



ANTIETAM SCHOOL DISTRICT

FINANCIAL AND COMPLIANCE REPORT

Year Ended June 30, 2016



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Herbein + Company, Inc.
2763 Century Boulevard
Reading, PA 19610
P: 610.378.1175
F: 610.378.0999
www.herbein.com

INDEPENDENT AUDITOR'S REPORT

**To the Board of School Directors
Antietam School District
Reading, Pennsylvania**

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule for the general fund, pension and other postemployment benefit information on pages 63 through 65, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the Antietam School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. Such information 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Herbein + Company, Inc.

**Reading, Pennsylvania
November 11, 2016**

ANTIETAM SCHOOL DISTRICT
Management's Discussion and Analysis (MD&A)

June 30, 2016

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

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

The District and Its Facilities

The Antietam School District serves an area of approximately 5.3 square miles. It is located in Berks County and consists of Lower Alsace Township and Mount Penn Borough. The population of this area is approximately 7,500.

The School District is comprised of three buildings. The Mount Penn Primary Center, opened in August 2005, houses grades K and 1. The Mount Penn Elementary Center houses grades 2 to 6, and the Middle-Senior High School houses grades 7 to 12.

The enrollment at Antietam School District for the 2015-2016 school year was 1,029 students, which was the same as our enrollment for 2014-2015. Potential growth has been partially addressed with the 2005 renovations of the former Mt. Penn High School into a Primary Center and six additional classrooms being added to the Middle-Senior High School. The Primary Center has unused space and can accommodate more students, but additional renovations are required before the space would be usable.

FINANCIAL HIGHLIGHTS

In the previous year GASB 68 and 71 were implemented resulting in a deficit net position for Governmental activities and Business-Type activities of (\$15,574,294) and (\$440,277), respectively. In the current year, the change in net position was a change of (\$1,126,000) and (\$27,372).

Taxes, which include property taxes, public utility realty, and earned income taxes, accounted for 59.2% of the District's general revenues, and program specific revenue in the form of grants, entitlements and investment earnings accounted for 40.8% of general revenues.

General fund expenditures totaled \$17.56 million, of which \$9.79 million was spent on instructional services, \$5.73 million was spent on support services, \$.39 million was spent on non-instructional services, and \$1.65 million was spent on debt service. Total expenditures and other financing uses in the general fund were \$27.2 million, of which \$9.6 million was related to the refunding of two general obligation bond issues.

FINANCIAL STATEMENTS

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

The remaining statements are fund financial statements that focus on individual parts of the District's operations in more detail than the government-wide statements. The governmental funds statements tell how the District's services were financed in the short term as well as what remains for future spending. Proprietary fund statements offer short- and long-term financial information about the activities that the District operates like a business. For Antietam, this is our Food Service Fund. Fiduciary fund statements provide information about financial relationships where the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong, such as student activity and scholarship funds.

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

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

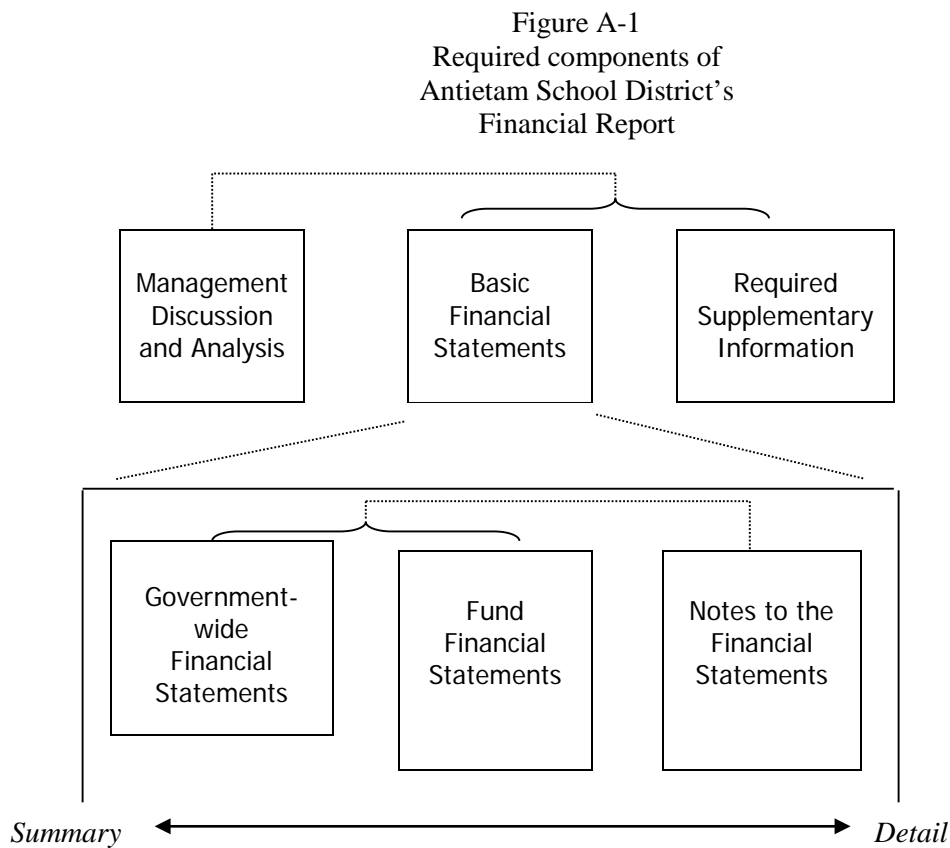


Figure A-2 summarizes the major features of the financial statements, including the portion of the Program they cover and the types of information they contain. The remainder of this overview section of management discussion and analysis explains the structure and contents of each of the statements.

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

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

OVERVIEW OF FINANCIAL STATEMENTS

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets, deferred outflows, liabilities, and deferred inflows. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid. The government-wide statements report the District's net position and how they have changed. Net position, the difference between the District's assets, deferred outflows, liabilities and deferred inflows, is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position are an indication of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the District, you need to consider additional factors, such as changes in the projected enrollment of the students.

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

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

Fund Financial Statements

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

- Governmental funds – Most of the District's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.
- Proprietary funds – These funds are used to account for the District's activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the District charges customers for services it provides – whether to outside customers or to other units in the District – these services are generally reported in proprietary funds. The Food Service Fund is the District's proprietary fund and is the same as the business-type activities reported in the government-wide statements, but provide more detail and additional information, such as cash flows.
- Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others, such as scholarship funds or student activity funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

The District's total net assets were (\$17,167,943) at June 30, 2016.

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

	Governmental Activities		Business-Type Activities		Total	
	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>
Current assets	\$ 8,323,689	\$ 8,106,504	\$35,736	\$24,207	\$ 8,359,425	\$ 8,130,711
Non-current assets	16,453,219	15,488,469	7,642	6,018	16,460,861	15,494,487
Total Assets	\$24,776,908	\$23,594,973	\$43,378	\$30,225	\$24,820,286	\$23,625,198
Deferred Outflows	1,879,435	2,990,274	32,117	46,337	1,911,552	3,036,611
Current liabilities	\$ 1,758,948	\$ 1,761,276	\$ 7,706	\$ 9,105	\$ 1,766,654	\$ 1,770,381
Long-term liabilities	39,236,490	41,378,547	479,656	519,780	39,716,146	41,898,327
Total Liabilities	\$40,995,438	\$43,139,823	\$487,362	\$528,885	\$41,482,800	\$43,668,708
Deferred Inflows	1,235,199	145,718	28,410	15,326	1,263,609	161,044
Net Assets						
Invested in capital assets, net of related debt	(\$1,132,620)	(\$1,563,037)	\$7,642	\$6,018	(\$1,124,978)	(\$1,557,019)
Restricted	564,987	566,101	0	0	564,987	566,101
Unrestricted	(15,006,662)	(15,703,358)	(447,919)	(473,667)	(15,454,581)	(16,177,025)
Total Net Assets	(\$15,574,294)	(\$16,700,294)	(\$440,277)	(\$467,649)	(\$16,014,571)	(\$17,167,943)

A portion of the District's net position is invested in or restricted for capital assets (buildings, land, and equipment). The unrestricted portion of the District's net assets at June 30, 2016 is (\$16,177,025.)

The results of this year's operations as a whole are reported in the Statement of Activities. All expenses are reported in the first column. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are represented to determine the final amount of the District's activities that are supported by other general revenues. The largest general revenue category is taxes.

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

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

	Governmental Activities		Business-Type Activities		Total	
	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>
Revenues						
Program Revenue						
Charges for services	\$ 83,369	\$ 42,405	\$150,585	\$148,701	\$ 233,954	\$ 191,106
Operating grants & contributions	2,550,181	2,778,739	318,012	356,876	2,868,193	3,135,615
Capital grants and contributions	69,809	82,588	0	0	69,809	82,588
General revenues	13,365,590	13,799,788	4	40	13,365,594	13,799,828
Total Revenues	\$16,068,949	\$16,703,520	\$468,601	\$505,617	\$16,537,550	\$17,209,137
Expenses						
Regular Instruction	\$7,314,438	\$7,660,242	\$ 0	\$ 0	\$7,314,438	\$7,314,438
Special Instruction	2,427,627	2,716,747	0	0	2,427,627	2,427,627
Vocational Instruction	408,644	416,386	0	0	408,644	408,644
Other Instructional Programs	15,780	18,684	0	0	15,780	15,780
Non-Public Instruction	7,075	4,145	0	0	7,075	7,075
Pupil Personnel	553,453	654,574	0	0	553,453	553,453
Instructional Staff	717,967	755,081	0	0	717,967	717,967
Administration	1,660,268	1,732,354	0	0	1,660,268	1,660,268
Pupil Health	158,447	174,946	0	0	158,447	158,447
Business Services	387,426	364,809	0	0	387,426	387,426
Operation & Maintenance of Plant	1,787,251	1,777,349	0	0	1,787,251	1,787,251
Student Transportation Services	191,365	214,574	0	0	191,365	191,365
Central Services	274,305	388,760	0	0	274,305	274,305
Other Support Services	11,868	12,443	0	0	11,868	11,868
Student Activities	359,688	365,920	0	0	359,688	359,688
Community Services	19,462	20,341	0	0	19,462	19,462
Interest on Long-Term Debt	637,597	552,165	0	0	637,597	637,597
Refund of Prior Year Revenue	0	0	0	0	0	0
Food Services	0	0	486,741	532,989	486,741	532,989
Total Expenses	\$16,932,661	\$17,829,520	\$486,741	\$532,989	\$17,419,402	\$18,362,509
Increase(Decrease) in Net Assets	<u>(\$863,712)</u>	<u>(\$1,126,000)</u>	<u>(\$18,140)</u>	<u>(\$27,372)</u>	<u>(\$881,852)</u>	<u>(\$1,153,372)</u>

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

Table A-3 shows the District's total cost of services and net cost (total cost less revenues generated by the activities) for each function. This table also shows the net costs offset by the other unrestricted grants, subsidies, and contributions to show the remaining financial needs supported by local revenue and other miscellaneous revenues.

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

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	<u>2015</u>	<u>2016</u>	<u>2015-16</u>	<u>2015</u>	<u>2016</u>	<u>2015-16</u>
Regular Instruction	\$7,314,438	\$7,660,242	4.73%	\$6,245,730	\$6,472,253	3.63%
Special Instruction	2,427,627	2,716,747	11.91%	1,575,090	1,823,862	15.79%
Vocational Instruction	408,644	416,386	1.89%	408,644	416,386	1.89%
Other Instructional Programs	15,780	18,684	18.4%	14,828	17,441	17.62%
Non-Public Instruction	7,075	4,145	-41.41%	789	0	-100.00%
Pupil Personnel	553,453	654,574	18.27%	431,671	499,767	15.77%
Instructional Staff	717,967	755,081	5.17%	596,164	678,157	13.75%
Administration	1,660,268	1,732,354	4.34%	1,522,352	1,579,883	3.78%
Pupil Health	158,447	174,946	10.41%	118,502	130,188	9.86%
Business Services	387,426	364,809	-5.84%	351,611	330,352	-6.05%
Operation & Maintenance of Plant	1,787,251	1,777,349	-0.55%	1,706,443	1,673,849	-1.91%
Student Transportation Services	191,365	214,574	12.13%	67,057	105,242	56.94%
Central Services	274,305	388,760	41.73%	267,859	371,847	38.82%
Other Support Services	11,868	12,443	4.84%	11,868	11,943	0.63%
Student Activities	359,688	365,920	1.73%	323,444	324,700	0.39%
Community Services	19,462	20,341	4.52%	19,462	20,341	4.52%
Interest on Long-Term Debt	637,597	552,165	-13.40%	567,788	469,577	-17.30%
Refund of Prior Year Revenue	0	0	0.00%	0	0	0.00%
	<u>\$16,932,661</u>	<u>\$17,829,520</u>	<u>5.30%</u>	<u>\$14,229,302</u>	<u>\$14,925,788</u>	<u>4.89%</u>

Table A-4 reflects the activities of the Food Service program, the only Business-type activity of the District.

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

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	<u>2015</u>	<u>2016</u>	<u>2015-16</u>	<u>2015</u>	<u>2016</u>	<u>2015-16</u>
Food Services	<u>\$486,741</u>	<u>\$532,989</u>	<u>9.5%</u>	<u>(\$18,144)</u>	<u>(\$27,412)</u>	<u>51.08%</u>

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

Fund Balances

At June 30, 2016, the District's governmental funds reported a combined fund balance of \$6,001,087, which is a decrease of \$254,174 from June 30, 2015. The decrease in the fund balance was budgeted to balance the 2015-16 budget, however we were fortunate to not need to use the full amount budgeted. This is due to a combination of revenue and expenditure variances. Under revenues, the District received an increase in Earned Income Tax, state subsidies and Title I funding. Under expenditures, salaries and benefits came in under budget due to staffing changes and their corresponding benefits, as well as the refunding of bonds.

General Fund:

The unassigned fund balance of \$1,463,672 is 8% of the general fund expenditures. The committed fund balance of \$2,749,263 will be used primarily for future retirement costs, which are projected to increase from 25.84% of salaries in 2015-2016 to 32.04% of salaries in 2017-2018.

Capital Projects Fund:

The restricted fund balance of \$566,101 will be used for the repair, maintenance, and replacement of the District's capital assets on a prioritized basis, as approved by the Board of School Directors.

General Fund Budget

During the fiscal year the Board of School Directors authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the District. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided.

The Budgetary Reserve includes amounts that may be transferred into expenditure accounts for unplanned expenditures. These amounts will only be appropriated into expenditure categories when the expenditure is necessary for the operation of the District. Any budget reserve amount not appropriated during the year will become part of the unreserved fund balance and available for future years' budgeting.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the District had \$15,488,469 in governmental activities and \$6,018 in business-type activities invested in a broad range of capital assets, including land, buildings, and furniture and equipment.

Table A-5
 Governmental and Business-Type Activities
 Fiscal years ended June 30, 2015 and June 30, 2016
 Capital Assets (net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>
Land	\$ 310,056	\$ 310,056	\$ 0	\$ 0	\$ 310,056	\$ 310,056
Land Improvements	134,151	124,995	0	0	134,151	124,995
Buildings and Building Improvements	15,029,647	14,034,270	0	0	15,029,647	14,034,270
Fixtures and Equipment	979,365	1,019,148	7,642	6,018	987,007	1,025,166
Construction in Progress	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>\$ 16,453,219</u>	<u>\$ 15,488,469</u>	<u>\$7,642</u>	<u>\$6,018</u>	<u>\$16,460,861</u>	<u>\$15,494,487</u>

Debt Administration

Bond Obligations – As of June 30, 2015 and June 30, 2016 the Antietam School District had outstanding bond obligations of \$17,780,000 and \$17,255,000, respectively.

Leases – The District has entered into two capital leases for technology equipment and four operating leases for copiers.

Other obligations include accrued vacation pay and sick leave for specific employees of the District.

FACTORS BEARING ON ANTIETAM SCHOOL DISTRICT'S FUTURE

Factors that will affect the future finances of the District are employee health benefits, PSERS retirement rates (2016-2017 actual: 30.03%; 2017-2018 projected: 32.04%; and 2018-2019 projected: 33.27%), collective bargaining agreements with the Education Association, and future funding by the Pennsylvania Department of Education.

CONTACTING THE SCHOOL FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the Board of School Director's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact the Business Office, Antietam School District, 100 Antietam Road, Reading, PA 19606.

ANTIETAM SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2016

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and Investments	\$ 6,734,940	\$ 3,574	\$ 6,738,514
Taxes Receivable, Net	551,270	-	551,270
Internal Balances	4,038	(4,038)	-
Intergovernmental Receivables	624,788	8,459	633,247
Other Receivables	41,027	15	41,042
Inventories	-	16,197	16,197
Prepaid Expenses	150,441	-	150,441
Capital Assets Not Being Depreciated:			
Land	310,056	-	310,056
Capital Assets, Net of Accumulated Depreciation:			
Building and Building Improvements	14,034,270	-	14,034,270
Land Improvements	124,995	-	124,995
Furniture and Equipment	1,019,148	6,018	1,025,166
	<u>23,594,973</u>	<u>30,225</u>	<u>23,625,198</u>
TOTAL ASSETS			
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charge on Bond Refunding	447,591	-	447,591
Deferred Outflows of Resources for Pension Expense	746,368	13,284	759,652
Pension Contributions made Subsequent to the Measurement Date	1,796,315	33,053	1,829,368
	<u>2,990,274</u>	<u>46,337</u>	<u>3,036,611</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES			
LIABILITIES			
Accounts Payable	242,888	607	243,495
Intergovernmental Payables	74,006	-	74,006
Accrued Salaries and Benefits	1,317,272	753	1,318,025
Accrued Interest	112,110	-	112,110
Unearned Revenues	-	7,745	7,745
Other Liabilities	15,000	-	15,000
Noncurrent Liabilities:			
Due Within One Year	1,225,024	-	1,225,024
Bonds Payable, Net	16,281,153	-	16,281,153
Capital Leases Payable	71,883	-	71,883
Long-Term Portion of Compensated Absences	162,949	-	162,949
Net Pension Liability	23,433,220	519,780	23,953,000
Other Postemployment Benefit Obligation	204,318	-	204,318
	<u>43,139,823</u>	<u>528,885</u>	<u>43,668,708</u>
TOTAL LIABILITIES			
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources for Pension Expense	145,718	15,326	161,044
	<u>145,718</u>	<u>15,326</u>	<u>161,044</u>
NET POSITION			
Net Investment in Capital Assets	(1,563,037)	6,018	(1,557,019)
Restricted for Capital Projects	566,101	-	566,101
Unrestricted	(15,703,358)	(473,667)	(16,177,025)
	<u>\$ (16,700,294)</u>	<u>\$ (467,649)</u>	<u>\$ (17,167,943)</u>
TOTAL NET POSITION			

See accompanying notes.

ANTIETAM SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction:							
Regular	\$ 7,660,242	\$ 19,631	\$ 1,168,358	\$ -	\$ (6,472,253)	\$ -	\$ (6,472,253)
Special	2,716,747	-	892,885	-	(1,823,862)	-	(1,823,862)
Vocational	416,386	-	-	-	(416,386)	-	(416,386)
Other Instructional Programs	18,684	-	1,243	-	(17,441)	-	(17,441)
Non-Public Instruction	4,145	-	4,145	-	-	-	-
Total Instructional Services	10,816,204	19,631	2,066,631	-	(8,729,942)	-	(8,729,942)
Support Services:							
Pupil Personnel	654,574	-	154,807	-	(499,767)	-	(499,767)
Instructional Staff	755,081	-	76,924	-	(678,157)	-	(678,157)
Administration	1,732,354	-	152,471	-	(1,579,883)	-	(1,579,883)
Pupil Health	174,946	-	44,758	-	(130,188)	-	(130,188)
Business Services	364,809	-	34,457	-	(330,352)	-	(330,352)
Operation of Plant and Maintenance Services	1,777,349	13,820	89,680	-	(1,673,849)	-	(1,673,849)
Student Transportation Services	214,574	-	109,332	-	(105,242)	-	(105,242)
Central Support Services	388,760	-	16,913	-	(371,847)	-	(371,847)
Other Support Services	12,443	-	500	-	(11,943)	-	(11,943)
Total Support Services	6,074,890	13,820	679,842	-	(5,381,228)	-	(5,381,228)
Noninstructional Services:							
Student Activities	365,920	8,954	32,266	-	(324,700)	-	(324,700)
Community Services	20,341	-	-	-	(20,341)	-	(20,341)
Interest on Long-Term Debt	552,165	-	-	82,588	(469,577)	-	(469,577)
Total Noninstructional Services	938,426	8,954	32,266	82,588	(814,618)	-	(814,618)
Total Governmental Activities	17,829,520	42,405	2,778,739	82,588	(14,925,788)	-	(14,925,788)
Business-Type Activities:							
Food Services	532,989	148,701	356,876	-	-	(27,412)	(27,412)
Total Primary Government	<u>\$ 18,362,509</u>	<u>\$ 191,106</u>	<u>\$ 3,135,615</u>	<u>\$ 82,588</u>	(14,925,788)	(27,412)	(14,953,200)
General Revenues:							
Taxes:							
Property Taxes					9,412,809	-	9,412,809
Public Utility Realty, Earned Income and Mercantile Taxes					971,032	-	971,032
Grants, Subsidies, and Contributions Not Restricted for Specific Programs					3,301,612	-	3,301,612
Investment Earnings					28,042	40	28,082
Miscellaneous Income					86,293	-	86,293
Total General Revenues					<u>13,799,788</u>	<u>40</u>	<u>13,799,828</u>
Change in Net Position					(1,126,000)	(27,372)	(1,153,372)
Net Position (Deficit) - Beginning of year					<u>(15,574,294)</u>	<u>(440,277)</u>	<u>(16,014,571)</u>
Net Position (Deficit) - End of year					<u>\$ (16,700,294)</u>	<u>\$ (467,649)</u>	<u>\$ (17,167,943)</u>

See accompanying notes.

ANTIETAM SCHOOL DISTRICT

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2016

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and Investments	\$ 6,168,839	\$ 566,101	\$ 6,734,940
Taxes Receivable	561,451	-	561,451
Interfund Receivables	4,517	-	4,517
Intergovernmental Receivables	624,788	-	624,788
Other Receivables	41,027	-	41,027
Prepaid Expenditures	150,441	-	150,441
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 7,551,063</u>	<u>\$ 566,101</u>	<u>\$ 8,117,164</u>
LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES			
LIABILITIES			
Interfund Payables	\$ 454	\$ -	\$ 454
Accounts Payable	242,913	-	242,913
Intergovernmental Payables	74,006	-	74,006
Accrued Salaries and Benefits	1,317,272	-	1,317,272
Other Liabilities	15,000	-	15,000
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	1,649,645	-	1,649,645
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	466,432	-	466,432
FUND BALANCES			
Nonspendable for Prepaid Expenditures	150,441	-	150,441
Restricted Fund Balance	-	566,101	566,101
Committed Fund Balance	2,749,263	-	2,749,263
Assigned Fund Balance	1,071,610	-	1,071,610
Unassigned Fund Balance	1,463,672	-	1,463,672
	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u>5,434,986</u>	<u>566,101</u>	<u>6,001,087</u>
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES	<u>\$ 7,551,063</u>	<u>\$ 566,101</u>	<u>\$ 8,117,164</u>

ANTIETAM SCHOOL DISTRICT

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

June 30, 2016

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

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS		\$ 6,001,087
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$35,426,565 and the accumulated depreciation is \$19,938,096.		15,488,469
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as unavailable revenue in the funds adjusted for allowance for doubtful accounts.		456,251
The net pension and other post employment benefit obligations are not reflected on the fund financial statements.		(23,637,538)
Deferred outflows and inflows of resources for pensions are recorded and amortized in the statement of net position.		2,396,965
Long-term liabilities, including bonds payable and capital lease payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds Payable	\$ (17,255,000)	
Unamortized Bond Discount	9,251	
Unamortized Bond Premium	(36,404)	
Deferred Charge on Bond Refunding	447,591	
Accrued Interest on Bonds	(112,110)	
Capital Leases	(216,944)	
Compensated Absences	(241,912)	
	(17,405,528)	
TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES		<u>\$ (16,700,294)</u>

ANTIETAM SCHOOL DISTRICT

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

For the Year Ended June 30, 2016

	General	Capital Projects	Total Governmental Funds
REVENUES			
Local Sources	\$ 10,368,328	\$ 1,114	\$ 10,369,442
State Sources	6,149,281	-	6,149,281
Federal Sources	244,536	-	244,536
TOTAL REVENUES	16,762,145	1,114	16,763,259
EXPENDITURES			
Current:			
Instructional Services	9,792,540	-	9,792,540
Support Services	5,726,066	-	5,726,066
Operation of Noninstructional Services	393,424	-	393,424
Debt Service:			
Principal	1,111,596	-	1,111,596
Interest	531,754	-	531,754
Refund of Prior Year Revenues	4,900	-	4,900
TOTAL EXPENDITURES	17,560,280	-	17,560,280
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(798,135)	1,114	(797,021)
OTHER FINANCING SOURCES (USES)			
Issuance of Refunding Debt	9,945,000	-	9,945,000
Payment to Refunded Debt Escrow Agent	(2,598,941)	-	(2,598,941)
Current Refunding Debt Service - Principal	(7,045,000)	-	(7,045,000)
Proceeds from Capital Lease	215,965	-	215,965
Insurance Recoveries	25,823	-	25,823
TOTAL OTHER FINANCING SOURCES (USES)	542,847	-	542,847
NET CHANGE IN FUND BALANCES	(255,288)	1,114	(254,174)
FUND BALANCES - BEGINNING OF YEAR	5,690,274	564,987	6,255,261
FUND BALANCES - END OF YEAR	\$ 5,434,986	\$ 566,101	\$ 6,001,087

ANTIETAM SCHOOL DISTRICT

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

For the Year Ended June 30, 2016

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

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (254,174)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital Outlays	\$ 498,353	
Less: Depreciation Expense	<u>(1,463,103)</u>	(964,750)

Because some property taxes will not be collected for several months after the District's year end, they are not considered as "available" revenues in the governmental funds. (5,167)

Issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.

Issuance of Refunding Debt	(9,945,000)	
Repayment to Refunded Debt Escrow Agent	2,598,941	
Repayment of Bond Principal	7,935,000	
Amortization of Bond Discount	(1,518)	
Amortization of Bond Premium	7,103	
Amortization of Deferred Charge on Bond Refunding	(31,427)	
Capital Lease Obligations Incurred	(215,965)	
Payments on Capital Lease Obligations	<u>221,596</u>	568,730

Interest expense incurred on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and, thus, requires the use of current financial resources. 5,431

In the statement of activities, certain operating expenses - compensated absences (vacations and sick days) are measured by the amounts earned during the year. (1,655)

The change in net pension liability and other postemployment benefit obligation and related deferred outflows and inflows of resources are reflected as an adjustment to expense on the statement of activities, but not included in the fund statements. (474,415)

CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES \$ (1,126,000)

ANTIETAM SCHOOL DISTRICT

**STATEMENT OF NET POSITION
PROPRIETARY FUND**

June 30, 2016

	Enterprise Fund Food Service
ASSETS	
CURRENT ASSETS	
Cash and Investments	\$ 3,574
Interfund Receivables	454
Intergovernmental Receivables	8,459
Other receivables	15
Inventories	<u>16,197</u>
TOTAL CURRENT ASSETS	28,699
NONCURRENT ASSETS	
Machinery and Equipment, Net	<u>6,018</u>
TOTAL ASSETS	<u>34,717</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows of Resources for Pension Expense	13,284
Pension Contributions made Subsequent to the Measurement Date	<u>33,053</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	46,337
LIABILITIES	
CURRENT LIABILITIES	
Interfund Payables	4,492
Accounts Payable	607
Accrued Salaries and Benefits	753
Unearned Revenues	<u>7,745</u>
TOTAL CURRENT LIABILITIES	<u>13,597</u>
NONCURRENT LIABILITIES	
Net Pension Liability	<u>519,780</u>
TOTAL LIABILITIES	<u>533,377</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows of Resources for Pension Expense	<u>15,326</u>
NET POSITION	
Net Investment in Capital Assets	6,018
Unrestricted (Deficit)	<u>(473,667)</u>
TOTAL NET POSITION (DEFICIT)	<u><u>\$ (467,649)</u></u>

See accompanying notes.

ANTIETAM SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND**

For the Year Ended June 30, 2016

	<u>Enterprise Fund Food Service</u>
OPERATING REVENUES	
Food Service Revenue	\$ 148,701
OPERATING EXPENSES	
Salaries	140,146
Employee Benefits	54,530
Purchased Professional Services	10,715
Purchased Property Services	21,272
Other Purchased Services	39,108
Supplies	265,554
Depreciation	1,624
Other Expenses	<u>40</u>
TOTAL OPERATING EXPENSES	<u>532,989</u>
OPERATING LOSS	(384,288)
NONOPERATING REVENUES	
Local Sources - Earnings on Investments	40
State Sources	50,264
Federal Sources	<u>306,612</u>
TOTAL NONOPERATING REVENUES	<u>356,916</u>
CHANGE IN NET POSITION	(27,372)
NET POSITION (DEFICIT) - BEGINNING OF YEAR	<u>(440,277)</u>
NET POSITION (DEFICIT) - END OF YEAR	<u><u>\$ (467,649)</u></u>

ANTIETAM SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND

For the Year Ended June 30, 2016

	<u>Enterprise Fund Food Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Users	\$ 158,612
Cash Payments to Employees for Services	(181,103)
Cash Payments to Suppliers for Goods and Services	<u>(316,263)</u>
NET CASH USED FOR OPERATING ACTIVITIES	(338,754)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Sources	49,995
Federal Sources	<u>279,045</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	329,040
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on Investments	<u>40</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(9,674)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>13,248</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 3,574</u>

ANTIETAM SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS - CONTINUED
PROPRIETARY FUND**

For the Year Ended June 30, 2016

	<u>Enterprise Fund Food Service</u>
<u>Reconciliation of Operating Loss to Net Cash Used for Operating Activities:</u>	
Operating Loss	\$ (384,288)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	1,624
Donated Commodities Used	22,284
Changes in Assets, Deferred Outflows of Resources, Liabilities, and Deferred Inflows of Resources:	
Interfund Receivables	8,513
Other Receivables	(15)
Inventories	(5,583)
Deferred Outflows of Resources for Pension Expense	(13,284)
Pension Contributions made Subsequent to the Measurement Date	(936)
Interfund Payables	4,492
Accounts Payable	(767)
Accrued Salaries and Benefits	753
Unearned Revenues	1,413
Net Pension Liability	40,124
Deferred Inflows of Resources for Pension Expense	<u>(13,084)</u>
Total Adjustments	<u>45,534</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u><u>\$ (338,754)</u></u>

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the District used \$22,284 of commodities from the U.S. Department of Agriculture.

ANTIETAM SCHOOL DISTRICT

STATEMENT OF NET POSITION
FIDUCIARY FUNDS

June 30, 2016

	Private Purpose Trust Fund	Agency Funds Student Activities
ASSETS		
CURRENT ASSETS		
Cash and Investments	\$ 4,374	\$ 62,714
TOTAL ASSETS	<u>4,374</u>	<u>\$ 62,714</u>
LIABILITIES		
CURRENT LIABILITIES		
Interfund Payable	25	\$ -
Other Current Liabilities	-	62,714
TOTAL LIABILITIES	<u>25</u>	<u>\$ 62,714</u>
NET POSITION, HELD IN TRUST FOR SCHOLARSHIPS	<u>\$ 4,349</u>	

ANTIETAM SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUND

For the Year Ended June 30, 2016

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Earnings on Investments	\$ -
DEDUCTIONS	
Scholarships	<u>321</u>
CHANGE IN NET POSITION	(321)
NET POSITION - BEGINNING OF YEAR	<u>4,670</u>
NET POSITION - END OF YEAR	<u><u>\$ 4,349</u></u>

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

Antietam School District (the "District") is located in Berks County, Pennsylvania. The District tax base consists of Lower Alsace Township and the Borough of Mount Penn.

The Antietam School District is governed by a board of nine school directors who are residents of the District and who are elected every two years, on a staggered basis, for a four-year term.

The board of school directors has the power and duty to establish, equip, furnish, and maintain a sufficient number of elementary, secondary, and other schools necessary to educate every person, residing in such district, between the ages of 6 and 21 years, who may attend.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A. Reporting Entity - continued

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

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

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

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

Joint Venture: The District is a participating member of the Berks Career and Technology Center. See Note 12 for details of involvement and financial information of the joint venture.

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

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

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Presentation - Government-Wide Financial Statements

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

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

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

C. Basis of Presentation - Fund Financial Statements

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

The District Reports the Following Major Governmental Funds:

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

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

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

The District has the following Capital Project Fund:

Capital Reserve Fund - This fund was created in accordance with Section 1432 of the Municipal Code. The Municipal Code restricts how the resources are spent within this fund.

The District has the Following Major Enterprise Fund:

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

Additionally, the District Reports the Following Fund Type:

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

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

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

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

D. Measurement Focus and Basis of Accounting

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

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

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

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

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Measurement Focus and Basis of Accounting - continued

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

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

E. Budgetary Process

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

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

Accelerated Budget Process Option

Under this option, a preliminary budget must be prepared 150 days prior to the primary election. Under this option, the preliminary budget must be available for public inspection at least 110 days prior to the primary election. The board shall give public notice of its intent to adopt the preliminary budget at least 10 days prior to the adoption. The adoption must occur at least 90 days prior to the primary election.

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

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

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Budgetary Process - continued

Board Resolution Option

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

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

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

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

1. Cash and Investments

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

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

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

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

2. Receivables/Payables

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

3. Inventories and Prepaid Items

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

Inventories of the governmental funds, consisting principally of textbooks and instructional supplies, utilize the purchase method; that is, they are charged to expenditures when purchased.

Inventories of the Enterprise Fund consisting of food and paper supplies are carried at cost, using the first-in, first-out method. As of June 30, 2016, the cost of these inventories was \$16,197.

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

4. Capital Assets, Depreciation, and Amortization

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

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

4. Capital Assets, Depreciation, and Amortization - continued

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

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

Assets	Years
Buildings	45
Building improvements	7 - 30
Land improvements	15 - 20
Furniture and equipment	3 - 15
Vehicles	5 - 10

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

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

5. Deferred Outflows/Inflows of Resources

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

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

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

6. Unearned Revenues

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

7. Net Position

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

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

8. Fund Balance Policies and Flow Assumptions

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

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

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

8. Fund Balance Policies and Flow Assumptions - continued

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

The District does not have a minimum fund balance policy. However, the policy states that the District will strive to maintain an unassigned general fund balance not more than eight percent of the subsequent year budgeted expenditures, as required by law.

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. The District's policy does not dictate whether restricted or unrestricted is spent first when resources are available in both categories. As such, in these circumstances, restricted will be assumed to have been spent first, followed by the unrestricted categories. The District's policy also places no restrictions on the order of the unrestricted fund balances used. As such, committed amounts will be reduced first, followed by assigned amounts, and then unassigned amounts.

G. Revenues and Expenditures/Expense

1. Program Revenues

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

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

G. Revenues and Expenditures/Expense - continued

2. Compensated Absences

Sick Pay

Under the District's various bargaining agreements and plans, professional employees and administrators accumulate unused sick days. These unused sick days may be accumulated for future illnesses and are not vested. Upon retirement, employees are paid for unused sick days at varying rates based on position.

Vacation Leave

Unused vacation can be accumulated by administrators and support staff within certain limits. Upon retirement or termination, unused vacation days are paid out at the employee's current rate of pay. The District maintains records of all employees' accumulated vacation and personal days.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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

H. Other Use of Estimates

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

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Compliance with Finance Related Legal and Contractual Provisions

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

B. Deficit Fund Balance or Net Position of Individual Funds

Deficit Fund Balance - Proprietary Fund

For the year ended June 30, 2016, the implementation of GASB No. 68, *Accounting and Financial Reporting for Pensions*, and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, created a deficiency in net position at year end of \$467,649. The District will fund this deficiency in future years through contributions to the Pennsylvania Public School Employees' Retirement Plan (PSERS) at a rate required by PSERS.

C. Excess of Expenditures Over Appropriations in Individual Funds

For the year ended June 30, 2016, the General Fund had excess expenditures over appropriations of \$139,459. This was covered with excess revenues received.

D. Budgetary Compliance

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

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 3 - CASH AND INVESTMENTS

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

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

Petty cash	\$	451
Cash and cash equivalents		6,080
Pooled cash and investments		<u>6,799,071</u>
	\$	<u><u>6,805,602</u></u>

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. The District does not have a policy for custodial credit risk. As of June 30, 2016, the carrying amount of the District's deposits was \$6,080 and the bank balance was \$4,878. Of the bank balance, \$4,878 was covered by federal depository insurance.

Investments

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

Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Deposits in savings accounts, time deposits, or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law, therefore, shall be pledged by the depository.

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

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

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

	<u>Maturities</u>	<u>Fair Value</u>	<u>Carrying Value</u>
PA Local Government Investment Trust:			
Money Market Fund		\$ 1,735,617	\$ 1,735,617
PA School District Liquid Asset Fund:			
Full Flex Pool	< 1 year	4,995,000	4,995,000
MAX Account Balance		<u>406,276</u>	<u>406,276</u>
	Total		7,136,893
	Less: Reconciling Items		<u>(337,822)</u>
	Total Investments		<u><u>\$ 6,799,071</u></u>

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

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

As of June 30, 2016, the entire PLGIT and PSDLAF book balance of \$6,799,071 is considered to be a cash equivalent for presentation on the government-wide and fund financial statements.

Interest Rate Risk

The District has an investment policy that would limit its exposure to fair value losses arising from increasing interest rates.

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Credit Risk

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

<u>Investment</u>	<u>Standard & Poor's</u>
PA Local Government Investment Trust	AAA
PA School District Liquid Asset Fund	AAA

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer. District investments in authorized instruments not backed by the federal or state government shall be limited to the two highest applicable credit ratings. All other investments require board notification.

Custodial Credit Risk

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

NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE

Property taxes are levied on July 1 on the assessed value listed as of that date for all taxable real property located in the District. Assessed values are established by the County Board of Assessments. All taxable real property was assessed at \$257,618,600. In accordance with Act 1 of 2006, the District received \$455,738 in property tax reduction funds for the 2015/2016 fiscal year. The District's tax rate for the year ended June 30, 2016 was \$36.79 per \$1,000 of assessed valuation. The schedule for real estate taxes levied for each fiscal year is as follows:

- | | |
|--------------------------|---|
| July 1 | - Full year tax assessed for current year. |
| July 1 - August 31 | - Discount period during which a 2% discount is allowed. |
| September 1 - October 31 | - Face amount of tax is due. |
| November 1 - January 14 | - A 10% penalty is added to all payments. |
| January 15 | - All taxes unpaid become delinquent and are turned over to the County Tax Claim Bureau for collection. |

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE - CONTINUED

Installment payments of the face amount of the property tax can be made by the following dates - July 31, September 15, October 31, and December 15.

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

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

	Gross Taxes Receivable	Allowance for Uncollectible Taxes	Net Estimated to be Collectible	Tax Revenue Recognized	Unavailable Revenue - Taxes
Real estate	\$ 509,062	\$ 10,181	\$ 498,881	\$ 42,630	\$ 466,432
Transfer tax	10,964	-	10,964	10,964	-
Earned income tax	41,425	-	41,425	41,425	-
	<u>\$ 561,451</u>	<u>\$ 10,181</u>	<u>\$ 551,270</u>	<u>\$ 95,019</u>	<u>\$ 466,432</u>

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES AND PAYABLES

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

	General Fund	Proprietary Fund
	<u> </u>	<u> </u>
<u>Receivables</u>		
<u>Local Sources</u>		
Berks County Intermediate Unit	\$ 84,276	\$ -
Other Local Education Agencies	36,802	-
Total Local Sources	<u>121,078</u>	<u>-</u>
 <u>State Sources</u>		
Commonwealth of PA - Social Security	52,695	-
Commonwealth of PA - Retirement	311,854	-
Commonwealth of PA - Rental	82,588	-
Commonwealth of PA - Health	24,598	-
Commonwealth of PA - Ready to Learn Block Grant	28,133	-
Commonwealth of PA - Transportation	197	-
Commonwealth of PA - Breakfast and Lunch	-	416
Total State Sources	<u>500,065</u>	<u>416</u>
 <u>Federal Sources</u>		
Federal Subsidies - School Breakfast or Lunch Program	-	8,043
Federal Subsidies - Supporting Effective Instruction	3,645	-
Total Federal Sources	<u>3,645</u>	<u>8,043</u>
 Total Intergovernmental Receivables	 <u><u>\$ 624,788</u></u>	 <u><u>\$ 8,459</u></u>
 <u>Payables</u>		
<u>Local Sources</u>		
Berks County Intermediate Unit	\$ 27,098	\$ -
Borough of Mt. Penn	4,928	-
Mount Penn Borough Municipal Authority	8,813	-
Other Local Education Agencies	33,167	-
 Total Intergovernmental Payables	 <u><u>\$ 74,006</u></u>	 <u><u>\$ -</u></u>

ANTIETAM SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

The following schedule represents the interfund receivables and payables at June 30, 2016:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 4,517	\$ 454
Enterprise Fund - Food Service	454	4,492
Scholarship Fund	-	25
	<u>\$ 4,971</u>	<u>\$ 4,971</u>

Interfund receivables and payables resulted from the time lag between dates that interfund goods and services were provided and when payments between funds are made. All will be paid within one year.

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 7 - CHANGES IN CAPITAL ASSETS

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

Governmental Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Reclass/ Decrease</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 310,056	\$ -	\$ -	\$ 310,056
Capital assets being depreciated:				
Buildings and building improvements	30,880,320	166,889	-	31,047,209
Land improvements	183,115	-	-	183,115
Furniture and equipment	3,603,872	331,464	(49,151)	3,886,185
Totals being depreciated	<u>34,667,307</u>	<u>498,353</u>	<u>(49,151)</u>	<u>35,116,509</u>
Less accumulated depreciation for:				
Buildings and building improvements	15,850,673	1,162,266	-	17,012,939
Land improvements	48,964	9,156	-	58,120
Furniture and equipment	2,624,507	291,681	(49,151)	2,867,037
Total accumulated depreciation	<u>18,524,144</u>	<u>1,463,103</u>	<u>(49,151)</u>	<u>19,938,096</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	<u>16,143,163</u>	<u>(964,750)</u>	<u>-</u>	<u>15,178,413</u>
GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET	<u>\$ 16,453,219</u>	<u>\$ (964,750)</u>	<u>\$ -</u>	<u>\$ 15,488,469</u>

Business-Type Activities

Capital assets being depreciated:				
Machinery and equipment	\$ 305,735	\$ -	\$ -	\$ 305,735
Less accumulated depreciation for:				
Machinery and equipment	<u>298,093</u>	<u>1,624</u>	<u>-</u>	<u>299,717</u>
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 7,642</u>	<u>\$ (1,624)</u>	<u>\$ -</u>	<u>\$ 6,018</u>

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 7 - CHANGES IN CAPITAL ASSETS - CONTINUED

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

Instruction:	
Regular	\$ 811,755
Special	4,510
	<hr/>
	816,265
Support Services:	
Pupil Personnel	2,166
Instructional Staff	31,663
Administration	8,186
Pupil Health	2,026
Business Services	4,757
Operation of Plant and Maintenance Services	528,750
Student Transportation Services	18,747
Central Support Services	44,556
Food Services	3,023
	<hr/>
	643,874
Noninstructional Services-Student Activities	<hr/>
	2,964
	<hr/>
	<hr/>
TOTAL DEPRECIATION EXPENSE - GOVERNMENTAL ACTIVITIES	\$ 1,463,103
	<hr/> <hr/>

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 8 - LONG-TERM LIABILITIES

Bonds and notes payable at June 30 are as follows:

General Obligation Bonds, Series of 2012

The General Obligation Bonds, Series of 2012, aggregate principal of \$6,980,000, were issued January 25, 2011, for the purpose of providing funds to: (1) currently refund the outstanding General Obligation Bonds, Series of 2006, and (2) pay bond issuance costs. The bonds mature from April 2012 to April 2035. Interest is payable semi-annually on April 1 and October 1. Interest rates vary from 0.410% to 4.125%. The economic gain or loss on refunding was immaterial.

\$ 6,020,000

General Obligation Bonds, Series of 2012A

The General Obligation Bonds, Series of 2012A, aggregate principal of \$2,565,000, were issued May 18, 2012, for the purpose of providing funds to: (1) currently refund the outstanding General Obligation Bonds, Series of 2007, and (2) pay bond issuance costs. The bonds mature from August 2012 to August 2021. Interest is payable semi-annually on February 15 and August 15. Interest rates vary from 0.350% to 3.000%. The economic gain or loss on refunding was immaterial.

1,675,000

General Obligation Bonds, Series 2015

The General Obligation Bonds, Series of 2015, aggregate principal of \$8,055,000, were issued September 15, 2015, for the purpose of providing funds to: (1) currently refund the outstanding General Obligation Bonds, Series of 2014B and advance refund a portion of the outstanding General Obligation Bonds, Series 2011, and (2) pay bond issuance costs. The bonds mature from April 2016 to April 2029. Interest is payable semi-annually on April 1 and October 1. Interest rates vary from 1% to 3%. The District realized a savings of \$176,115 as a result of the refunding.

7,670,000

General Obligation Note, Series 2016

The General Obligation Note, Series of 2016, aggregate principal of \$1,890,000, were issued June 9, 2016, for the purpose of providing funds to: (1) currently refund a portion of the outstanding General Obligation Bonds, Series of 2011, and (2) pay bond issuance costs. The bonds mature from June 2016 to September 2014. Interest is payable semi-annually in March and September. Interest is 2.19%. The economic gain or loss on refunding was immaterial.

1,890,000

Total Bonds and Notes Payable

\$ 17,255,000

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 8 - LONG-TERM LIABILITIES - CONTINUED

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

	General Obligation Bonds Series of 2012	General Obligation Bonds Series of 2012A	General Obligation Bonds Series 2015	General Obligation Note Series 2016	Total Bonds Payable	Total Interest
2017	\$ 245,000	\$ 265,000	\$ 490,000	\$ 1,000	\$ 1,001,000	\$ 452,838
2018	245,000	265,000	510,000	1,000	1,021,000	443,894
2019	255,000	280,000	510,000	31,000	1,076,000	420,697
2020	260,000	280,000	525,000	33,000	1,098,000	398,047
2021	270,000	585,000	530,000	32,000	1,417,000	374,609
2022 - 2026	1,445,000	-	2,435,000	1,792,000	5,672,000	1,464,361
2027 - 2031	1,690,000	-	2,670,000	-	4,360,000	674,780
2032 - 2035	1,610,000	-	-	-	1,610,000	168,088
	<u>\$ 6,020,000</u>	<u>\$ 1,675,000</u>	<u>\$ 7,670,000</u>	<u>\$ 1,890,000</u>	<u>\$ 17,255,000</u>	<u>\$ 4,397,314</u>

Capital Lease Obligations

The District is obligated under capital leases for certain computer equipment. The gross amount of such equipment and related accumulated amortization under these capital leases was as follows as of June 30, 2016:

Cost	\$ 1,262,248
Accumulated Depreciation	<u>797,944</u>
<u>Net Book Value</u>	<u>\$ 464,304</u>

Depreciation expense on assets held under capital leases was \$173,666 for the year ended June 30, 2016.

ANTIETAM SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 8 - LONG-TERM LIABILITIES - CONTINUED

Future minimum lease payments under capital lease obligations are as follows:

2015	\$	149,586
2016		<u>73,516</u>
Total minimum lease payments		223,102
Less imputed interest		<u>(6,158)</u>
		216,944
Less current installments of obligations under capital leases		<u>(145,061)</u>
Obligations under capital leases, excluding current installments		<u><u>\$ 71,883</u></u>

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities					
General Obligation Debt:					
Bonds and note payable	\$ 17,780,000	\$ 9,945,000	\$ 10,470,000	\$ 17,255,000	\$ 1,001,000
Less deferred amounts:					
For issuance discounts	(28,020)	-	(18,769)	(9,251)	-
For issuance premiums	43,507	-	7,103	36,404	-
Subtotal	<u>17,795,487</u>	<u>9,945,000</u>	<u>10,458,334</u>	<u>17,282,153</u>	<u>1,001,000</u>
Other Liabilities:					
Capital Leases	222,575	215,965	221,596	216,944	145,061
Compensated Absences	<u>240,257</u>	<u>146,484</u>	<u>144,829</u>	<u>241,912</u>	<u>78,963</u>
TOTAL GOVERNMENTAL LONG-TERM LIABILITIES	<u><u>\$ 18,258,319</u></u>	<u><u>\$ 10,307,449</u></u>	<u><u>\$ 10,824,759</u></u>	<u><u>\$ 17,741,009</u></u>	<u><u>\$ 1,225,024</u></u>

Payments on bonds and note payable and capital leases are made by the general fund. The compensated absences will also be paid from the general fund. Total interest paid during the year ended June 30, 2016, was \$531,754.

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 9 - EMPLOYEE RETIREMENT PLANS

Employee Defined Benefit Pension Plan

Summary of Significant Accounting Policies

Pension Plan

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

General Information about the Pension Plan

Plan Description

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

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2 percent or 2.5 percent, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

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

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (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

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

Member Contributions:

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

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

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

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

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employer Contributions:

The District's contractually required contribution rate for fiscal year ended June 30, 2016, was 25.00 percent of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The rate was certified by the PSERS board of trustees. Contributions to the pension plan from the District were \$1,829,368 for the year ended June 30, 2016.

The District is also required to contribute a percentage of covered payroll to PSERS for healthcare insurance premium assistance. For the year ended June 30, 2016, the contribution rate was 0.84 percent of covered payroll and the District contributed \$80,314.

Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for approximately one-half of the employer contributions made, including both contributions related to pension and to healthcare. This arrangement does not meet the criteria of a special funding situation in accordance with GASB standards. Therefore, the net pension liabilities and related pension expense represent 100 percent of the District's share of those amounts. The total reimbursement recognized by the District for the year ended June 30, 2016, was \$1,176,054.

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 \$23,953,000 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 0.0553 percent, which was an increase of 0.0015 percent from its proportion measured as of June 30, 2014.

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

For the year ended June 30, 2016, the District recognized pension expense of \$2,275,112. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Net difference between projected and actual investment earnings	\$ -	\$ 48,000
Difference between expected and actual experience	-	99,000
Changes in proportions - plan level	684,000	-
Changes in proportions - internal	14,044	14,044
Difference between employer contributions and proportionate share of total contributions	61,608	-
Contributions made subsequent to the measurement date	<u>1,829,368</u>	<u>-</u>
	<u>\$ 2,589,020</u>	<u>\$ 161,044</u>

The \$1,829,368 reported as deferred outflows of resources resulting from District pension contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the years ending June 30:

2017	\$ 65,112
2018	65,112
2019	65,119
2020	<u>403,265</u>
	<u>\$ 598,608</u>

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Actuarial Assumptions

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

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the experience study that was performed for the five-year period 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.

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>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)	-14.0%	1.1%
	<u>100%</u>	

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

Discount Rate

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

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

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

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

	<u>1% Decrease 6.50%</u>	<u>Discount Rate 7.50%</u>	<u>1% Increase 8.50%</u>
District's proportionate share of the net pension liability	\$ 29,525,000	\$ 23,953,000	\$ 19,271,000

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

At June 30, 2016, the District had an accrued balance due to PSERS of \$649,397. This amount represents the District's contractually obligated contributions for wages earned in April 2016 through June 2016. The balance will be paid in September 2016.

403(b) Tax Shelter Plan

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

NOTE 10 - OTHER RETIREMENT PLAN

The District maintains a Special Pay Deferral Plan for retiring teachers under section 401(a) of the IRS Code. This Plan is designed to handle payments to employees at retirement in a tax-advantaged manner. Payments are based on accumulated sick leave, unused vacation, and a \$5,000 retirement incentive for professional and administrative staff if employed by the District for at least seventeen years. For the year ended June 30, 2016, the District contributed \$4,055 on behalf of its retirees.

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

Plan Description

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

Funding Policy

Contribution requirements also are negotiated between Antietam School District and union representatives. The required contribution is based on pay-as-you-go financing. For eligible employees retired prior to 2007, the retiree pays full premiums for coverage until the earlier of the retiree Medicare eligibility or retiree death. Spouse coverage ends at spouse Medicare eligibility if earlier than above. For eligible employees retired after 2007, the retired plan member must provide payment equal to the premium determined for the purpose of COBRA for continued coverage under the District's health plan. Under all the plans described, coverage is generally provided until the retiree is eligible for Medicare or until retiree's death, whichever is earlier. For the fiscal year ended June 30, 2016, the District contributed \$53,391 to the plan related to retirees.

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 97,551
Interest on net OPEB obligation	7,327
Adjustment to annual required contribution	<u>(9,996)</u>
Annual OPEB Cost	94,882
Contributions made	<u>(53,391)</u>
Increase in net OPEB obligation	41,491
Net OPEB obligation - beginning of year	<u>162,827</u>
Net OPEB obligation - end of year	<u><u>\$ 204,318</u></u>

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

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 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2016	\$ 94,882	56.3%	\$ 204,318
6/30/2015	134,613	50.7%	162,827
6/30/2014	139,583	56.2%	96,530

Funded Status and Funding Progress

As of January 1, 2015, the most recent actuarial valuation date, the Plan was unfunded. The actuarial accrued liability for benefits was \$745,053, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$745,053. The covered payroll (annual payroll of active employees covered by the Plan) was \$6,524,419, and the ratio of the UAAL to the covered payroll was 11.42 percent.

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

Actuarial Methods and Assumptions

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

In the January 1, 2015 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of six percent initially, decreasing 0.5 percent per year to an ultimate rate of 5.5 percent in 2016 with gradual decreases from 5.4 percent in 2021 to 3.8 percent in 2075 and later. The unfunded actuarial accrued liability is being amortized at the end of the year based on level dollar and a 10-year open amortization period.

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 12 - JOINT VENTURE

The District is a participating member of the Berks Career & Technology Center. The Berks Career & Technology Center is controlled and governed by a joint board, which is composed of representative school board members of the participating schools. Direct oversight of the Berks Career & Technology Center operations is the responsibility of the joint board. The District's share of annual operating and capital costs for Berks Career & Technology Center fluctuates based on the percentage of enrollment. The District's share for the 2015/2016 year was \$380,761.

During the year ended June 30, 1998, Berks Career Vocational Technical School Authority issued \$34,850,000 of General Obligation Bonds and lent the proceeds to Berks Career & Technology Center. The proceeds were used to renovate and build an addition to Berks Career & Technology Center's facilities. Each member district adopted a resolution approving the project and the project's maximum cost. Under the amended Articles of Agreement, each member district is required to pay from current revenues its annual share of the sublease rental based on the District's share of taxable real estate to the total market valuation of taxable real estate of all participating school districts. The District's share for the 2015/2016 year was \$34,876.

Summary financial information as of June 30, 2015 (the most recent information available), is as follows:

<u>Berks Career & Technology Center (Governmental Activities)</u>	
Total Assets and Deferred Outflows of Resources	\$ 30,855,321
Total Liabilities and Deferred Inflows of Resources	<u>31,910,451</u>
Total Net Position (Deficit)	<u>\$ (1,055,130)</u>

Separate financial statements of the Berks Career & Technology Center have been prepared and are available.

NOTE 13 - FUND BALANCE

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

General Fund

The general fund has a nonspendable fund balance of \$150,441 related to prepaid expenditures, committed fund balance of \$2,749,263 for retirement rate increases, assigned fund balance of \$1,071,610 to balance the 2016/2017 school budget, and unassigned fund balance of \$1,463,672. The commitment was authorized by the board of school directors' motion to set aside resources to fund anticipated increases in PSERS contributions.

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 13 - FUND BALANCE - CONTINUED

Capital Projects Fund

The capital projects fund has restricted funds of \$566,101 comprised of surplus moneys transferred from the general fund for the acquisition or construction of capital facilities and qualifying capital assets as authorized by municipal code P.L. 145 Act of April 30, 1943.

NOTE 14 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs except for workers' compensation, for which the District retains risk of loss. For insured programs, there were no significant reductions in insurance coverage for the 2015/2016 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 15 - CONTINGENT LIABILITIES

The District receives federal, state, and local funding through a number of programs. Payments made by these sources under contractual agreements are provisional and subject to redetermination based on filing 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.

ANTIETAM SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 16 - NEW ACCOUNTING PRONOUNCEMENTS

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

- Statement No. 74, *Financial Reporting for Postemployment Benefits Other Than Pension Plans* - The objective of this statement is to improve the usefulness of information about other postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This statement is effective for the year ending June 30, 2017.
- Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* - This statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The scope of this statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This statement is effective for the year ending June 30, 2018.
- Statement No. 77, *Tax Abatement Disclosures* - The requirements enhance the disclosure of information about the nature and magnitude of tax abatements and will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations, and (2) the impact those abatements have on a government's financial position and economic condition. This statement is effective for the year ending June 30, 2017.
- Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73* - This statement addressed certain issues that have been raised with respect to GASB Statements No. 67, No. 68, and No. 73 related to (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions of the treatment of deviations from the guidance in Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This statement is effective for the year ending June 30, 2017.

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

REQUIRED SUPPLEMENTARY INFORMATION

ANTIETAM SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

For the Year Ended June 30, 2016

	BUDGET		ACTUAL (GAAP Basis)	VARIANCE Final to Actual
	Original	Final		
REVENUES				
Local Sources	\$ 10,127,009	\$ 10,127,009	\$ 10,368,328	\$ 241,319
State Sources	5,977,401	5,977,401	6,149,281	171,880
Federal Sources	245,489	245,489	244,536	(953)
TOTAL REVENUES	16,349,899	16,349,899	16,762,145	412,246
EXPENDITURES				
INSTRUCTION				
Regular Programs - Elementary/Secondary	6,807,165	6,726,493	6,714,574	11,919
Special Programs - Elementary/Secondary	2,543,318	2,619,026	2,641,167	(22,141)
Vocational Education Programs	413,000	415,700	415,636	64
Other Instructional Programs - Elementary/Secondary	50,209	50,209	17,019	33,190
Non-Public Instruction Programs	-	4,144	4,144	-
TOTAL INSTRUCTION	9,813,692	9,815,572	9,792,540	23,032
SUPPORT SERVICES				
Pupil Personnel	656,757	656,857	649,255	7,602
Instructional Staff	730,089	730,339	720,674	9,665
Administration	1,531,882	1,453,438	1,672,392	(218,954)
Pupil Health	182,002	182,002	170,683	11,319
Business	320,717	320,717	318,918	1,799
Operation and Maintenance of Plant Services	1,390,512	1,477,726	1,471,816	5,910
Student Transportation Services	268,893	268,893	248,000	20,893
Support Services - Central	356,685	400,396	464,908	(64,512)
Other Support Services	9,050	9,080	9,420	(340)
TOTAL SUPPORT SERVICES	5,446,587	5,499,448	5,726,066	(226,618)
OPERATION OF NONINSTRUCTIONAL SERVICES				
Food Services	-	22,000	21,505	495
Student Activities	408,451	408,451	355,897	52,554
Community Services	18,300	18,800	16,022	2,778
TOTAL OPERATION OF NONINSTRUCTIONAL SERVICES	426,751	449,251	393,424	55,827
DEBT SERVICE	1,733,791	1,656,550	1,643,350	13,200
REFUND OF PRIOR YEAR REVENUES	-	-	4,900	(4,900)
TOTAL EXPENDITURES	17,420,821	17,420,821	17,560,280	(139,459)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,070,922)	(1,070,922)	(798,135)	272,787
OTHER FINANCING SOURCES (USES)				
Issuance of Refunding Debt	-	-	9,945,000	9,945,000
Payment to Refunded Bond Escrow Agent	-	-	(2,598,941)	(2,598,941)
Current Refunding Debt Service - Principal	-	-	(7,045,000)	(7,045,000)
Proceeds from Capital Lease	-	-	215,965	215,965
Insurance Recoveries	-	-	25,823	25,823
Budgetary Reserve	(100,000)	(100,000)	-	100,000
TOTAL OTHER FINANCING SOURCES (USES)	(100,000)	(100,000)	542,847	642,847
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USE:	\$ (1,170,922)	\$ (1,170,922)	(255,288)	\$ 915,634
FUND BALANCE - BEGINNING OF YEAR			5,690,274	
FUND BALANCE - END OF YEAR			\$ 5,434,986	

See note to required supplementary information.

ANTIETAM SCHOOL DISTRICT

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

June 30, 2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the collective net pension liability	0.0553%	0.0538%	0.0531%
District's proportionate share of the collective net pension liability	\$ 23,953,000	\$ 21,295,000	\$ 21,737,000
District's covered employee payroll	\$ 7,118,330	\$ 6,867,209	\$ 6,812,734
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	336.50%	310.10%	319.06%
Plan fiduciary net position as a percentage of the total pension liability	54.36%	57.24%	54.50%

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

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

ANTIETAM SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS - PENSION PLAN

LAST 10 FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually required contribution	\$ 1,829,368	\$ 1,479,329	\$ 1,106,236	\$ 794,896	\$ 553,623	\$ 361,231	\$ 286,013	\$ 275,315	\$ 402,821	\$ 331,032
Contributions in relation to the contractually required contribution	<u>1,829,368</u>	<u>1,479,329</u>	<u>1,106,236</u>	<u>794,896</u>	<u>553,623</u>	<u>361,231</u>	<u>286,013</u>	<u>275,315</u>	<u>402,821</u>	<u>331,032</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 7,382,318	\$ 7,118,330	\$ 6,867,209	\$ 6,812,734						
Contributions as a percentage of covered employee payroll	24.78%	20.78%	16.11%	11.67%						

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

ANTIETAM SCHOOL DISTRICT

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFIT PLAN

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
Eligible Employees	1/1/2015	\$ -	\$ 745,053	\$ 745,053	0.00%	\$ 6,524,419	11.42%
Eligible Employees	1/1/2012	-	760,555	760,555	0.00%	6,311,870	12.05%
Eligible Employees	1/1/2009	-	959,740	959,740	0.00%	5,981,555	16.04%

ANTIETAM SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

BUDGETARY DATA

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

SUPPLEMENTARY INFORMATION

ANTIETAM SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Source Code	Federal CFDA Number	Grant Period Beginning/Ending Dates	Program or Award Amount	Receipts for the Year	Accrued (Unearned) Revenue at June 30, 2015	Revenue	Expenditures	Accrued (Unearned) Revenue at June 30, 2016
U.S. Department of Education									
Passed through State Department of Education:									
Title I: Grants to Local Educational Agencies	I	84.010	7/1/15-9/30/16	\$ 226,017	\$ 226,017	\$ -	\$ 226,017	\$ 226,017	\$ -
Title I: Grants to Local Educational Agencies	I	84.010	7/29/14-9/30/15	337,366	157,045	157,045	-	-	-
Supporting Effective Instruction State Grant	I	84.367	7/1/15-9/30/16	18,423	14,778	-	18,423	18,423	3,645
Supporting Effective Instruction State Grant	I	84.367	7/29/14-9/30/15	18,715	(85)	(85)	-	-	-
Passed through Berks County Intermediate Unit:									
Special Education - Grants to States	I	84.027	7/1/15-9/30/16	215,303	134,571	-	215,303	215,303	80,732
Special Education - Grants to States	I	84.027	7/1/14-9/30/15	193,251	105,999	105,999	-	-	-
IDEA - Section 619 - Special Education	I	84.027	7/1/15-9/30/16	1,074	1,074	-	1,074	1,074	-
IDEA - Section 619 - Special Education	I	84.027	7/1/14-9/30/15	838	838	838	-	-	-
Race to the Top - Phase 3	I	84.413A	7/1/12-9/30/16	11,651	3,190	3,190	3,544	3,544	3,544
Passed through the Exeter School District:									
Title III: English Language Acquisition State Grants	I	84.365	8/6/14-9/30/15	9,410	9,063	8,967	96	96	-
TOTAL U.S. DEPARTMENT OF EDUCATION					652,490	275,954	464,457	464,457	87,921
U.S. Department of Agriculture									
Child Nutrition Cluster									
Passed through State Department of Education:									
School Breakfast Program	I	10.553	7/1/15-6/30/16	N/A	36,551	-	37,758	37,758	1,207
School Breakfast Program	I	10.553	7/1/14-6/30/15	N/A	577	577	-	-	-
National School Lunch Program	I	10.555	7/1/15-6/30/16	N/A	239,735	-	246,571	246,571	6,836
National School Lunch Program	I	10.555	7/1/14-6/30/15	N/A	2,182	2,182	-	-	-
Subtotal					279,045	2,759	284,329	284,329	8,043
Passed through State Department of Agriculture:									
National School Lunch Program - USDA Commodities	I	10.555	7/1/15-6/30/16	N/A	22,234	(50)	22,284	22,284	-
TOTAL CHILD NUTRITION CLUSTER AND U.S. DEPARTMENT OF AGRICULTURE					301,279	2,709	306,613	306,613	8,043
TOTAL FEDERAL AWARDS					\$ 953,769	\$ 278,663	\$ 771,070	\$ 771,070	\$ 95,964

I = Indirect Source of Funding

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

ANTIETAM SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2016

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Antietam School District under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Antietam School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Antietam School District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

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

NOTE 3 - DE MINIMUS RATE FOR INDIRECT COSTS

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

NOTE 4 - FOOD COMMODITIES

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

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

**To the Board of School Directors
Antietam School District
Reading, 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 the Antietam School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Antietam School District's basic financial statements, and have issued our report thereon dated November 11, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Antietam 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 Antietam School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Antietam 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be a significant deficiency. See 2016-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Antietam 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings and questioned costs as item 2016-001.

Antietam School District's Response to Findings

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

Purpose of this Report

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

Herbein + Company, Inc.

**Reading, Pennsylvania
November 11, 2016**



Herbein + Company, Inc.
2763 Century Boulevard
Reading, PA 19610
P: 610.378.1175
F: 610.378.0999
www.herbein.com

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

**To the Board of School Directors
Antietam School District
Reading, Pennsylvania**

Report on Compliance for Each Major Federal Program

We have audited Antietam 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 Antietam School District's major federal programs for the year ended June 30, 2016. Antietam School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

Opinion on Each Major Federal Program

In our opinion, Antietam 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 the Antietam 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 Antietam 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 Antietam 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.

Herbein + Company, Inc.

**Reading, Pennsylvania
November 11, 2016**

ANTIETAM SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of Auditor's Report Issued: Unmodified
Internal Control Over Financial Reporting:
Material weakness(es) identified? yes X no
Significant deficiency(ies) identified not considered to be
material weaknesses? X yes none reported
Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal Control Over Major Programs:
Material weakness(es) identified? yes X no
Significant deficiency(ies) identified not considered to be
material weaknesses? yes X none reported
Type of Auditor's Report Issued on Compliance for Major Programs: Unmodified
Any audit findings disclosed that are required to be
reported in accordance with 2 CFR Section 200.516(a)? yes X no

Identification of Major Program(s):

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I: Grants to Local Education Agencies

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

Auditee qualified as low-risk auditee? X yes no

ANTIETAM SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2016

Section II - Financial Statement Findings

2016-001 EMPLOYEE CLEARANCES

Criteria

The amendments to the Pennsylvania Child Protective Services Law, which were signed into law on July 1, 2015, require all prospective and current adults working in a paid or unpaid capacity “who have direct contact with children or who are responsible for the welfare of a child” (under 18 years of age) to obtain both criminal background checks and child abuse clearances once every 5 years. Under the new regulations, if an existing employee already had obtained the required clearances prior to December 31, 2014, then those clearances are valid for five years from the time they were most recently certified. If an existing employee’s clearances are older than five years, or if they never before obtained clearances, but now will be required to get them, they had until December 31, 2015, to obtain the clearances.

Condition

During our testing of payroll compliance, we select a sample of 40 employees and examine clearances on file. From the sample of 40, we noted 5 individuals for whom updated clearances were not obtained or updated during the 2015-2016 year. For one employee, all clearances were more than five years old. For three employees, the Act 168 forms were not completed. In addition, one employee that was missing the Act 168 clearance was also missing the FBI Fingerprint Clearance.

Cause

During the 2015-2016 year, the School obtained updated clearances for all employees to be in compliance with these new requirements. However, two employees hired for game help did not obtain updated clearances. The District obtained Act 168 clearances for all employees who had previous contact with children. For employees that did not have previous contact with children, no Act 168 clearances were obtained. Per Act 168 requirements, an employee must fill out the form and acknowledge that he/she has no applicable previous employer and answer the abuse and sexual misconduct background questions.

Effect

The School was out of compliance with state regulations. In addition, the absence of updated clearances poses a risk to the District.

Recommendation

We recommend that the human resources coordinator review all employee files to be sure clearances are updated every five years. A control should be put in place to be sure updated clearances are requested and obtained when required.

Management Response

See corrective action plan included in this report package.

Section III - Federal Award Findings and Questioned Costs

There were no federal award findings or questioned costs reported.

ANTIETAM SCHOOL DISTRICT

STATUS OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2016

There were no prior year financial statement or federal findings.



Administrative Offices
100 Antietam Road, Reading, Pennsylvania 19606
Fax (610) 779-4424

MELISSA G. BREWER, Ed.D.
District Superintendent
(610) 779-0554

TRACY L. DETWILER
Business Manager
(610) 779-2606

**CORRECTIVE ACTION PLAN
November 10, 2016**

Department of Education

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

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

Audit period: July 1, 2015 to June 30, 2016

The findings from the November 3, 2016 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS-FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCY

2016-1

Recommendation

We recommend that the human resources coordinator review all employee files to be sure clearances are updated every five years. A control should be put in place to be sure updated clearances are requested and obtained when required.

Action Taken

Since we became aware of this issue during the audit process, we have implemented steps to ensure this does not occur in the future. Two of the employees with missing paperwork, worked at one sporting event each, and the new Athletic Director was not aware of the process already in place for obtaining paperwork prior to an employee beginning work. We have met with him to review the procedures and future game workers will not begin work until they have completed all required paperwork.

The other employees with missing paperwork did not have an Act 168 disclosure on file, due to lack of current employment and previous employment that did not involve children, if they had previous employment at all. The human resources coordinator will now have them fill out a form, even if they are not currently employed and do not have any previous employment that would warrant a form be sent.

Additionally, we concur with the recommendation, and it has been implemented effective November 3, 2016.

If the Department of Education has questions regarding this plan, please call Tracy Detwiler at 610.779.2606.

Sincerely Yours,

Tracy L. Detwiler
Business Manager