
Administrative and financial support services	56,950
Operation and maintenance of plant services	590,681
Pupil transportation	2,249
Student activities	<u>35,031</u>
Total depreciation expense – governmental activities	<u>\$4,043,295</u>
Business-type activities	
Food service	<u>\$ 95,414</u>

As of June 30, 2016, the District had outstanding construction projects to be completed. Construction commitments and the amounts completed as of June 30, 2016 are as follows:

	<u>Project Amount</u>	<u>Completed Through June 30, 2016</u>	<u>Remaining Commitments</u>
Donegal Primary School parking lot	\$670,000	\$125,553	\$ 544,447
Softball field	<u>317,000</u>	<u>187,284</u>	<u>129,716</u>
	<u>\$987,000</u>	<u>\$312,837</u>	<u>\$ 674,163</u>

(5) INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2016 is as follows:

<u>Receivable To</u>	<u>Amount</u>	<u>Payable From</u>	<u>Amount</u>
General Fund	\$ 1,070	Capital Projects Fund	\$ 1,070
Capital Projects Fund	1,800,000	General Fund	1,800,000
General Fund	72,765	Food Service Fund	72,765
Food Service Fund	<u>643</u>	General Fund	<u>643</u>
	<u>\$1,874,478</u>		<u>\$1,874,478</u>

Interfund balances between funds represent temporary loans recorded at year-end as the result of a final allocation of expenses.

A summary of interfund transfers for the year ended June 30, 2016 is as follows:

<u>Transfers In</u>	<u>Amount</u>	<u>Transfers Out</u>	<u>Amount</u>
Capital Projects Fund	\$2,255,000	General Fund	\$2,255,000
Debt Service Fund	<u>5,839,186</u>	General Fund	<u>5,839,186</u>
	<u>\$8,094,186</u>		<u>\$8,094,186</u>

Transfers from the General Fund to the Capital Projects Fund represent transfers to subsidize costs associated with the acquisition of capital assets and debt service requirements.

DONEGAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(6) NONCURRENT LIABILITIES

The following summarizes the changes in noncurrent liabilities for the year ended June 30, 2016:

	<u>Balance</u> <u>July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Amount</u> <u>Due Within</u> <u>One Year</u>
Governmental activities					
General obligation debt					
Bonds payable	\$ 33,215,000	\$ -	\$2,850,000	\$ 30,365,000	\$ 890,000
Note payable	115,646	-	57,823	57,823	57,823
Qualified school construction bonds	22,950,000	-	-	22,950,000	-
Bond premiums	1,665,916	-	154,709	1,511,207	154,709
Bond discounts	<u>(118,907)</u>	<u>-</u>	<u>(9,715)</u>	<u>(109,192)</u>	<u>(9,715)</u>
Total general obligation debt	<u>57,827,655</u>	<u>-</u>	<u>3,052,817</u>	<u>54,774,838</u>	<u>1,092,817</u>
Other noncurrent liabilities					
Accrued retirement bonus	1,118,025	-	9,337	1,108,688	-
Compensated absences	158,844	-	15,054	143,790	-
OPEB obligation	355,614	199,187	55,809	498,992	-
Net pension liability (See Note 7)	<u>50,555,752</u>	<u>6,160,134</u>	<u>-</u>	<u>56,715,886</u>	<u>-</u>
Total other noncurrent liabilities	<u>52,188,235</u>	<u>6,359,321</u>	<u>80,200</u>	<u>58,467,356</u>	<u>-</u>
Total governmental activities	<u>110,015,890</u>	<u>6,359,321</u>	<u>3,133,017</u>	<u>113,242,194</u>	<u>1,092,817</u>
Business-type activities					
Accrued retirement bonus	25,172	-	960	24,212	-
Net pension liability (See Note 7)	<u>1,215,825</u>	<u>110,289</u>	<u>-</u>	<u>1,326,114</u>	<u>-</u>
Total business-type activities	<u>1,240,997</u>	<u>110,289</u>	<u>960</u>	<u>1,350,326</u>	<u>-</u>
Total noncurrent liabilities	<u>\$111,256,887</u>	<u>\$6,469,610</u>	<u>\$3,133,977</u>	<u>\$114,592,520</u>	<u>\$1,092,817</u>

Non-current liabilities are generally liquidated by the General Fund.

General Obligation Debt

General obligation debt is a direct obligation of the District for which full faith and credit are pledged and is payable from unrestricted local sources. The District has not pledged any assets as collateral for general obligation debt. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior general obligation debt.

DONEGAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Qualified School Construction Bonds

The District participates in the Qualified School Construction Bonds ("**QSCB**") program sponsored by the State Public School Building Authority ("**SPSBA**"). The SPSBA was formed by the Commonwealth of Pennsylvania for the purpose of financing the construction and improvement of public school facilities under the jurisdiction of the Pennsylvania Department of Education. The QSCB program was created by the American Recovery and Reinvestment Act ("**ARRA**") and allows schools to borrow at nominal or zero percent to fund new construction, renovation and rehabilitation of schools as well as the purchase of land and equipment. The SPSBA issues the bonds through the QSCB program and provides loans to schools for qualified projects. Under the QSCB program the SPSBA receives direct interest subsidy payments from the United States Treasury which are then transferred to the borrowers as a reimbursement of the interest portion of their loan repayments. On October 1, 2010, the District borrowed \$17,000,000 from the SPSBA under the QSCB program. The District is required to deposit amounts ranging from \$5,000 to \$3,089,000 annually into a sinking fund through the maturity date of September 1, 2027. On November 1, 2011, the District borrowed \$5,950,000 from the SPSBA under the QSCB program. The District is required to deposit \$330,556 annually into a sinking fund through the maturity date of September 1, 2029. Sinking fund deposits are included as restricted assets held by fiscal agent in the accompanying financial statements.

General obligation debt outstanding as of June 30, 2016 consisted of the following:

<u>Description</u>	<u>Interest Rate(s)</u>	<u>Original Issue Amount</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
General obligation bonds				
Series of 2011	1.00% - 5.00%	\$28,100,000	06/01/2030	\$27,000,000
Series of 2013	3.375% - 5.50%	\$3,500,000	03/01/2031	<u>3,365,000</u>
Total general obligation bonds				<u>30,365,000</u>
General obligation note				
Series of 1997A	6.50%	\$1,156,460	02/15/2017	<u>57,823</u>
Qualified school construction bonds				
Series of 2010B	5.00%	\$17,000,000	09/01/2027	17,000,000
Series of 2011A	5.088%	\$5,950,000	09/01/2029	<u>5,950,000</u>
Total qualified school construction bonds				<u>22,950,000</u>
Total general obligation debt				<u>\$53,372,823</u>

Annual debt service requirements to maturity on these obligations are as follows:

<u>Year ending June 30,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Debt Sinking Fund</u>	<u>Total</u>
2017	\$ 947,823	\$ 2,575,949	\$ 335,556	\$ 3,859,328
2018	2,820,000	2,546,167	335,556	5,701,723
2019	2,960,000	2,406,386	335,556	5,701,942
2020	3,105,000	2,259,605	335,556	5,700,161
2021	3,260,000	2,105,655	335,556	5,701,211
2022-2026	7,805,000	8,769,252	12,424,780	28,999,032
2027-2031	<u>32,475,000</u>	<u>3,896,301</u>	<u>(15,449,776)</u>	<u>20,921,525</u>
	<u>\$53,372,823</u>	<u>\$24,559,315</u>	<u>\$ (1,347,216)</u>	<u>\$76,584,922</u>

DONEGAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Other Post-Employment Benefits

The District's other post-employment benefits include a single-employer defined benefit plan that provides medical insurance to all retirees and their dependents. The School Board has the authority to establish and amend benefit provisions. The plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

Funding Policy

The District's contributions are funded on a pay-as-you-go basis. The contribution requirements of retirees are established and may be amended by the School Board.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution of the employer ("**ARC**"), an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2016, 2015 and 2014 were as follows:

<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2016	\$199,187	28.02%	\$498,992
2015	\$259,547	42.88%	\$355,614
2014	\$262,085	40.91%	\$207,371

The following table shows the components of the District's OPEB cost for the year, the amount actually contributed by the District and changes in the District's net OPEB obligation:

Annual required contribution	\$205,016
Interest on net OPEB (obligation)	16,003
Adjustment to annual required contribution	<u>(21,832)</u>
Annual OPEB cost (expense)	199,187
Contributions made	<u>(55,809)</u>
Increase in net OPEB (obligation) asset	143,378
Net OPEB obligation – beginning of year	<u>355,614</u>
Net OPEB obligation – end of year	<u>\$498,992</u>

Funded Status and Funding Progress

As of July 1, 2015, the most recent actuarial valuation, the actuarial accrued liability for benefits was \$1,468,461 all of which was unfunded. The covered payroll (annual payroll of active employees) was \$16,384,614 and the ratio of the unfunded actuarial accrued liability ("**UAAL**") to the covered payroll was 8.96%.

Actuarial valuations 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 benefit cost trends. Amounts determined regarding the funded status and the annual required contribution of the 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, presented as required supplementary information following the notes to the financial statements, presents information about whether the actuarial value of assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

DONEGAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Actuarial Methods and Assumptions

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

In the most recent actuarial valuation, the normal cost method was used. The actuarial assumptions include a 4.50% discount rate and an annual healthcare cost trend rate of 6.00%, decreasing 0.50% to an ultimate rate of 5.50% in 2016-2017 and later. The UAAL is being amortized based on the level dollar, 30-year open period.

(7) PENSION PLAN

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

Plan Description

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

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year credited service; (b) age 60 with 30 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 membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

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

DONEGAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

Contributions

Member Contributions

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

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

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

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

Employer Contributions

The District's contractually required contribution rate for fiscal year ended June 30, 2016 was 25.00% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$4,354,741 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 District reported a liability of \$58,042,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the system's total pension liability as of June 30, 2014 to June 30, 2015. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2015, the District's proportion was 0.1340 percent, which was an increase of 0.0032 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$1,290,644. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

DONEGAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings	\$ -	\$239,525
Changes in proportions	-	117,475
Difference between employer contributions and proportionate share of total contributions	2,388,000	-
Contributions subsequent to the measurement date	<u>4,354,741</u>	<u>-</u>
	<u>\$6,742,741</u>	<u>\$357,000</u>

\$4,354,741 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017	\$ 358,272
2018	358,272
2019	358,272
2020	<u>956,184</u>
	<u>\$2,031,000</u>

Actuarial Assumptions

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

- Actuarial cost method - Entry Age Normal - level % of pay
- Investment return - 7.50% includes inflation at 3.00%
- Salary increases - Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real growth wage of 1% and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

The actuarial assumptions used in the June 30, 2013 valuation were based on the experience study that was performed for the five-year period ended 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.

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

DONEGAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

The above was the PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2014.

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.

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

The following represents 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:

	<u>1% Decrease 6.50%</u>	<u>Current Discount Rate 7.50%</u>	<u>1% Increase 8.50%</u>
District's proportionate share of the net pension liability	\$71,543,000	\$58,042,000	\$46,695,000

Pension Plan Fiduciary Net Position

Detailed information about the 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.

DONEGAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(8) JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATION

Joint Ventures

Lancaster County Career and Technology Center

The District and the other 15 Lancaster County school districts participate in the Lancaster County Career and Technology Center ("**LCCTC**"). The LCCTC provides vocational-technical training and education to students of the participating school districts. The LCCTC is controlled by a joint board comprised of representative school board members of the participating school districts. District oversight of the LCCTC operations is the responsibility of the joint board. The District's share of operating costs for the LCCTC fluctuates based on the District's percentage of enrollment. The District's share of operating costs for 2015-2016 was \$460,515.

Lancaster County Career and Technology Center Authority

The District and the other 15 Lancaster County school districts also participate in a joint venture for the operation of the Lancaster County Career and Technology Center Authority (the "**Authority**"). The Authority oversees acquiring, holding, constructing, improving and maintaining the LCCTC school buildings and facilities. The Authority is controlled by a joint board comprised of representative school board members of the participating school districts in the Authority. As further described below, the participating school districts have entered into a long-term lease agreement with the Authority to provide rental payments sufficient to retire the Authority's outstanding debt obligations. The District's share of rent expense for 2015-2016 was \$49,023.

On September 20, 2011, the Authority authorized the issuance of Guaranteed Lease Revenue Bonds, Series of 2011 (the "**2011 Revenue Bonds**"), in the maximum aggregate principal amount of \$43,000,000 to provide funds for the renovations and additions to the Brownstown, Mount Joy and Willow Street campuses of the LCCTC and pay for the costs of issuance. The District and the 15 Lancaster County school districts have entered into a long-term lease agreement with the Authority stipulating that each school district will pay its proportionate share of the lease rentals in order to retire the 2011 Revenue Bonds based on real estate market values as set forth in the LCCTC organization agreement. The 2011 Revenue Bonds were issued in three different series over three years. The amount of each series was not to exceed \$10,000,000 without the participating school districts' approval. The 2011 Revenue Bonds were intended to be repaid over a period not to exceed thirty years, with gross annual debt service not to exceed \$1,985,000 and net annual debt service (after reimbursement by the Commonwealth of Pennsylvania) of \$1,330,000. On June 29, 2012, the Authority issued the first of three series in the total amount of \$9,995,000. On September 20, 2013 the Authority issued the second of three series in the total amount of \$9,995,000 and on July 9, 2014, the Authority issued the final of the three series in the total amount of \$3,900,000. The District's lease rental obligations for minimum rental payments related to the issued debt are as follows:

Year ending June 30,

2017	\$ 49,123
2018	54,584
2019	54,522
2020	54,507
2021	54,588
2022-2026	272,843
2027-2031	272,556
2032-2036	272,804
2037	<u>54,486</u>
	<u>\$1,140,013</u>

Both the LCCTC and the Authority prepare financial statements that are available to the public from their administrative office located at 1730 Hans Herr Drive, P.O. Box 527, Willow Street, PA 17584.

DONEGAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Jointly Governed Organizations

Lancaster-Lebanon Intermediate Unit

The District and the other Lancaster and Lebanon County school districts are participating members of the Lancaster-Lebanon Intermediate Unit (the "**LLIU**"). The LLIU is a regional educational service agency, established by the Commonwealth of Pennsylvania, which is governed by a joint committee consisting of School Board members from each participating school district. The School Board of each participating school district must approve the annual program budget for the LLIU but the participating school districts have no ongoing fiduciary interest or responsibility to the LLIU. The LLIU is a self-sustaining organization that provides a broad array of services to the participating school districts which include: curriculum development and instructional improvement; educational planning services; instructional material; continuing professional development; pupil personnel services; management services and federal liaison services. During 2015-2016, the District contracted with the LLIU for special education services which totaled \$1,930,322.

Lancaster-Lebanon Joint Authority

The District and the other Lancaster and Lebanon County school district are also participating members of the Lancaster-Lebanon Joint Authority (the "**Authority**"). The Authority oversees acquiring, holding, constructing, improving and maintaining the buildings and facilities maintained for the participating school districts and the LLIU, which is governed by a joint committee consisting of School Board members from each participating school district. During 2015-2016, the District did not have any financial transactions with the Authority.

Lancaster County Tax Collection Bureau

The District and the other 15 Lancaster County school districts along with Octorara Area School District of Chester County and the municipalities represented by those school districts are participating members of the Lancaster County Tax Collection Bureau (the "**Bureau**") for the collection of earned income taxes. Each participating school district appoints one member to serve on the joint operating committee and 16 members are appointed by the participating municipalities. The Bureau is a self-sustaining organization in which the participating members have no ongoing fiduciary interest or responsibility. The Bureau's operating expenditures are deducted from each members earned income tax distributions. During 2015-2016, the District's portion of operating expenditures for the Bureau totaled \$56,924.

(9) CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

The District receives federal, state and local funding under a number of programs. Payments made by these sources under contractual agreements are provisional and subject to redetermination based on filing of reports and audits of those reports. Final settlements due from or to these sources are recorded in the year in which the related services are performed. Any adjustments resulting from subsequent examinations are recognized in the year in which the results of such examinations become known. District officials do not expect any significant adjustments as a result of these examinations.

Litigation

The District is a defendant in various matters of litigation and claims. These matters result from the normal course of business. It is not presently possible to determine the ultimate outcome or settlement cost, if any, of these matters.

DONEGAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(10) RISK MANAGEMENT

Health Insurance

The District participates in a consortium with the LLIU to provide a self-insurance program for health insurance and related expenses for eligible employees, spouses and dependents. Accordingly, benefit payments plus an administrative charge are made to a third party administrator, who approves and processes all claims. The District was limited in liability to \$100,000 per individual and \$3,931,948 in total for self-insurance medical claims for the year ended June 30, 2016.

The District has recorded a liability in the General Fund for claims incurred through June 30, 2016 which has historically been satisfied within 60 days after June 30. The following table presents the components of the self-insurance medical claims liability and the related changes in the claims liability for the year ended June 30, 2016:

Insurance claims liability – beginning of year	\$ 365,277
Current year insurance claims and changes in estimates	2,938,944
Insurance claims paid	<u>(3,607,897)</u>
Insurance claims liability – end of year	<u>\$ 303,676</u>

Property and Liability

The District and 11 participating member school districts from Lancaster and Lebanon County, the LLIU, the Lancaster County Academy, and the LCCTC participate in the Lancaster-Lebanon Public Schools Insurance Pool (the "**Pool**"), which is a public entity risk pool currently operating as a common risk management and insurance program. The District and the other participating members pay an annual premium to the Pool for the purpose of seeking prevention or lessening of casualty losses to participating members from injuries to persons or property which might result in claims being made against participating members and to the pools insurance risks, reserves, claims and losses and providing self-insurance and reinsurance thereof. It is the intent of the participating members of the Pool, that the Pool will utilize funds contributed by the participating members to provide self-insurance and reimbursement to the members for certain losses, to defend and protect each participating member of the Pool against certain liabilities and losses, and to purchase excess and aggregate stop-loss insurance for claims greater than \$100,000 per occurrence. As of June 30, 2016, the District is not aware of any additional assessments relating to the Pool.

Workers' Compensation

The District and 16 participating member school districts from Lancaster and Lebanon County and the LLIU participate in the Lancaster-Lebanon Public Schools Workers' Compensation Fund (the "**Fund**"), which is a cooperative voluntary trust arrangement. The District and the other participating members pay an annual premium to the Fund for the purpose of seeking prevention or lessening of claims due to injuries of employees of the participating members and pooling workers' compensation and occupational disease insurance risks, reserves, claims, and losses and providing self-insurance and reinsurance thereof. It is the intent of the participating members of the Fund that the Fund will utilize funds contributed by the participating members, which shall be held in trust by the Fund, to provide self-insurance and reimbursement to the members for their obligations to pay compensation as required under the Workers' Compensation Act and the Pennsylvania Occupational Disease Act and to purchase excess and aggregate insurance. As of June 30, 2016, the District is not aware of any additional assessments relating to this Fund.

Other Risks

The District is exposed to other risks of loss, including errors and omissions. The District has purchased a commercial insurance policy to safeguard its assets from risk of loss due to errors and omissions. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

DONEGAL SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(11) SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 25, 2016, the date on which the financial statements were available to be issued. Except as noted below, no material subsequent events have occurred since June 30, 2016 that required recognition or disclosure in the financial statements.

On September 8, 2016, the District authorized general obligation bonds, Series of 2016, in the amount of \$9,855,000. The proceeds from the issuance of the bonds will be used to advance refund a portion of the general obligation bonds, Series of 2011, and to pay for the costs of issuance.

REQUIRED SUPPLEMENTARY INFORMATION

DONEGAL SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year ended June 30, 2016

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES			
Local sources	\$ 29,536,187	\$ 30,358,376	\$ 822,189
State sources	13,249,107	13,592,865	343,758
Federal sources	<u>1,985,420</u>	<u>2,092,673</u>	<u>107,253</u>
Total revenues	<u>44,770,714</u>	<u>46,043,914</u>	<u>1,273,200</u>
EXPENDITURES			
Instruction			
Regular programs	19,013,345	18,360,202	653,143
Special programs	7,050,556	6,654,842	395,714
Vocational programs	503,212	509,539	(6,327)
Other instructional programs	72,619	27,267	45,352
Higher education programs	<u>4,100</u>	<u>-</u>	<u>4,100</u>
Total instruction	<u>26,643,832</u>	<u>25,551,850</u>	<u>1,091,982</u>
Support services			
Pupil support services	1,321,032	1,468,447	(147,415)
Instructional staff services	1,668,423	1,466,903	201,520
Administrative services	2,694,371	2,510,781	183,590
Pupil health	531,805	516,894	14,911
Business services	595,958	452,064	143,894
Operation and maintenance of plant services	3,735,361	3,381,216	354,145
Student transportation services	1,549,305	1,567,338	(18,033)
Support services - central	19,500	271,879	(252,379)
Other support services	<u>18,800</u>	<u>18,855</u>	<u>(55)</u>
Total support services	<u>12,134,555</u>	<u>11,654,377</u>	<u>480,178</u>
Operation of noninstructional services			
Student activities	<u>788,809</u>	<u>697,014</u>	<u>91,795</u>
Total expenditures	<u>39,567,196</u>	<u>37,903,241</u>	<u>1,663,955</u>
Excess (deficiencies) of revenues over (under) expenditures	<u>5,203,518</u>	<u>8,140,673</u>	<u>2,937,155</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	(6,025,798)	(8,094,186)	(2,068,388)
Budgetary reserve	<u>(425,000)</u>	<u>-</u>	<u>425,000</u>
Total other financing sources (uses)	<u>(6,450,798)</u>	<u>(8,094,186)</u>	<u>(1,643,388)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (1,247,280)</u>	46,487	<u>\$ 1,293,767</u>
FUND BALANCE			
Beginning of year		<u>10,639,004</u>	
End of year		<u>\$ 10,685,491</u>	

DONEGAL SCHOOL DISTRICT

OTHER POST-EMPLOYMENT BENEFITS SCHEDULE OF FUNDING PROGRESS

Year ended June 30, 2016

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
07/01/2015	\$ -	\$1,468,451	\$1,468,461	0.00%	\$16,384,614	8.96%
07/01/2013	\$ -	\$1,925,375	\$1,925,375	0.00%	\$15,525,289	12.40%
07/01/2011	\$ -	\$2,235,982	\$2,235,982	0.00%	\$14,722,798	15.19%
07/01/2009	\$ -	\$2,091,031	\$2,091,031	0.00%	\$14,421,658	14.50%

DONEGAL SCHOOL DISTRICT

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

Year ended June 30

	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability (asset)	0.1340%	0.1308%
District's proportionate share of the net pension liability (asset)	\$58,042,000	\$51,771,577
District's covered-employee payroll	\$17,235,638	\$16,686,678
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	337%	310%
Plan fiduciary net position as a percentage of the total pension liability	54%	57%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding year is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

DONEGAL SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PENSION PLAN CONTRIBUTIONS

Year ended June 30

	<u>2015</u>	<u>2014</u>
Contractually required contribution	3,313,332	2,599,945
Contributions in relation to the contractually required contribution	<u>3,313,332</u>	<u>2,599,945</u>
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$17,235,638	\$16,686,678
Contributions as a percentage of covered-employee payroll	19%	16%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding year is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

SINGLE AUDIT

DONEGAL SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS

Year ended June 30, 2016

<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grand Period Beginning/Ending Dates</u>	<u>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2015</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2016</u>
<u>U.S. Department of Education</u>										
<u>Passed-Through the Pennsylvania Department of Education</u>										
Title I - Improving Basic Programs	I	84.010	013-150119	07/01/14 - 09/30/15	\$ 347,029	\$ 240,568	240,568	\$ -	\$ -	\$ -
Title I - Improving Basic Programs	I	84.010	013-160119	07/01/15 - 09/30/16	415,165	332,984	-	415,165	415,165	82,181
Total CFDA #84.010						573,552	240,568	415,165	415,165	82,181
Title II - Improving Teacher Quality	I	84.367	020-150119	07/01/14 - 09/30/15	81,234	56,231	56,231	-	-	-
Title II - Improving Teacher Quality	I	84.367	020-160119	07/01/15 - 09/30/16	81,568	70,746	-	81,568	81,568	10,822
Total CFDA #84.367						126,977	56,231	81,568	81,568	10,822
<u>Passed Through the Lancaster-Lebanon I.U.</u>										
I.D.E.A. - Part B, Section 619	I	84.173	131-140013	07/01/14 - 06/30/15	3,091	3,091	3,091	-	-	-
I.D.E.A. - Part B, Section 619	I	84.173	131-150013	07/01/15 - 06/30/16	1,989	1,989	-	1,989	1,989	-
Total CFDA #84.173						5,080	3,091	1,989	1,989	-
I.D.E.A. - Part B, Section 611	I	84.027	062-160013	07/01/15 - 06/30/16	482,541	482,541	-	482,541	482,541	-
Total U.S. Department of Education						1,188,150	299,890	981,263	981,263	93,003
<u>U.S. Department of Health and Human Services</u>										
<u>Passed Through the Pennsylvania Department of Public Welfare</u>										
Medical Assistance Program	I	93.778	N/A	07/01/15 - 06/30/16	N/A	5,912	-	12,070	12,070	6,158
<u>U.S. Department of Agriculture</u>										
<u>Passed-Through the Pennsylvania Department of Education</u>										
State Matching Share	S	N/A	N/A	07/01/14 - 06/30/15	N/A	1,142	1,142	-	-	-
State Matching Share	S	N/A	N/A	07/01/15 - 06/30/16	N/A	49,488	-	50,774	50,774	1,286
Total State Matching						50,630	1,142	50,774	50,774	1,286

Continued on next page

<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grand Period Beginning/Ending Dates</u>	<u>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2015</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2016</u>
<u>Passed-Through the Pennsylvania Department of Education (cont'd)</u>										
Breakfast Program	I	10.553	N/A	07/01/14 - 06/30/15	N/A	2,991	2,991	-	-	-
Breakfast Program	I	10.553	N/A	07/01/15 - 06/30/16	N/A	104,662	-	107,374	107,374	2,712
Total CFDA #10.553						107,653	2,991	107,374	107,374	2,712
National School Lunch Program	I	10.555	N/A	07/01/14 - 06/30/15	N/A	11,867	11,867	-	-	-
National School Lunch Program	I	10.555	N/A	07/01/15 - 06/30/16	N/A	554,329	-	567,120	567,120	12,791
<u>Passed-Through the Pennsylvania Department of Agriculture</u>										
National School Lunch Program	I	10.555	N/A	07/01/15 - 06/30/16	N/A	113,727	(9,222)	109,322	109,322	(13,626)
Total CFDA #10.555						679,923	2,645	676,442	676,442	(835)
Total U.S. Department of Agriculture						787,576	5,636	783,816	783,816	1,877
Total Federal Awards and Certain State Grants						\$2,032,268	\$306,668	\$1,827,923	\$1,827,923	\$102,324
Total Federal Awards						\$1,981,638	\$305,526	\$1,777,149	\$1,777,149	\$101,038
Total State Awards						50,630	1,142	50,774	50,774	1,286
Total Federal Awards and Certain State Grants						\$2,032,268	\$306,668	\$1,827,923	\$1,827,923	\$102,324
Special Education Cluster (IDEA) (CFDA's #84.027 and #84.173)						\$ 487,621	\$ 3,091	\$ 484,530	\$ 484,530	\$ -
Child Nutrition Cluster (CFDA's #10.553 and #10.555)						\$ 787,576	\$ 5,636	\$ 783,816	\$ 783,816	\$ 1,877

Source Codes

- D - Direct Funding
- I - Indirect Funding
- S - State Funding

DONEGAL SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS

June 30, 2016

(1) FEDERAL EXPENDITURES

The Schedule of Expenditures of Federal Awards and Certain State Grants reflects federal expenditures for all individual grants which were active during the fiscal year. Additionally, the Schedule reflects expenditures for certain state grants.

(2) BASIS OF ACCOUNTING

The District uses the modified accrual method of recording transactions except as noted for the accounting of donated commodities in Note 3. Revenues are recorded when measurable and available. Expenditures are recorded when incurred.

(3) NONMONETARY FEDERAL AWARDS – DONATED FOOD

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals and prisons) and to the needy. Expenditures reported in the Schedule of Expenditures of Federal Awards and Certain State Grants under CFDA #10.555 USDA Commodities represent federal surplus food consumed by the District during the 2015-2016 fiscal year.

(4) ACCESS PROGRAM

The District participates in the ACCESS Program which is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding recognized for the year ended June 30, 2016 was \$54,734.

(5) QUALIFIED SCHOOL CONSTRUCTION BONDS PROGRAM

The District participates in the Qualified School Construction Bonds ("**QSCB**") program sponsored by the State Public School Building Authority ("**SPSBA**"). In conjunction with the QSCB Program, the District receives subsidy reimbursements for a portion of the interest payments made under its loan agreements with the SPSBA. Reimbursements are federal source revenues but are not considered federal financial assistance. The amount of QSCB subsidy payments recognized for the year ended June 30, 2016 was \$1,044,606.

(6) INDIRECT COSTS

The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance. No indirect costs were charged to the District's Federal awards for the year ended June 30, 2016.

DONEGAL SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2016

#2015-002

Department of Agriculture
School Breakfast Program – CFDA #10.553

Department of Agriculture
National School Lunch Program – CFDA #10.555

Criteria

The District is required to verify the current free and reduced price eligibility of households selected from a sample of applications that it has approved for free and reduced meals. If the verification process determines changes to applicant free and reduced status, the District is required to make those changes.

Statement of Condition

The District sampled the correct number of free and reduced applicant households. However, the District did not correctly classify and make changes to the free and reduced meal status of two of those households based on the documentation received.

Cause and Effect

Errors in the review of verified free and reduced lunch applications led to the status of two of the verified free and reduced households to be incorrectly classified.

Questioned Costs

None

Recommendation

Review procedures should be established to ensure that the District correctly classifies and makes changes to the free and reduced meal status based on the documentation received.

Status

During 2015-2016, the District correctly classified and made changes to the free and reduced status of those households sampled, where applicable. This finding is no longer applicable.



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

**Board of School Directors
Donegal School District
Mount Joy, Pennsylvania**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Donegal School District, Mount Joy, Pennsylvania, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Donegal School District's basic financial statements, and have issued our report thereon dated October 25, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

BBD, LLP

**Philadelphia, Pennsylvania
October 25, 2016**



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

**Board of School Directors
Donegal School District
Mount Joy, Pennsylvania**

Report on Compliance for Each Major Federal Program

We have audited Donegal 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 Donegal School District's major federal programs for the year ended June 30, 2016. Donegal 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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

BBD, LLP

**Philadelphia, Pennsylvania
October 25, 2016**

DONEGAL SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2016

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Donegal School District were prepared in accordance with GAAP.
2. No significant deficiencies or material weaknesses relating to the audit of the financial statements of Donegal School District are reported in the 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.
3. No instances of noncompliance material to the financial statements of Donegal School District, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies or material weaknesses in internal control over the major federal award programs are reported in the independent auditor's report on compliance for each major program and on internal control over compliance required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for Donegal School District expresses an unmodified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a) of the Uniform Guidance.
7. The programs tested as major programs were:
 - Child Nutrition Cluster:
 - Breakfast Program – CFDA Number 10.553
 - National School Lunch Program – CDFA Number 10.555
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. The Donegal School District did not qualify as a low-risk auditee.

FINDINGS—FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

None