

BIG SPRING SCHOOL DISTRICT

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

Board of School Directors
Big Spring School District
Newville, 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 fiduciary fund of Big Spring 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

IAR - 1

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 fiduciary funds of Big Spring 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 management's discussion and analysis on pages MDA-1 through MDA-16 and other required supplementary information on pages ORSI-1 through ORSI-4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2017, on our consideration of Big Spring School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Big Spring School District's internal control over financial reporting and compliance.



GREENAWALT & COMPANY, P.C.

January 10, 2017

Mechanicsburg, Pennsylvania

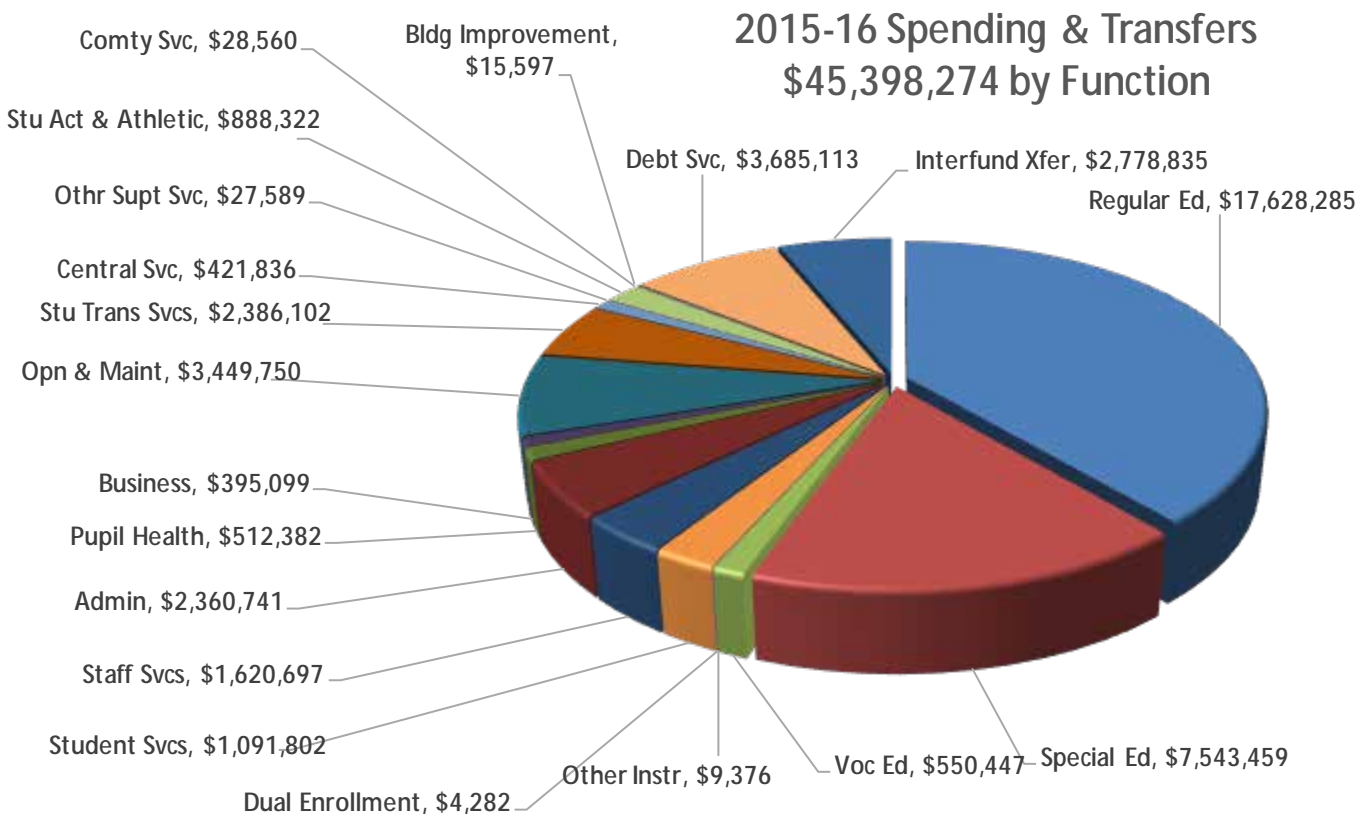
BIG SPRING SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

This discussion and analysis provides an overview of the District's financial performance for the year ending June 2016. The report format is in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Management's Discussion and Analysis (MD&A) includes comparisons of financial position at June 30 2016, 2015 and 2014. The MD&A also includes comparisons of current year financial activities to the previous year. The 2015 and 2014 amounts come from our prior year MD&A, and are otherwise not a part of the June 2016 financial statements. Please read our discussion and analysis in conjunction with the District's financial statements, which begin on page FS-1. To preserve readability, dollar amounts in comparative tables derived from the financial statements are presented in millions. Some amounts may not add due to rounding.

FINANCIAL HIGHLIGHTS



BIG SPRING SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

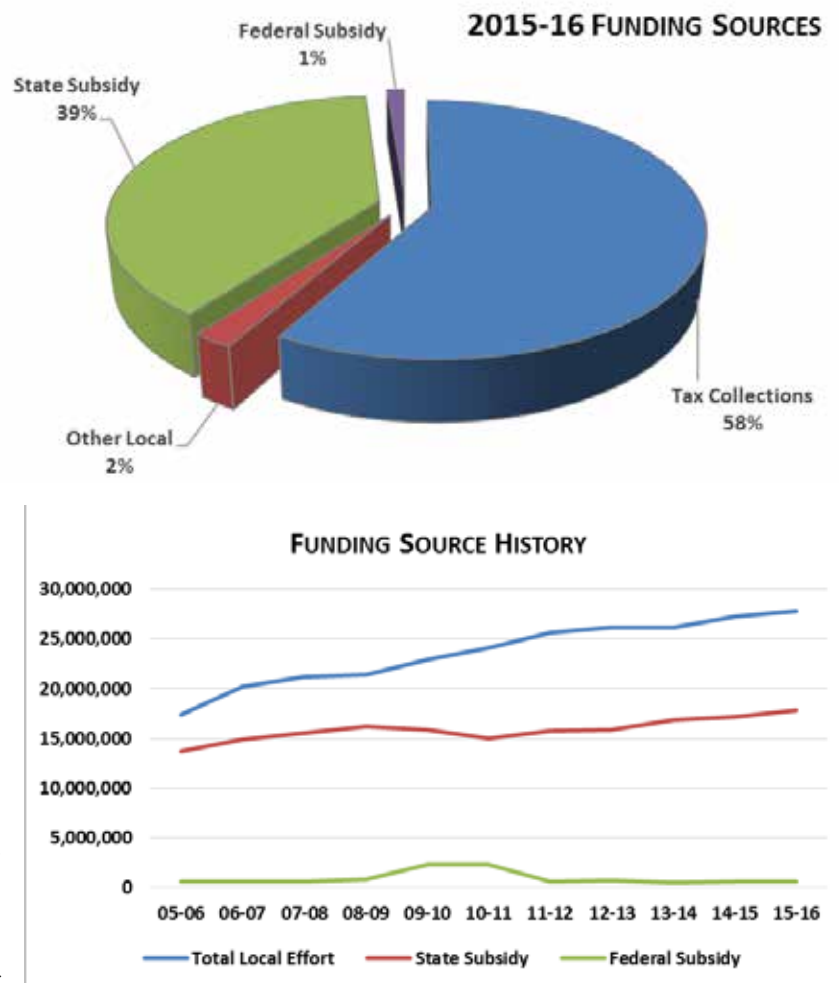
JUNE 30, 2016

General Fund revenues increased 2.7% from \$44,965,960 in 2014-15 to \$46,177,164 in 2015-16; expenditures and other uses (sources) increased from \$43,334,639 in 2014-15 to \$45,398,274 in 2015-16 or 4.7% from the prior year. The District added \$778,890 to the fund balance for a total of \$9,200,034 as of June 30, 2016. Of that total, \$1,100,000 is prepaid employee health insurance, \$554,000 is committed for PSERS expense and \$3,750,000 is assigned for various uses, including PSERS, healthcare, special education and technology, leaving an unassigned balance of \$3,796,034. The Administration transferred \$2,600,000 from the General Fund to the Capital Project Fund as of June 30, 2016. The General Fund *unassigned* balance of \$3,796,034 is 7.8% of the \$48,298,919 contained in the 2016-17 Budget – within the 8% maximum required under state law.

The funding source graph at right shows the trend of increasing dependence on local taxes and decreasing subsidy support from both the State and Federal Dept. of Education. Local effort continues to be the biggest portion of the revenue pie; in 2006-07 it was 53% of revenues and this year it is 58% of revenues. In 2010-11 the Federal portion of total revenue was 6% due to American Recovery and Reinvestment Act (ARRA) funding. Five years later, in 2015-16, Federal revenue continued at 1% of total revenues. The Commonwealth's contribution increased by 1% from 38% in 2014-15 to 39% in 2015-16.

Going forward, the uncertainty of medical expense and increasing PSERS rates creates a challenge for the district. As the Commonwealth struggles to meet their obligation of 50% subsidy of the PSERS contributions, the District is left to absorb the full cost of healthcare plus its share of the PSERS payment.

The economy's impact on the District remains uncertain. Investment earnings continue to be much less than 2008 levels but with small increases each year. For unknown reasons, the District continues to see



BIG SPRING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

fluctuation in EIT revenue due to the local economy and implementation of Act 32. The District collected \$4.44 million in EIT for 2013-14, \$4.91 million in 2014-15 and \$4,855 million in 2015-16.

In 2010 the Board and administration developed an elementary school reconfiguration plan closing unused elementary schools. The Board closed Plainfield in June 2012 and subsequently leased it to Yellow Breeches then in May 2014 the District sold Plainfield and Frankford schools to Yellow Breeches for a combination of pre-paid student tuition and \$195,123 in cash. In May of 2015 the administration received an offer from River Rock Academy to purchase Mifflin Elementary for \$45,000 in cash and \$156,880 in pre-paid tuition. The Board voted to accept the offer in September 2015 and, after working through several board concerns, the Court of Common Pleas approved the sale on April 20, 2016. The final sale took place on May 29, 2016.

In October of 2013 the Board initiated a performance contract to renovate and increase the capacity of the Oak Flat HVAC system at a cost of \$ 3,784,035 with construction starting in January 2014 with initial construction complete in August 2014. With PLANCON effectively closed for new projects, the District self-funded the project using a variable rate bank loan (max 3.8%) of \$3,865,000. The District added three change orders to the project and the third was for replacement of the pool dehumidification unit and IP cameras at the High School for \$568,052 that completed in December 2015 and was paid from the Capital Reserve fund.

The Capital Reserve Fund ending balance was \$6,790,732 at June 30, 2014, \$5,135,903 at June 30, 2015 and \$6,412,752 at June 30, 2016. The District earned \$12,689 of investment earnings in the capital reserve during 2015-16 but also spent \$1,450,184. The District funded several medium sized projects from the Capital Projects fund including a paving project at Mount Rock (\$210,022) to change traffic patterns and renovate all paved surfaces along with change 3 to the Honeywell Performance Contract. The District also contracted to repair roofs at the Middle School, Mount Rock and the District Admin Center for \$784,793 from the Capital Reserve fund.

In August 2015 the Board voted to begin stadium improvements with funding for the project came as part of \$9,850,000 in general obligations bonds issued on December 1, 2015. This transaction refinanced the existing 2010A bonds and provided \$3,004,317 to a construction fund with \$2.2 million allocated to stadium improvements and \$800,000 for future construction of an all-weather track. On February 21, 2016 the Board accepted bids for the improvements to Big Spring Stadium for \$2,017,600. While substantial completion happened in August, 2016, several change orders delayed final closeout into late fall 2016.

On June 23, 2016 the District issued two General Obligation bonds (as bank notes) with principal amounts of \$5,915,000 and \$3,915,000. The first, Series 2016, refinanced the 2011 series bonds at a savings of \$74,500. The second, Series A of 2016, was used to pay off the GO notes for the Oak Flat Performance Contract at a potential future savings of \$392,947.

BIG SPRING SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

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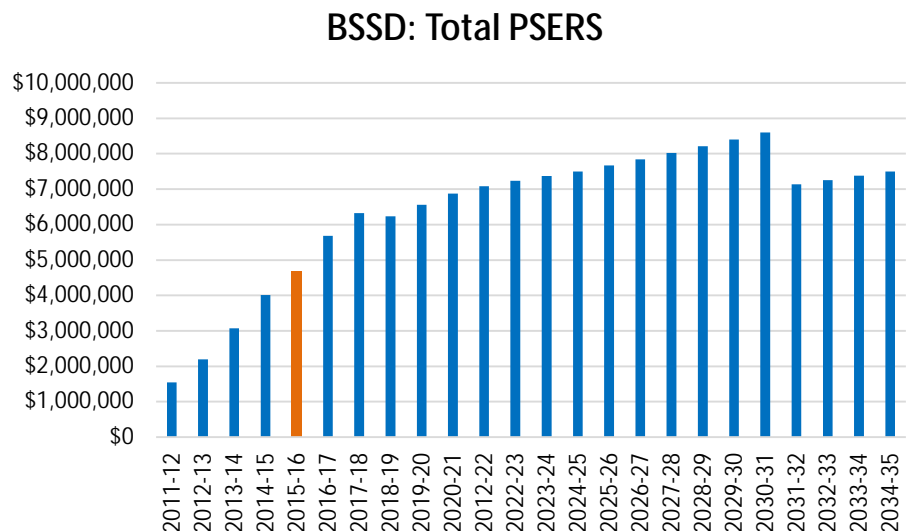
The District self-funds its healthcare using the South Central Trust (SCT). After several years of several high-dollar claims, the District's claims experience moderated over the last two years. With good claims experience, the balance in the trust increased from \$1,300,639 in 2013-14 to \$2,175,168 at June 30, 2015 and \$2,212,434 at June 30, 2016. In January 2015 the Board and the Big Spring Education Association signed a new collective bargaining agreement with salary retroactive to July 1, 2014 and a new high deductive health plan as of July 1, 2015. The District's cost for healthcare costs declined as a result of the new HSA plan and the reduced experience added \$600,000 in prepaid employee health insurance to the District's overall fund balances at June 30, 2016.

Healthcare expense went from \$3,543,437 in 2013-14 to \$3,304,554 in 2014-15. This year it went down to \$2,615,021 in 2015-16 with the introduction of the HSA plan. As a result, premiums are expected to decrease by 6% for the 2016-17 plan year.

The District continues under the restrictions of Act 1 which limits future increases in the District's real estate taxes and displaces a selected amount of local real estate taxes with gaming funds. The District was allotted \$774,580 in gaming funds in 2014-15 with a slight increase to \$772,887.30 in 2015-16; these funds were distributed in equal amounts to each qualified taxpayer of \$131.45 per homestead/farmstead.

In November 2010 Act 120 reformed the PA State Employees Retirement System (PSERS) by implementing steep increases in employer contributions. As shown below, BSSD total PSERS payment went from \$2,181,156 in 2012-13 to \$3,071,004 for 2013-14, \$3,862,630 in 2014-15 and \$4,675,864 for 2015-16 (with the Commonwealth returning approximately half that in PSERS subsidy payment).

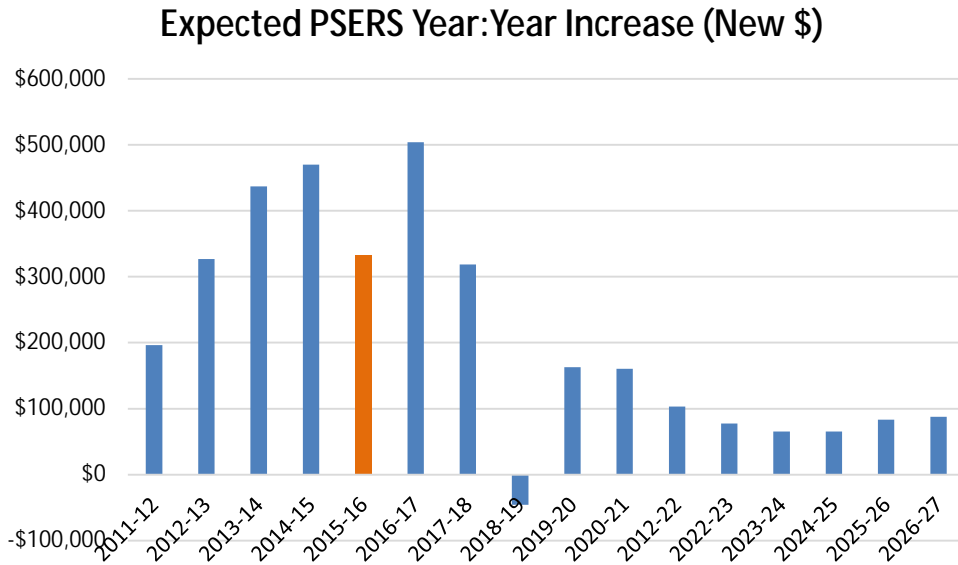
As you can see in the charts at right and below, the steep rise in PSERS retirement contributions is remarkable as increases of this magnitude will continue until 2017-18. With a corresponding trend increase in healthcare and continued pressure on wages, it is not apparent how the District, or other subsidy dependent School Districts in Pennsylvania, will survive when paying more than 30+% of payroll into PSERS at least through 2035.



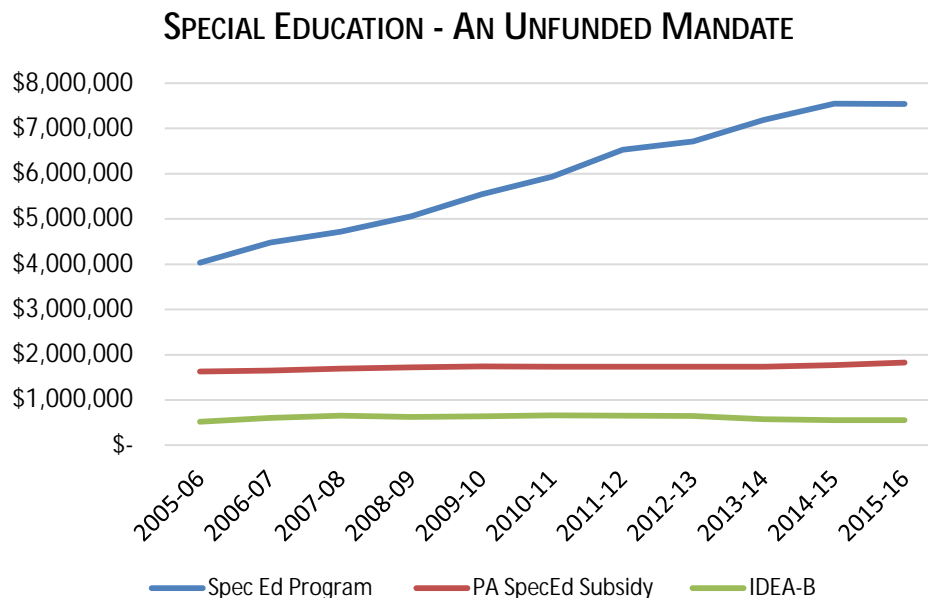
BIG SPRING SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016



This District is also squeezed by the continuously increasing cost of Special Education services. Over the last ten years, special education has increased at an average of 6.9% per year. The decline in student population and moderating healthcare costs, along with other external factors, resulted in a small decrease for 2015-16 increase. Even so, the District continues to struggle with increasing demands from parents, the courts, and widening mandates from both the state and federal level. The expanding mandates contrast dramatically with the small funding increases from the Commonwealth and declining support from the Federal IDEA program (see chart below).

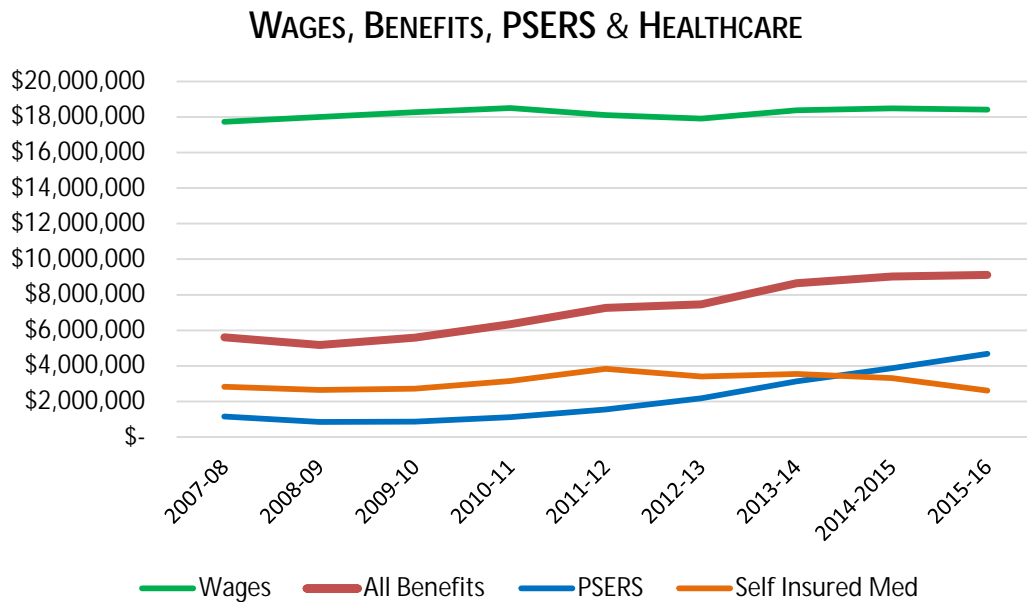


BIG SPRING SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

The chart below shows the competition between wages and benefits for the budget dollar. Due to the quickly rising cost of retirement contributions, the uncertain future of healthcare and a need to add to the Capital Reserve, the District continues to restrain spending in other areas in order to offset budget expenses for personnel. Even with those restraints, in order to meet the rising cost of wages and benefits, the Board raised millage to the allowed index amount of 2.7% in 2014-15, 2.4% in 2015-16 and 3.1% in 2016-17 to balance the budget. The 2015-16 millage of 13.2885 was enacted in June 2015.



BIG SPRING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

USING THESE FINANCIAL STATEMENTS

This report contains a series of financial statements. The Statement of Net Position and the Statement of Activities are on pages FS-1 and FS-2. These statements provide information about the District as a whole, and present a longer-term view of District finances than fund financial statements. Fund financial statements are on pages FS-3, FS-5 and FS-7 through FS-10. For governmental funds, the statements show how District services have been financed in the short-term, as well as the amount remaining for future spending. Proprietary fund statements provide information about non-governmental operations, in this case food service. The fiduciary funds statement reports amounts held in trust by the District for student activities.

Page FS-4 reconciles total governmental fund balances to total net position of governmental activities. Page FS-6 reconciles the total net change in governmental fund balances to the change in net position of governmental activities.

District-wide Financial Statements

District-wide statements present financial activities and the results of those activities in two categories, governmental and business-type. Capital assets (land, buildings, improvements, furniture and equipment) are included with all other assets. Long-term debt is included with all other liabilities. Also included are the net pension liability, and related deferred outflows and inflows of resources. This is distinctly different from the fund statements in which assets and liabilities are separated into various funds such as General and Capital Reserve.

In the district-wide statements, the approach to measurement of revenues and expenses is similar to that used in the private sector and is referred to as the accrual basis of accounting. This is disclosed further in the notes to financial statements.

Fund Financial Statements

Fund statements provide financial information about the District's funds rather than the District as a whole. There are three types of funds, Governmental, Proprietary and Fiduciary. The use of each type of fund is disclosed in the notes to financial statements. Unlike district-wide statements that report revenues on the accrual basis, the fund statements report revenues only to the extent cash has been received, or is expected to be received in the near future.

BIG SPRING SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

THE DISTRICT AS A WHOLE

Statement of Net Position

Net position (deficit) equals total assets plus deferred outflows of resources less liabilities and deferred inflow of resources, and represents resources that may be used to pay for future operations and capital assets.

The District's total net position was \$34.4 million at June 30, 2014; (\$18.6) million at June 2015, and a deficit of \$15.6 million at June 2016. The June 2016 deficit results from the requirement to include pension related debt of \$61.2 million. The following summarizes the Statement of Net Position (page FS-1).

	Governmental Activities			Business-type Activities			Totals		
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 25.3	\$ 19.7	\$ 19.9	\$ 0.6	\$ 0.5	\$ 0.6	\$ 25.9	\$ 20.2	\$ 20.5
Capital assets	54.4	54.3	55.0	0.3	0.3	0.3	54.7	54.6	55.3
Total assets	79.7	74.0	74.9	0.9	0.8	0.9	80.6	75.8	75.8
Deferred outflows-pension	5.1	4.3	n/a	n/a	n/a	n/a	5.1	4.3	n/a
Current and other liabilities	6.1	4.8	5.1	0.2	-	0.2	6.3	4.8	5.3
Long-term liabilities	94.6	88.8	36.1	-	-	-	94.6	88.8	36.1
Total liabilities	100.7	93.6	41.2	0.2	-	0.2	100.9	93.6	41.4
Deferred inflows-pension	0.4	4.0	n/a	n/a	n/a	n/a	4.0	n/a	n/a
Capital assets (net of related debt)	23.0	23.1	20.6	0.2	0.3	0.3	23.2	23.4	20.9
Restricted for capital projects	2.0	-	-	-	-	-	2.0	-	-
Unrestricted	(41.3)	(42.4)	13.1	0.5	0.4	0.4	(40.8)	(42.0)	13.5
Total net position	\$ (16.3)	\$ (19.3)	\$ 33.7	\$ 0.7	\$ 0.7	\$ 0.7	\$ (15.6)	\$ (18.6)	\$ 34.4

Beginning July 1, 2014 the District is required to report the net pension liability, pension expense, and deferred outflows and inflows of resources related to pensions. This new Governmental Accounting Standards Board Statement 68 (GASB 68) requirement significantly and negatively affects the Net Position (Deficit) of the District's financial statements beginning with 2014-15 and continuing this year.

BIG SPRING SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

Statement of Activities

The following summarizes the Statement of Activities (page FS-2). It shows that total net position increased by \$2,918,992 in 2016 and \$1,246,133 during 2015.

	Governmental Activities			Business-type Activities			Totals		
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Program revenues									
Charges for services	\$ 0.4	\$ 0.4	\$ 0.5	\$ 0.6	\$ 0.6	\$ 0.7	\$ 1.0	\$ 1.0	\$ 1.2
Operating grants and contributions	8.3	7.7	7.3	0.6	0.5	0.5	8.9	8.2	7.8
Capital grants and contributions	0.7	0.8	0.9	-	-	-	0.7	0.8	0.9
General revenues							-		
Taxes	26.9	26.5	25.2	-	-	-	26.9	26.5	25.2
Earnings on investments	0.1	-	0.1	-	-	-	0.1	-	-
Gain on sale of capital assets	(0.1)	-	0.1	-	-	-	(0.1)	-	-
State general subsidies	9.9	9.7	9.7	-	-	-	9.9	9.7	9.7
Total revenues	<u>46.2</u>	<u>45.1</u>	<u>43.8</u>	<u>1.2</u>	<u>1.1</u>	<u>1.2</u>	<u>47.4</u>	<u>46.2</u>	<u>44.8</u>
Direct expenses	<u>43.2</u>	<u>43.8</u>	<u>40.8</u>	<u>1.3</u>	<u>1.2</u>	<u>1.3</u>	<u>44.5</u>	<u>45.0</u>	<u>42.1</u>
Excess revenues (expenses) before transfers	3.0	1.3	3.0	(0.1)	(0.1)	(0.1)	2.9	1.2	2.9
Transfers between activities	(0.1)	(0.1)	(0.1)	0.1	0.1	0.1	-	-	-
Change in net assets	<u>\$ 2.9</u>	<u>\$ 1.2</u>	<u>\$ 2.9</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2.9</u>	<u>\$ 1.2</u>	<u>\$ 2.9</u>

The change in net position is the difference between revenues and expenses using the accrual basis of accounting.

BIG SPRING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

The following summarizes expense information from the Statement of Activities (page FS-2). Direct expenses represents the actual cost of providing the services while the net expense represents the amount of cost that is not recovered through program revenues, meaning user charges, grants and contributions. The net expense must be recovered through general revenues, primarily taxes and state general subsidies. Amounts not recovered reduce funds available for future years.

	Governmental Activities								
	Direct Expenses			Program Revenues			Net Expense		
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Instruction	\$ 28.2	\$ 28.4	\$ 26.3	\$ 5.9	\$ 5.5	\$ 5.3	\$ 22.3	\$ 22.9	\$ 21.0
Instructional student support	3.4	3.4	3.3	0.4	0.4	0.3	3.0	3.0	3.0
Administrative and financial support	3.6	3.3	3.2	0.3	0.2	0.2	3.3	3.1	3.0
Operation and maintenance of plant	3.9	4.4	3.9	0.2	0.2	0.2	3.7	4.2	3.7
Pupil transportation	2.4	2.6	2.4	1.7	1.6	1.7	0.7	1.0	0.7
Student activities	1.0	1.0	0.9	0.2	0.1	0.1	0.8	0.9	0.8
Community services	-	-	-	-	-	-	-	-	-
Interest on long-term debt	0.7	0.7	0.8	0.7	-	0.9	-	0.7	(0.1)
	<u>\$ 43.2</u>	<u>\$ 43.8</u>	<u>\$ 40.8</u>	<u>\$ 9.4</u>	<u>\$ 8.0</u>	<u>\$ 8.7</u>	33.8	35.8	32.1
Transfers to business-type activities							0.1	0.1	0.1
Total governmental activities							33.9	35.9	32.2
State general subsidies revenues								9.7	9.7
Total needs from taxes and other local sources							<u>\$ 33.9</u>	<u>\$ 26.2</u>	<u>\$ 22.5</u>

	Business-type Activities								
	Direct Expenses			Program Revenues			Net Expense		
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
	\$ 1.3	\$ 1.2	\$ 1.3	\$ 1.2	\$ 1.1	\$ 1.2	\$ 0.1	\$ 0.1	\$ 0.1
Transfers from governmental activities and investment earnings							(0.1)	(0.1)	(0.1)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>				<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

BIG SPRING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

THE DISTRICT'S FUNDS

Governmental Funds – fund balances

	Governmental Funds - fund balances					
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2015-16</u> <u>Change</u>	<u>2014-15</u> <u>Change</u>	
General fund - nonspendable	\$ 1.1	\$ 0.5	\$ -	\$ 0.6	\$ 0.5	
General fund - committed	0.6	0.6	0.6	-	-	
General fund - assigned	3.7	2.6	2.4	1.1	0.2	
General fund - unassigned	3.8	4.7	3.8	(0.9)	0.9	
Capital reserve fund - committed	6.4	5.1	6.8	1.3	(1.7)	
Capital projects fund - restricted		-	-	-	-	
Governmental fund balances	<u>\$ 15.6</u>	<u>\$ 13.5</u>	<u>\$ 13.6</u>	<u>\$ 2.1</u>	<u>\$ (0.1)</u>	

Changes from 2015 to 2016

The 2015-16 General Fund budget used \$256,463 from fund balance to cover the deficit. At June 30, 2016 the General Fund increased by \$778,890 after a \$2.6 million transfer to capital reserve. The fund balance included an additional \$600,000 of nonspendable fund balance in South Central Trust due to medical claims that were far less than projected. In addition to the nonspendable total of \$1,100,000, the District has \$554,000 in committed for PSERS with assigned amounts of \$650,000 for PSERS, \$350,000 for Healthcare, \$2,300,000 for Technology (student devices & associated support), \$250,000 for Special and \$200,000 for upgrade of the Student and Financial Information Systems. Due in part to the large transfer from the General Fund, the Capital Reserve fund increased from \$5.1 million to \$6.4 million at June 30.

Changes from 2014 to 2015 (previous year)

The General Fund budget for 2014-15 included a \$516,920 deficit requiring the use of fund balance. Instead of a deficit, the General Fund finished the year with a \$1.6 million increase over June 2014. Part of that increase was due to an addition of \$500,000 of nonspendable fund balance in the South Central Trust as prepaid health insurance. The capital project (reserve) fund was \$ 5.1 million on June 30, 2015, a decrease of \$1.7 million from 2014.

BIG SPRING SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

General Fund Budget

The following summarizes the budgetary comparison information presented on page ORSI-1, along with comparisons to the previous year.

	Final Budget			Actual Amount			Variance		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Total revenues	\$ 46.7	\$ 45.0	\$ 42.9	\$ 46.1	\$ 45.0	\$ 43.5	\$ (0.6)	\$ -	\$ 0.6
Total expenditures	46.4	45.2	41.7	42.6	43.3	41.6	3.8	(1.9)	-
Excess revenues (expenditures)	0.3	(0.2)	1.2	3.5	1.7	1.9	3.2	1.9	0.7
Other financing sources (uses)	(0.6)	(0.5)	(1.6)	(2.7)	(0.1)	(1.6)	(2.1)	0.4	-
Net change in fund balance	\$ (0.3)	\$ (0.7)	\$ (0.4)	\$ 0.8	\$ 1.6	\$ 0.3	\$ 1.1	\$ 2.3	\$ 0.7

In 2016, actual revenues exceeded the actual expenditures by \$3,516,110. Actual expenditures were \$3,761,364 under the final budgeted amount while revenues were \$557,728 under budget.

Under the modified accrual basis of accounting, the District considers taxes unavailable to be recognized as revenue unless they are received within 2 months after the fiscal year. The District's unavailable tax revenue was \$1.6 million at June 2016 an increased over the \$1.5 million at June 2015. This increase resulted in \$0.1 million less revenue, primarily earned income taxes, being recognized in the General Fund during 2016.

CAPITAL ASSETS

The District completed the Performance Contract under the Guaranteed Energy Savings Program to renovate and expand the HVAC at Oak Flat Elementary. This project started work in January 2014 but most work took place during the summer with a completion in late August 2014 just in time for school start.

During 2015-16 the District purchased \$2.7million in capital assets. Of that, approximately \$1.7 million was for construction in progress projects including a paving project at Mount Rock, roof repair at the Middle School, Mount Rock and the District Admin Center, and stadium renovations. The remaining \$1 million was concentrated in technology including 210 ThinkPad Yoga PCs for students, 44 classroom smartboards, 116 desktops for staff and students and upgrades to the enterprise building security system (EBI).

BIG SPRING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

	Capital assets (net of depreciation)				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2015-16 Change</u>	<u>2014-15 Change</u>
Governmental activities					
Land	\$ 0.9	\$ 0.9	\$ 0.9	\$ -	\$ -
Construction in progress	1.7	-	-	1.7	-
Buildings and improvements	49.7	51.3	52.3	(1.6)	(1.0)
Furniture and equipment	0.7	0.7	0.8	0.0	(0.1)
Library books	0.3	0.3	0.2	-	0.1
Computer equipment	1.1	1.1	0.8	-	0.3
	<u>\$ 54.4</u>	<u>\$ 54.3</u>	<u>\$ 55.0</u>	<u>\$ 0.1</u>	<u>\$ (0.7)</u>
Business-type activities					
Furniture and equipment	<u>\$ 0.3</u>	<u>\$ 0.3</u>	<u>\$ 0.4</u>	<u>\$ -</u>	<u>\$ (0.1)</u>

Capital assets in the governmental activities were \$54.4 at June 2016 and \$54.3 million at June 2015. The District purchased capital assets totaling purchased \$1.7 in assets against \$2.4 in depreciation in 2015. For the year ended June 2016, the District purchased more than \$2.7 in assets against \$2.5 in depreciation resulting in an approximate increase of \$0.1 million in capital assets.

LONG-TERM LIABILITIES

The following summarizes the long-term liabilities (other than pension) note to financial statements (starting at page FS-26). Most of the debt is general obligation bonds and notes issued to pay for capital improvements. The District's ability to raise future funds through the issuance of debt depends on how existing bonds are rated by the investment community.

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2015-16 Change</u>	<u>2014-15 Change</u>
Governmental activities					
General obligation bonds and notes	\$ 31.2	\$ 30.9	\$ 34.1	\$ 0.3	\$ (3.2)
Compensated absences	0.9	1.0	1.1	(0.1)	(0.1)
Other post employment benefits	1.0	0.8	0.6	0.2	0.2
Unamortized bond premiums	0.2	0.3	0.4	(0.1)	(0.1)
Total liabilities	<u>\$ 33.3</u>	<u>\$ 33.0</u>	<u>\$ 36.2</u>	<u>\$ 0.3</u>	<u>\$ (3.2)</u>

BIG SPRING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

Each year the District pays interest on the debt and a portion of the outstanding bonds and notes, referred to as redemption. During 2015-16 the District made regularly scheduled payments of \$3,685,113 and \$3,207,955 in 2014-15.

In February 2013 the District completed a bond refunding resulting in an average annual reduction of \$442,212 from 2014 through 2021. This transaction completed restructuring of all District debt in order to level or reduce payments. In August 2015 the Board voted to take advantage of a refunding opportunity and issued \$9,850,000 in general obligations bonds on December 1, 2015. This transaction refinanced the existing 2010A bonds and provided \$3,004,317 to a construction fund for the Stadium and Track Project.

On June 23, 2016 the District issued two General Obligation bonds (as bank notes) with principal amounts of \$5,915,000 and \$3,915,000. The first, Series 2016, refinanced the 2011 series bonds at a savings of \$74,500. The second, Series A of 2016, was used to pay off the GO notes for the Oak Flat Performance Contract at a potential future savings of \$392,947.

Other post-employment benefits (OPEBs) has to do with purchasing discounted health insurance after retirement through the District. The District's July 2008 actuarial accrued liability of \$4.0 million is being amortized over a period of 30 years. Additional OPEB detail is available starting at page FS-29 of the notes.

GASB 68 requires the District to report its pension related items. The net pension liability, including deferred outflows and inflows, increased by \$.8 million during 2016. The pension obligation at June 2016 was \$56.4 million compared to \$55.6 million in June 2015.

NEXT YEAR'S BUDGET AND OTHER FACTORS

	<u>Original Budget</u>		
	<u>2016-17</u>	<u>2015-16</u>	<u>Change</u>
Total revenue	\$ 48.2	\$ 46.7	\$ 1.5
Total expenditures and other uses	48.3	47.0	1.3
Excess revenues (expenditures)	<u>\$ (0.1)</u>	<u>\$ (0.3)</u>	<u>\$ 0.2</u>

The Big Spring School District is committed to maintaining a strong educational program for students while minimizing the burden on taxpayers. In June 2016 the District approved a \$48.3 million budget to cover the increasing cost of benefits (retirement and healthcare). The Commonwealth is struggling with the cost of retirement contributions also and any increase in subsidy to the District is mostly a reflection of the 50% subsidy paid on the dramatic increases in PSERS payments. The American Recovery and Reinvestment Act funding is gone and federal support is now flat or declining year-to-year. In addition, the District continues to expand services for special needs students without additional state or federal funding. For 2016-17 the

BIG SPRING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

District approved a 6% decrease in healthcare premiums. Looking forward to the 2016-17 and the continuing implantation of PPACA, the District forecasts at least a 5% increase in healthcare.

The 2016-17 budget shows \$48,187,301 in revenues, which is a 3.2% increase over the 2014-15 revenue budget. The real estate millage increased from 12.9771 to 13.2885, or 3.1% as limited by the Act 1 index. The earned income tax rate remains at 1.65%.

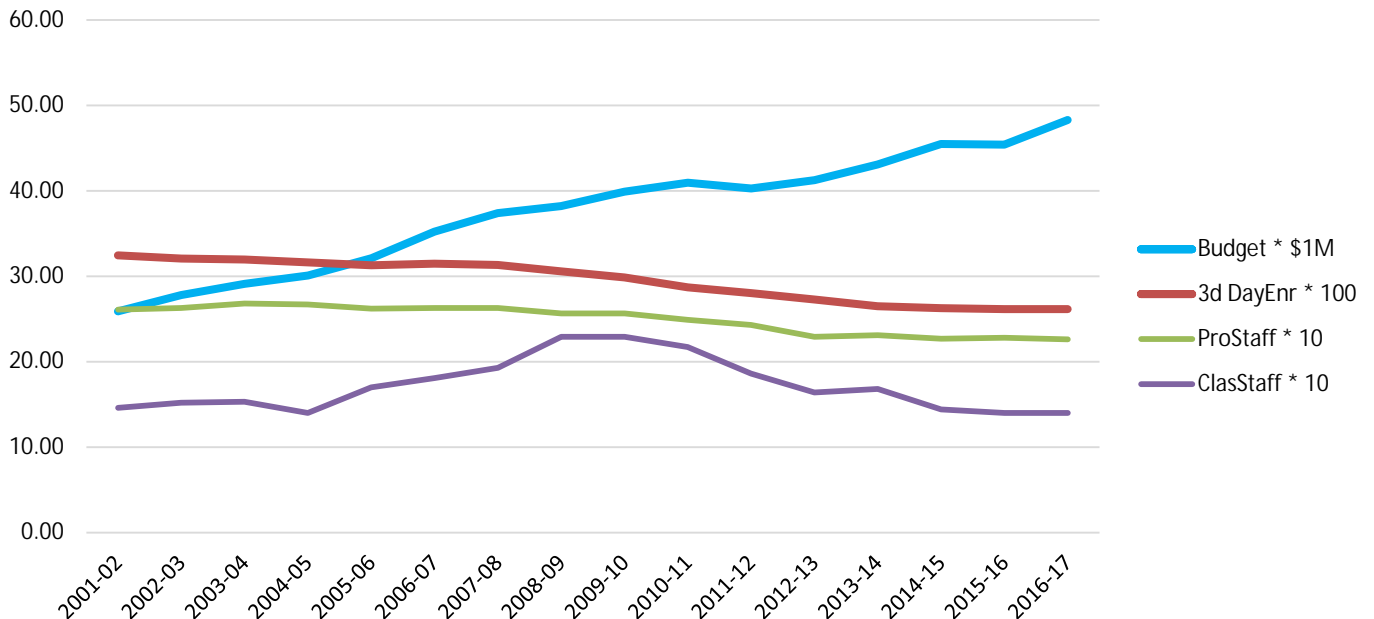
The 2016-17 expenditures and other uses budget is \$46,949,740 or a 3.3% increase over 2015-16 budget of \$46,954,420. The 2016-17 budget exceeds revenues by \$111,618. The major drivers of the 2016-17 budget are the 2.75% wage increase for CBA salaries, 2% for administrative and support staffs and the PSERS contribution rate increased from 25.84% in 2015-16 to 30.03% of payroll in 2016-17 -- a 16% year over year increase in rate. The projected rate for 2017-18 is 30.25; however, that is likely to increase based on PSERS final Board vote.

The District decided in January 2016 to make a major push to expand and upgrade student technology for the 2016-17 school year. The first decision was to outsource the technology department to increase the capability to field and support additional devices. In April the District signed a 5 year contract to with Questeq to assume those responsibilities. In May 2016, the District purchased 211 ThinkPad's for the 9th graders, 92 for office staff and initiated a new 3-year lease for 282 teacher devices at a cost pf \$93,721.73 annually. Plans for 2016-17 include replacing 304 11th grade student Chromebooks with a full Windows 2-in-1 device and issue 248 touch-enabled Chromebooks to 6th grade and selected elementary classrooms. While expenditures exceeded revenues by \$111,618 in the budget, the Board did this expecting to use part of the assigned fund balance for technology, if necessary. Going forward, the District plans to replace 6th and 9th grade PC every year.

Looking ahead, the near term challenge for the District is Commonwealth funding. This year 2015-16 was a disaster due to a state budget that did not appear in total for 11 months. The District had to use Capital Reserve to pay debt service and skip payments into the South Central Trust in order to avoid money for General Fund operation. At this time, the forecast for the 2017-18 state budget is for something similar to 2015-16. The longer term challenge for the District is captured in the graph below. The District continues to see a slow, but constant, decline in student enrollment. This caused some reduction in staffing over the past several years. Even with the cuts, the budget continues to grow, largely as a result of the increasing cost of benefits due to healthcare, pension payments and tuition payments related to special education.

BIG SPRING SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

BSSD Trends



Despite the many challenges of declining enrollment, PSERS, healthcare and a difficult economy, the District stands committed to ensuring the best opportunities for students. The 2015-16 budget protects essential programs and services while the District continues to look for reductions and efficiencies at every level.

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

The District's financial report is intended to provide the readers with a general overview of the District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact the district office of Big Spring School District, 45 Mount Rock Road, Newville, PA 17241, (717) 776-2000.

BIG SPRING SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,527,078	\$ 555,396	\$ 3,082,474
Investments	14,329,799	-	14,329,799
Taxes receivable (net of allowance for uncollectibles)	1,837,445	-	1,837,445
Internal balances	13,294	(13,294)	-
Due from other governments	2,951,915	69,703	3,021,618
Other receivables	75,964	9,034	84,998
Inventories	-	14,146	14,146
Prepaid health insurance	1,100,000	-	1,100,000
Restricted cash	418,322	-	418,322
Restricted investments	2,000,000	-	2,000,000
Capital assets not being depreciated	2,572,734	-	2,572,734
Capital assets being depreciated, net	51,854,678	243,509	52,098,187
Total assets	79,681,229	878,494	80,559,723
Deferred outflows of resources			
Deferred outflows for pension	5,147,951	-	5,147,951
Liabilities			
Accounts payable	2,050,303	143,683	2,193,986
Payroll and benefits payable	3,951,363	-	3,951,363
Unearned revenues	-	19,617	19,617
Accrued interest on bonds payable	131,300	-	131,300
Long-term liabilities			
Due within one year	3,725,000	-	3,725,000
Due in more than one year, net	29,696,224	-	29,696,224
Net pension liability	61,205,486	-	61,205,486
Total liabilities	100,759,676	163,300	100,922,976
Deferred inflows of resources			
Deferred inflows for pension	376,451	-	376,451
Deferred charges on refundings	39,183	-	39,183
Total deferred inflows of resources	415,634	-	415,634
Net position			
Invested in capital assets (net of related debt)	22,978,888	243,509	23,222,397
Restricted	1,997,064	-	1,997,064
Unrestricted (deficit)	(41,322,082)	471,685	(40,850,397)
Total net position (deficit)	\$ (16,346,130)	\$ 715,194	\$ (15,630,936)

The accompanying notes are an integral part of these financial statements.

BIG SPRING SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

Functions/Programs	Direct Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Grants and Contributions		Governmental Activities	Business-type Activities	Total
			Operating	Capital			
Governmental activities							
Instruction	\$ 28,179,202	\$ 245,014	\$ 5,674,235	\$ -	\$ (22,259,953)	\$ -	\$ (22,259,953)
Instructional student support	3,408,369	-	428,866	-	(2,979,503)	-	(2,979,503)
Administrative and financial support	3,624,575	2,265	278,865	-	(3,343,445)	-	(3,343,445)
Operation and maintenance of plant	3,906,091	-	195,732	-	(3,710,359)	-	(3,710,359)
Student transportation	2,388,994	17,330	1,678,813	-	(692,851)	-	(692,851)
Student activities	934,379	74,095	71,422	-	(788,862)	-	(788,862)
Community services	26,307	7,134	1,784	-	(17,389)	-	(17,389)
Interest on long-term debt	722,315	-	-	718,646	(3,669)	-	(3,669)
Total governmental activities	43,190,232	345,838	8,329,717	718,646	(33,796,031)	-	(33,796,031)
Business-type activities							
Food service	1,267,544	616,021	571,614	-	-	(79,909)	(79,909)
Total school district	<u>\$ 44,457,776</u>	<u>\$ 961,859</u>	<u>\$ 8,901,331</u>	<u>\$ 718,646</u>	<u>(33,796,031)</u>	<u>(79,909)</u>	<u>(33,875,940)</u>
General revenues							
Real estate taxes					21,463,180	-	21,463,180
Earned income taxes					4,965,827	-	4,965,827
Personal taxes					171,317	-	171,317
Other taxes					314,089	-	314,089
Investment earnings					50,670	325	50,995
Loss on sale of assets					(30,038)	-	(30,038)
State general subsidies					9,859,562	-	9,859,562
Transfers					(64,491)	64,491	-
Total general revenues and transfers					36,730,116	64,816	36,794,932
Change in net position					2,934,085	(15,093)	2,918,992
Net position (deficit) - beginning					(19,280,215)	730,287	(18,549,928)
Net position (deficit) - ending					<u>\$ (16,346,130)</u>	<u>\$ 715,194</u>	<u>\$ (15,630,936)</u>

The accompanying notes are an integral part of these financial statements.

BIG SPRING SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2016

	General	Capital Reserve	Capital Projects	Total
Assets				
Cash and cash equivalents	\$ 536,741	\$ 1,990,337	\$ -	\$ 2,527,078
Investments	11,946,762	2,383,037	-	14,329,799
Restricted cash and cash equivalents	-	-	418,322	418,322
Restricted investments	-	-	2,000,000	2,000,000
Taxes receivable (net of allowance for uncollectibles)	1,837,445	-	-	1,837,445
Due from governmental funds	-	2,600,000	-	2,600,000
Due from proprietary funds	13,294	-	-	13,294
Due from other governments	2,951,915	-	-	2,951,915
Other receivables	75,964	-	-	75,964
Prepaid health insurance	1,100,000	-	-	1,100,000
Total assets	\$ 18,462,121	\$ 6,973,374	\$ 2,418,322	\$ 27,853,817
Liabilities, deferred inflows of resources and fund balances				
Liabilities				
Accounts payable	\$ 1,068,424	\$ 560,622	\$ 421,257	\$ 2,050,303
Payroll and benefits payable	3,951,363	-	-	3,951,363
Due to governmental funds	2,600,000	-	-	2,600,000
Total liabilities	7,619,787	560,622	421,257	8,601,666
Deferred inflows of resources				
Unavailable tax revenue	1,642,300	-	-	1,642,300
Fund balances				
Nonspendable - employee health insurance	1,100,000	-	-	1,100,000
Restricted				
Capital outlays	-	-	1,997,065	1,997,065
Committed				
Capital outlays	-	6,412,752	-	6,412,752
Pension plan rate increases	554,000	-	-	554,000
Assigned - various items	3,750,000	-	-	3,750,000
Unassigned	3,796,034	-	-	3,796,034
Total fund balances	9,200,034	6,412,752	1,997,065	17,609,851
Total liabilities, deferred inflows of resources and fund balances	\$ 18,462,121	\$ 6,973,374	\$ 2,418,322	\$ 27,853,817

The accompanying notes are an integral part of these financial statements.

BIG SPRING SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

Total fund balances - Governmental funds	\$	17,609,851
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Amounts presented for governmental activities in the statement of net position are different because:

Capital assets are not financial resources and therefore are not presented as assets in the governmental funds, but are reported in the governmental activities in the statement of net position. At year end, capital assets consist of:

Cost of assets	\$ 94,500,723		
Accumulated depreciation	<u>(40,073,311)</u>		54,427,412

Taxes receivable will be collected, but are not available soon enough to pay for current year expenditures, and therefore are unavailable in the governmental funds. At year end, these taxes receivable consist of:

Real estate taxes	514,300		
Earned income taxes	1,120,000		
Personal taxes	<u>8,000</u>		1,642,300

Certain liabilities are not due and payable in the current year, and therefore are not presented as liabilities in the governmental funds. At year end, these liabilities consist of:

Bonds and notes payable	(31,205,000)		
Compensated absences	(939,000)		
Other post employment benefits	<u>(1,033,700)</u>		
Long-term liabilities	(33,177,700)		
Accrued interest on bonds and notes payable	<u>(131,300)</u>		(33,309,000)

Bond discounts (premiums) and charges on refundings are presented as expenditures in the governmental funds.

At year end, remaining unamortized bond related items consist of:

Bond discounts (premiums)	(243,524)		
Deferred charge on refundings	<u>(39,183)</u>		(282,707)

Certain liabilities, such as the net pension liability, are not due and payable in the current year and therefore are not presented as liabilities in the governmental funds. At year end, these liabilities consist of:

Net pension liability	(61,205,486)		
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Deferred outflows and inflows of resources related to the net pension liability are applicable to future years, and therefore are not presented in the governmental funds. At year end, these deferred outflows and inflows of resources consist of:

Deferred outflows of resources related to pensions	5,147,951		
Deferred inflows of resources related to pensions	<u>(376,451)</u>		<u>(56,433,986)</u>

Net position (deficit) - Governmental activities	\$	<u><u>(16,346,130)</u></u>
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The accompanying notes are an integral part of these financial statements.

BIG SPRING SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	General	Capital Reserve	Capital Projects	Total
Revenues				
Local sources - taxes	\$ 26,847,113	\$ -	\$ -	\$ 26,847,113
Local sources - other	937,164	12,689	3,308	953,161
State sources	17,792,628	-	-	17,792,628
Federal sources	558,644	-	-	558,644
Total revenues	<u>46,135,549</u>	<u>12,689</u>	<u>3,308</u>	<u>46,151,546</u>
Expenditures				
Instruction	25,735,849	-	-	25,735,849
Support services	12,265,998	930,981	279,247	13,476,226
Noninstructional services	916,882	-	-	916,882
Capital outlay	15,597	519,203	1,010,560	1,545,360
Debt service (principal and interest)	3,685,113	-	16,546,348	20,231,461
Total expenditures	<u>42,619,439</u>	<u>1,450,184</u>	<u>17,836,155</u>	<u>61,905,778</u>
Excess (deficiency) of revenues over expenditures	3,516,110	(1,437,495)	(17,832,847)	(15,754,232)
Other financing sources (uses)				
Bond premium	-	-	149,912	149,912
Issuance of refunding bonds	-	-	19,680,000	19,680,000
Proceeds from sale of assets	41,615	-	-	41,615
Transfers from other funds	-	2,714,344	-	2,714,344
Transfers to other funds	<u>(2,778,835)</u>	<u>-</u>	<u>-</u>	<u>(2,778,835)</u>
Net changes in fund balances	778,890	1,276,849	1,997,065	4,052,804
Fund balances - beginning	<u>8,421,144</u>	<u>5,135,903</u>	<u>-</u>	<u>13,557,047</u>
Fund balances - ending	<u>\$ 9,200,034</u>	<u>\$ 6,412,752</u>	<u>\$ 1,997,065</u>	<u>\$ 17,609,851</u>

The accompanying notes are an integral part of these financial statements.

BIG SPRING SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

Total net change in fund balances - Governmental funds \$ 4,052,804

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

Capital outlays are presented as expenditures in the governmental funds. In the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. During the year, capital outlays and depreciation expense are as follows:

Capital outlays	\$ 2,742,181	
Disposals (adjusted cost basis of the assets exceeded the amount of proceeds received)	(71,652)	
Depreciation expense	<u>(2,516,440)</u>	154,089

Because some taxes will not be collected until more than two months after the end of the fiscal year, they are not considered as available revenues in the governmental funds. Unavailable taxes increased (decreased) during the year as follows:

Real estate taxes	(41,700)	
Earned income taxes	110,000	
Personal taxes	<u>(1,000)</u>	67,300

Bond and note proceeds and principal repayments are presented as other financing sources and expenditures (other financing uses if refunded bonds) in the governmental funds. In the statement of activities, proceeds and repayments do not effect net position. During the year, proceeds and principal repayments are as follows:

Bond proceeds	(19,680,000)	
Payment to bond escrow agent	16,337,045	
Principal repayments	<u>3,045,000</u>	(297,955)

Bond discounts (premiums) and charges on refundings (any difference between the carrying amount of refunded debt and its payoff amount) are presented as expenditures in the governmental funds. In the statement of activities, these amounts are allocated over the life of the debt as amortization expense. During the year, costs incurred and amortization expense are as follows:

Bond discount (premiums) and charges on refundings on new bonds	(149,912)	
Amortization of bond premiums (discounts)	57,559	
Amortization of charges on refundings	<u>12,742</u>	(79,611)

Payments of interest are presented as expenditures in the governmental funds when the payment is due. In the statement of activities, the expense is measured by the amount accrued during the year. The liability for accrued interest on bonds and notes payable decreased during the year.

56,800

Payments of compensated absences are presented as expenditures in the governmental funds. In the statement of activities, the expense is measured by the amount earned by employees during the year. The liability for compensated absences decreased during the year.

62,000

Payments of other post employment benefits are presented as expenditures in the governmental funds. In the statement of activities, the expense includes actuarial estimates, primarily for amortization of prior costs. The liability for other post employment benefit accruals increased during the year.

(217,882)

Pension costs are presented as expenditures in the governmental funds. In the statement of activities, the changes in the unfunded pension obligation and changes in the deferred outflows and inflows related to pension are reported as additional pension costs:

Change in deferred outflows and inflows	(1,005,756)	
Amortization of difference between plan contributions and actual contributions	(10,331)	
Amortization of change in proportionate share of net pension liability	<u>152,627</u>	<u>(863,460)</u>

Change in net position - Governmental activities

\$ 2,934,085

The accompanying notes are an integral part of these financial statements.

BIG SPRING AREA SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016

	<u>Food Service</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 555,396
Due from other governments	69,703
Other receivables	9,034
Inventories	<u>14,146</u>
Total current assets	648,279
Capital assets being depreciated, net	<u>243,509</u>
Total assets	<u>891,788</u>
Liabilities	
Current liabilities	
Accounts payable	143,683
Due to governmental funds	13,294
Unearned revenues	<u>19,617</u>
Total current liabilities	<u>176,594</u>
Net position	
Invested in capital assets (net of related debt)	243,509
Unrestricted	<u>471,685</u>
Total net position	<u>\$ 715,194</u>

The accompanying notes are an integral part of these financial statements.

BIG SPRING SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016

	<u>Food Service</u>
Operating revenues - Food service revenue	<u>\$ 616,021</u>
Operating expenses	
Salaries	8,710
Employee benefits	3,128
Food service management - non-food costs	671,339
Food and milk	422,403
Supplies and other expenses	29,892
Purchased property services - utilities	65,000
Depreciation	67,072
Total operating expenses	<u>1,267,544</u>
Operating income (loss)	<u>(651,523)</u>
Nonoperating revenues	
Earnings on investments	325
State sources - meal subsidies	30,745
Federal sources - meal subsidies	475,672
Federal sources - donated commodities	65,197
Total nonoperating revenues	<u>571,939</u>
Income (loss) before transfers	(79,584)
Transfers from other funds	<u>64,491</u>
Change in net position	(15,093)
Net position - beginning	<u>730,287</u>
Net position - ending	<u><u>\$ 715,194</u></u>

The accompanying notes are an integral part of these financial statements.

BIG SPRING SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2016

	<u>Food Service</u>
Operating activities	
Cash received from users	\$ 611,699
Cash payments to employees for services	(11,838)
Cash payments to suppliers for goods and services	(1,072,198)
Net cash provided by (used for) operating activities	<u>(472,337)</u>
Non-capital financing activities	
State sources	30,745
Federal sources	536,182
General Fund advances (due from/to governmental funds)	3,492
General Fund contributed services	64,491
Net cash provided by (used for) non-capital financing activities	<u>634,910</u>
Capital and related financing activities	
Cash payments for equipment	(17,477)
Net cash provided by (used for) capital and related financing activities	<u>(17,477)</u>
Investing activities	
Earnings on investments	325
Net cash provided by (used for) investing activities	<u>325</u>
Net change in cash and cash equivalents	145,421
Cash and cash equivalents - beginning	<u>409,975</u>
Cash and cash equivalents - ending	<u><u>\$ 555,396</u></u>
Supplemental Disclosure of Noncash Transactions	
Donated commodities	<u><u>\$ 65,197</u></u>
Reconciliation of operating income (loss) to	
net cash provided by (used for) operating activities	
Operating income (loss)	<u>\$ (651,523)</u>
Adjustments to reconcile operating income (loss) to	
net cash provided by (used for) operating activities	
Depreciation	67,072
Net change in other assets and other liabilities	
Other receivables	(4,115)
Inventories	(1,890)
Accounts payable	118,326
Unearned revenues	(207)
Total adjustments	<u>179,186</u>
Net cash provided by (used for) operating activities	<u><u>\$ (472,337)</u></u>

The accompanying notes are an integral part of these financial statements.

BIG SPRING SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016

	<u>Student Activities</u>
Assets	
Cash and cash equivalents	\$ 22,647
Investments	<u>171,521</u>
Total assets	<u>194,168</u>
Liabilities	
Due to student groups	<u>194,168</u>
Total liabilities	<u>194,168</u>
Net position	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Big Spring School District is the level of government which has oversight responsibility and control over activities related to public school education. The report includes services provided by the District to residents within its boundaries: the Cumberland County Townships of Cooke, Lower Frankford, Upper Frankford, Lower Mifflin, Upper Mifflin, North Newton, South Newton, Penn and West Pennsboro and the Borough of Newville. Services provided include a comprehensive curriculum for primary and secondary education as well as special education and vocational education programs. The District receives revenue from local, state and federal sources and must comply with the requirements of these funding sources.

Reporting entity

GASB establishes criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. In evaluating the District as a reporting entity, management has addressed all potential component units which may or may not fall within the established criteria. The criteria used to evaluate component units for possible inclusion as part of the District's reporting entity are:

The economic resources received or held by the separate organization are entirely for the direct benefit of the District or its constituents.

The District is entitled to (or has the ability to) access a majority of the economic resources received or held by the separate organization.

The economic resources received or held by the separate organization that the District is entitled to (or has the ability to) access is significant to the District.

There are no component units that meet all of the above criteria for inclusion in this reporting entity.

Jointly-governed organizations

The District is a participant in three jointly-governed organizations, each of which is a separate legal entity that offers services to the District and its residents. Each entity serves several school districts and/or municipalities, and therefore are not included in this reporting entity. These entities do not have taxing power, but are required to adopt an annual budget, which is funded primarily by its member Districts or others that use its services. Complete financial statements for these entities can be obtained from their administrative offices.

Capital Area Intermediate Unit provides special education services and programs.

Cumberland Perry Area Vocational Technical School provides vocational and technical education services and programs.

Cumberland County Tax Bureau provides earned income tax collection services.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Basis of presentation

The financial statements of the District have been prepared in accordance with U.S. generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) establishes U.S. generally accepted accounting principles for governments. Accounting guidance is also provided through the Comptroller's office for Pennsylvania's Department of Education. The more significant of these accounting policies are as follows:

Basis of presentation - District-wide financial statements

District-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) present information on all of the nonfiduciary activities of the District. As a general rule the effect of interfund activity has been eliminated from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are presented separately from business-type activities which rely to a significant extent, on fees and charges for support.

District-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and the fiduciary fund financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Real estate and personal taxes are recognized as revenues 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. Net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) is used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased net position. Depreciation and amortization are charged as an expense against current operations. Capital assets (net of accumulated depreciation), bonds and notes payable (net of unamortized premiums or discounts) and net pension liability are presented in the statement of net position.

The statement of activities demonstrates the degree to which the direct expenses of given functions or programs are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or program. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program. In addition, program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes and other items not properly included among program revenues are presented as general revenues.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Basis of presentation - Fund financial statements

Fund financial statements are also provided for all governmental funds, proprietary funds, and fiduciary funds of the District. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. Nonmajor funds, if any, are aggregated and presented in a single column. Fiduciary funds are reported by fund.

Governmental funds are presented 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 received within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers tax revenue to be available if received within 2 months of the end of the fiscal period. Revenue from federal, state and other grants designated for payment of specific expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recognized as unearned revenues until earned. Expenditures generally are recognized 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 recognized only when payment is due.

Proprietary funds generally follow standards for accounting and financial presentation for private business enterprises to the extent that those standards do not conflict with or contradict guidance of the GASB. The District does not attempt to allocate all "building-wide costs" to the proprietary fund. Thus, general fund expenditures which partially benefit the proprietary fund (utilities, janitorial services, insurance, etc.) are not proportionately recognized with the proprietary fund. Similarly, the proprietary fund does not recognize a cost for the building space it occupies.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. Operating expenses for the District's proprietary fund include food production costs, supplies, administrative costs, and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fund accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures, or expenses, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Basis of presentation - Fund financial statements (Cont'd.)

Fund accounting (Cont'd.)

When both restricted and unrestricted resources are available, the District's general policy is to use the restricted (primarily operating grants) resources first, then unrestricted resources as needed.

The District has the following types of funds:

Governmental Funds – These funds account for activities through which most of the District's operations are provided.

Proprietary Funds – These funds account for operations of the District that are financed and operated in a manner similar to private business enterprises.

Fiduciary Funds – These funds account for assets held by the District as a trustee or agent for individuals, private organizations and/or governmental units and are therefore not available to support the District's own programs.

The District presents the following major governmental funds:

The General Fund is the primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

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

The Pennsylvania School Code dictates specific procedures relative to budget adoption and financial statement presentation. The District, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year. This process includes the publishing of notices by advertisement, that the proposed budget has been prepared and is available for public inspection at the administrative office of the District, and that public hearings are held on the proposed operating budget which are required to be scheduled at least ten days prior to when final action on adoption is taken by the Board.

Legal budgetary control is maintained at the sub-function/major object level. The Board may approve transfers of funds appropriated to any particular item of expenditure in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without Board approval, provided it is not at a higher level than the Board adopted budget.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Basis of presentation - Fund financial statements (Cont'd.)

Fund accounting (Cont'd.)

In order to preserve a portion of an appropriation for which an expenditure has been committed by a purchase order, contract or other form of commitment, an encumbrance is recognized. Unused encumbrances expire at the end of each year.

Included in the budget are program budgets as prescribed by the federal and state agencies funding the program. These budgets are approved on a program by program basis by the federal and state funding agencies.

The Capital Projects Fund can consist of more than one project, to separately account for each project, if required. Each issuance of new debt (primarily bonds) is a project to account for the debt proceeds and the expenditure of those proceeds. The District also maintains a Capital Reserve Fund for amounts transferred from the General Fund and the expenditure of those funds for capital outlays.

The District presents the following proprietary fund:

The Food Service Fund accounts for the operations of the cafeterias.

The District presents the following fiduciary fund:

The Student Activities Fund accounts for programs operated and sponsored by various clubs and organizations within the schools.

Cash and cash equivalents and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits (including pooled investments), and short-term investments with original maturities of three months or less from the date of acquisition.

Types of authorized investments are limited by State regulations. Pooled investment funds are required to be operated in accordance with State regulations.

Investments, including pooled investments, are reported at fair value.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Taxes and taxes receivable

Real estate and personal taxes are levied as of July 1 with a legal, enforceable claim against the property and/or taxpayer. Amounts not collected within six months (December 31) are considered delinquent and submitted to outside agencies/entities for collection actions.

Receivables and payables between funds

Activity between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due from/to other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the district-wide financial statements as "internal balances". Any balances between funds are short term items pending periodic repayments.

Inventories and prepaid items

Inventories are presented at the lower of cost or market on a first-in, first-out basis, and are expensed when consumed. Donated commodities are recognized as revenue and are inventoried at an estimated cost value.

Certain payments, if any, to vendors reflect expenses applicable to future accounting periods and are presented as prepaid items in both district-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are presented in the applicable governmental or business-type activities columns in the district-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$ 1,500 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous groups with individual costs of less than \$ 1,500 as capital assets for financial presentation purposes. In addition, capital assets purchased with long-term debt may be capitalized regardless of the thresholds established. Such assets are presented at historical cost or estimated historical cost if purchased or constructed.

Major outlays for capital assets and improvements are capitalized when incurred. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Upon sale or retirement, the cost and related accumulated depreciation, if applicable, are eliminated from the respective district-wide and proprietary accounts and any resulting gain or loss is reflected in those accounts.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Capital assets (Cont'd.)

Capital assets are depreciated using the straight-line method, allowing for reasonable salvage values on equipment, over the following estimated useful lives:

<u>Assets</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Buildings	40	-
Site improvements	20	-
Furniture	15	15
Machinery and equipment	10 to 15	15
Library books	7	-
Audio visual equipment	6	-
Technology equipment	5	5

Long-term liabilities

In district-wide financial statements, and proprietary fund types in fund financial statements, bonds and notes payable and other long-term obligations are presented as liabilities. Bond discounts (premiums) and any charges on refundings are amortized over the life of the bonds using the effective interest method.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs and charges on refundings, as current period expenditures. The face amount of debt issued is presented as other financing sources while discounts and charges on refundings are presented as debt service expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are presented as support service expenditures.

Deferred outflows/inflows of resources other than pensions

In addition to assets and liabilities, the statement of net position reports a separate section for deferred outflows/inflows of resources, as appropriate. These separate financial statement elements, *deferred outflows/inflows of resources*, represent a consumption or acquisition of net position that apply to future periods and so will *not* be recognized as an outflow/inflow of resources (i.e. expense/revenue) until then. The District has only one type of item that qualifies for reporting in this category. Deferred charges on refundings are reported in the district-wide statement of net position as a deferred inflow. Charges on refundings result 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.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Deferred outflows/inflows of resources other than pensions (Cont'd.)

In addition to liabilities, the governmental funds balance sheet reports a separate section for deferred inflows of resources, as appropriate. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of resources that applies to future periods and so will *not* be recognized as an inflow of resources (i.e. revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable tax revenue*, is reported only in the governmental funds balance sheet. These unavailable revenues from taxes are deferred and recognized as an inflow of resources in the period that the amounts become available.

Pensions

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.

Plan description

PSERS is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System include all full-time public 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.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Pensions (Cont'd.)

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 after June 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

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

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

Contributions

Member contributions

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

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

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Pensions (Cont'd.)

Contributions (Cont'd.)

Member contributions (Cont'd.)

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

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

Employer contributions

The school districts' contractually required contribution rate for fiscal year ended June 2016 was 25.00% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan for the District were \$ 4,758,925 for the year ended June 2016.

Net position

Net position (deficit) represents total assets plus deferred outflows of resources less total liabilities and deferred inflows of resources. In district-wide financial statements and proprietary fund financial statements, categories of net position are:

Invested in capital assets (net of related debt) - This category presents all capital assets into one component of net position. Accumulated depreciation and outstanding debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted - This category presents funds restricted for a specific purpose as per: External parties, contributors or enabling legislation.

Unrestricted - This category presents the net position (deficit) of the District, which are not restricted for any project or other purpose. However, these funds may be committed or assigned for specific projects or purposes in the fund financial statements.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Governmental fund balances

GASB has established criteria for classifying fund balances into specifically defined classifications based on a hierarchy that reflects the extent to which the District is bound to honor constraints on how those funds can be spent. The District's general policy is to first use restricted funds, if any, prior to using unassigned funds. Classifications of fund balances are:

Nonspendable - Amounts that cannot be spent because they are either in a (a) non-spendable form (i.e. inventories) or (b) legally or contractually required to be maintained intact (i.e. the principal of a permanent fund).

Restricted - Amounts constrained to be used for a specific purpose as per: External parties, contributors or enabling legislation.

Committed - Amounts constrained to be used for a specific purpose as per: The District's highest level of decision making authority which is the Board of School Directors.

Assigned - Amounts intended to be used for a specific purpose as per: Committee (such as budget or finance) or individual authorized by the Board of School Directors (such as Superintendent or Business Manager).

Unassigned - Amounts available for any purpose (amounts that are not Nonspendable, Restricted, Committed or Assigned) in the General Fund.

Estimates

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

Recent accounting standards

The following reflects only those pronouncements initially effective for upcoming reporting periods which based on our review, may be applicable to the District's reporting requirements.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Recent accounting standards (Cont'd.)

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits of OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This statement replaces Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43 and Statement No. 50, *Pension Disclosures*. This statement is effective for financial statements for fiscal years beginning after June 15, 2016. The District is currently evaluating what effect, if any, the adoption of GASB 74 will have on the District's financial statements.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and establishes new accounting and financial reporting requirements for OPEB plans. This statement is effective for fiscal years beginning after June 15, 2017. The District is currently evaluating what effect, if any, the adoption of GASB 75 will have on the District's financial statements.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosure*. This statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2015. The District is currently evaluating what effect, if any, the adoption of GASB 77 will have on the District's financial statements.

There are other GASB pronouncements that will become effective for future reporting periods. The District does not currently anticipate any significant impact on the District's financial statements from these pronouncements.

Subsequent events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through January 10, 2017, the date the financial statements were available to be issued.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2016

CASH AND CASH EQUIVALENTS AND INVESTMENTS

Pennsylvania statutes provide for investment of District funds into authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, and insured or collateralized time deposits and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of funds for investment purposes.

Custodial credit risk is the risk that in the event of a depository institution failure, the District's deposits may not be returned to it. The District does not have a formal investment policy for custodial credit risk. However, the District requires all deposits in excess of federal deposit insurance coverage to be collateralized by the depository institution with approved collateral as provided by law.

As of June 30, 2016, the District's deposits totaled \$ 254,513 and the depository institution balances totaled \$ 665,140. Of the depository institution balances, \$ 529,663 was covered by federal deposit insurance and \$ 135,477 was collateralized by pooled assets. The pledged collateral is held by the Federal Reserve Bank, but is not titled in the District's name.

The District also has cash equivalents and investments with organizations that operate as common law trusts established pursuant to the Intergovernmental Cooperation Act and related statutes for the purpose of pooling investments. Each organization's fundamental policy is to maintain a net asset value of \$ 1 per share, but there can be no assurance that the net asset value will not vary from \$ 1 per share. They may only purchase securities which are permitted under PA law. As of June 30, 2016, District deposits in these organizations are as follows:

	<u>Cash and Cash</u> <u>Equivalents</u>	<u>Investments</u>
Pennsylvania School District Liquid Asset Fund (PSDLAF)	\$ 3,258,819	\$ 16,329,799
Pennsylvania Local Government Investment Trust (PLGIT)	10,111	-

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy for interest rate risk. The weighted average maturity of securities held by each of the organizations is generally less than 90 days.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District does not have a formal investment policy for credit risk. The District's deposits in each of the organizations were rated "AAAm" by Standard & Poor's.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2016

CASH AND CASH EQUIVALENTS AND INVESTMENTS (Cont'd.)

Cash and cash equivalents and investments are as follows:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
Governmental activities	\$ 2,945,400	\$ 16,329,799
Business-type activities	555,396	-
Fiduciary funds	<u>22,647</u>	<u>171,521</u>
	<u>\$ 3,523,443</u>	<u>\$ 16,501,320</u>

Investments consist of certificates of deposit with original maturities of more than three months from the date of acquisition.

TAXES RECEIVABLE

Taxes receivable are as follows:

	<u>Taxes Receivable (Gross)</u>	<u>Allowance for Uncollectibles</u>	<u>Taxes Receivable (Net)</u>	<u>Unavailable Tax Revenue</u>
Real estate taxes	\$ 710,636	\$ 1,191	\$ 709,445	\$ 514,300
Earned income taxes	1,120,000	-	1,120,000	1,120,000
Personal taxes	<u>13,387</u>	<u>5,387</u>	<u>8,000</u>	<u>8,000</u>
General Fund	1,844,023	6,578	1,837,445	1,642,300
Full accrual adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,642,300)</u>
Governmental activities	<u>\$ 1,844,023</u>	<u>\$ 6,578</u>	<u>\$ 1,837,445</u>	<u>\$ -</u>

DUE FROM/TO OTHER FUNDS AND INTERFUND TRANSFERS

Interfund balances are as follows:

<u>Assets</u>		<u>Liabilities</u>	
Capital Reserve Fund	\$ 2,600,000	\$ 2,600,000	General Fund
General Fund	13,294	13,294	Food Service Fund

Interfund transfers were as follows:

<u>Other financing sources</u>		<u>Other financing uses</u>	
Food Service Fund	\$ 64,491	\$ 64,491	General Fund
Capital Reserve Fund	2,714,344	2,714,344	General Fund

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2016

DUE FROM OTHER GOVERNMENTS

Due from other governments are as follows:

	Governmental Activities	Business-type Activities
Local sources - earned income taxes	\$ 620,640	\$ -
Local sources - realty transfer taxes	19,050	-
Local sources - other schools	279,627	-
Local sources - other items	42,404	-
State sources	1,881,457	4,216
Federal sources	<u>108,767</u>	<u>65,487</u>
	<u>\$ 2,951,915</u>	<u>\$ 69,703</u>

CAPITAL ASSETS

Changes in capital assets were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 911,730	\$ -	\$ (12,322)	\$ 899,408
Construction in progress	<u>-</u>	<u>1,673,326</u>	<u>-</u>	<u>1,673,326</u>
	<u>911,730</u>	<u>1,673,326</u>	<u>(12,322)</u>	<u>2,572,734</u>
Capital assets being depreciated				
Buildings and improvements	79,805,612	555,872	(256,526)	80,104,958
Furniture and equipment	3,169,092	96,991	(1,896)	3,264,187
Library books	2,308,721	-	-	2,308,721
Technology equipment	<u>5,957,121</u>	<u>415,992</u>	<u>(122,990)</u>	<u>6,250,123</u>
	<u>91,240,546</u>	<u>1,068,855</u>	<u>(381,412)</u>	<u>91,927,989</u>
Accumulated depreciation				
Buildings and improvements	(28,529,602)	(2,081,735)	256,526	(30,354,811)
Furniture and equipment	(2,423,491)	(113,711)	1,801	(2,535,401)
Library books	(2,077,848)	-	-	(2,077,848)
Technology equipment	<u>(4,848,012)</u>	<u>(320,994)</u>	<u>63,755</u>	<u>(5,105,251)</u>
	<u>(37,878,953)</u>	<u>(2,516,440)</u>	<u>322,082</u>	<u>(40,073,311)</u>
Capital assets being depreciated, net	<u>53,361,593</u>	<u>(1,447,585)</u>	<u>(59,330)</u>	<u>51,854,678</u>
Governmental activities capital assets, net	<u>\$ 54,273,323</u>	<u>\$ 225,741</u>	<u>\$ (71,652)</u>	<u>\$ 54,427,412</u>

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2016

CAPITAL ASSETS (Cont'd.)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets being depreciated				
Furniture and equipment	\$ 1,608,038	\$ 20,287	\$ (15,790)	\$ 1,612,535
Accumulated depreciation				
Furniture and equipment	<u>(1,314,934)</u>	<u>(67,072)</u>	<u>12,980</u>	<u>(1,369,026)</u>
Capital assets being depreciated, net	<u>293,104</u>	<u>(46,785)</u>	<u>(2,810)</u>	<u>243,509</u>
Business-type activities capital assets, net	<u>\$ 293,104</u>	<u>\$ (46,785)</u>	<u>\$ (2,810)</u>	<u>\$ 243,509</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
Instruction	\$ 1,978,456
Instructional student support	123,654
Administrative and financial support	148,384
Operation and maintenance of plant	222,576
Student activities	<u>43,370</u>
	<u>\$ 2,516,440</u>
Business-type activities - Food service	<u>\$ 67,072</u>

LONG-TERM LIABILITIES

Changes in long-term liabilities were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities					
Bonds and notes payable	\$ 30,907,045	\$ 19,680,000	\$ (19,382,045)	\$ 31,205,000	\$ 3,315,000
Unamortized bond premiums	242,296	149,912	(148,684)	243,524	-
Compensated absences	1,001,000	140,536	(202,536)	939,000	200,000
Other post employment benefits	815,818	429,306	(211,424)	1,033,700	210,000
Net pension liability	<u>55,808,811</u>	<u>10,864,559</u>	<u>(5,467,884)</u>	<u>61,205,486</u>	<u>-</u>
	<u>\$ 88,774,970</u>	<u>\$ 31,264,313</u>	<u>\$ (25,412,573)</u>	<u>\$ 94,626,710</u>	<u>\$ 3,725,000</u>

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2016

LONG-TERM LIABILITIES (Cont'd.)

Bonds and notes payable

Changes in bonds and notes payable were as follows:

	Beginning Balance	New Issue	Current Refunding	Scheduled Redemptions	Ending Balance
1999 Series	\$ 1,115,000	\$ -	\$ -	\$ (355,000)	\$ 760,000
2010 Series	6,865,000	-	(6,735,000)	(130,000)	-
2011 Series	6,795,000	-	(5,755,000)	(1,040,000)	-
2012 Series	9,985,000	-	-	(415,000)	9,570,000
2013 Series	2,295,000	-	-	(795,000)	1,500,000
2014 Notes	3,852,045	-	(3,847,045)	(5,000)	-
2015 Series	-	-	9,850,000	(305,000)	9,545,000
2016 Series	-	-	5,915,000	-	5,915,000
2016 Series A	-	-	3,915,000	-	3,915,000
	30,907,045	-	3,342,955	(3,045,000)	31,205,000
Bond premium	242,296	-	(58,787)	(57,559)	243,524
	<u>\$ 31,149,341</u>	<u>\$ -</u>	<u>\$ 3,401,742</u>	<u>\$ (3,102,559)</u>	<u>\$ 31,448,524</u>

The 2015 Series Bonds in the amount of \$ 9,850,000 were issued to currently refund \$ 6,735,000 of outstanding 2010 Series bonds and to finance various capital projects including renovations to the stadium. After payment of issuance costs, net of original issue premium of \$ 149,912, the net proceeds of \$ 6,830,297 were deposited into an irrevocable trust for future debt payment requirements on the 2010 Series Bonds. For financial reporting purpose, the defeased debt was removed as a liability from the District-wide financial statements. The outstanding bonds were called in December 2015. The current refunding was to take advantage of favorable interest rates and reduce the District's debt service expenses. District debt service requirements, net of state aid, for the seven years ended June 30, 2016 through and including 2022 were reduced by \$ 235,068 which was largely realized in fiscal year ended June 2016.

The 2016 Series Bonds in the amount of \$ 5,915,000 were issued to currently refund \$ 5,755,000 of outstanding 2011 Series bonds. After payment of issuance costs, the net proceeds of \$ 5,847,186 were deposited into an irrevocable trust for future debt payment requirements on the 2011 Series Bonds. For financial reporting purposes, the defeased debt was removed as a liability from the District-wide financial statements. The outstanding bonds were called in August 2016. The current refunding was to take advantage of favorable interest rates and reduce the District's debt service expenses. District debt service requirements, net of state aid, for the five years ended June 30, 2017 through and including 2021 were reduced by \$ 74,500 which will be largely realized in fiscal year ended June 2017.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2016

LONG-TERM LIABILITIES (Cont'd.)

Bonds and notes payable (Cont'd.)

The 2016 Series A Bonds in the amount of \$ 3,915,000 were issued to currently refund \$ 3,847,045 of outstanding on the 2014 notes. After payment of issuance costs, the net proceeds of \$ 3,868,864 were deposited into an irrevocable trust for future debt payment requirements on the notes. For financial reporting purposes, the defeased debt was removed as a liability from the District-wide financial statements. The outstanding bonds were called in August 2016. The current refunding was to take advantage of favorable interest rates and reduce the District's debt service expenses. District debt service requirements, net of state aid, for the nine years ended June 30, 2017 through and including 2025 were reduced by \$ 392,947 for an average reduction of \$ 43,660.

	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Callable Date</u>	<u>Due Within One Year</u>
1999 Series	(1)	December 2017	45 days notice	\$ 370,000
2012 Series	.90% to 2.00%	April 2023	April 2018	730,000
2013 Series	1.50% to 3.00%	April 2018	Not Callable	740,000
2015 Series	0.23% to 3.00%	March 2025	March 2021	375,000
2016 Series	1.94%	February 2021	Anytime, w/o penalty	1,095,000
2016 Series A	1.94%	February 2025	Anytime, w/o penalty	<u>5,000</u>
				<u>\$ 3,315,000</u>

(1) 1.45% above the "weekly rate" (.13% at June 2016), not to exceed 25.00%.

Scheduled debt service requirements, payable by the General Fund, are as follows:

<u>Year Ending June</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 3,315,000	\$ 583,247	\$ 3,898,247
2018	3,440,000	586,340	4,026,340
2019	3,325,000	517,927	3,842,927
2020	3,390,000	452,594	3,842,594
2021	3,475,000	372,676	3,847,676
2022-2025	<u>14,260,000</u>	<u>750,226</u>	<u>15,010,226</u>
	<u>\$ 31,205,000</u>	<u>\$ 3,263,010</u>	<u>\$ 34,468,010</u>

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2016

LONG-TERM LIABILITIES (Cont'd.)

Compensated absences

Compensated absences (those for which employees are compensated) are presented using the termination payment method. A liability is computed using estimates which apply historical data to current factors. The District maintains records of unused leave and applies the contracted rate for employees eligible for the severance allowance. The District allows only restricted sabbatical leave and therefore does not present any liability in advance of the sabbatical. Payments for compensated absences are made in the year the absence is taken or the employee retires.

At retirement or death, while in District service, employees or their beneficiaries shall choose one of the available options (subject to a maximum of \$ 19,500 for administrators, \$ 17,000 for teaching staff and \$ 10,081 for classified staff). The severance allowance is paid as a District contribution into the employee's 403(b) tax sheltered annuity account.

Other post employment benefits (OPEBs)

OPEBs are presented in accordance with GASB Statement No. 45, which requires their recognition as part of the compensation package of active employees for services rendered. The cost and obligation for OPEBs are measured by an actuarial valuation.

Plan description

Under the negotiations agreement with Big Spring Education Association, the District provides for continuance of health care insurance coverage after retirement.

If the eligible member retired after June 2011, and had 30 years with the District, the District will pay 50% of the medical and prescription drug premiums for the member only, subject to a maximum annual District contribution of \$ 4,000. The coverage will cease upon the earlier of 5 years or member Medicare age. The member may elect dental and vision coverage by paying the full premiums. Dependents may elect available coverage by paying the full premiums. If the 5 years are exhausted and the member has not reached Medicare age, the member and dependents may continue coverage by paying the full premiums.

If the eligible member retired before July 2011, the District will pay 50% of the medical and prescription drug premiums for the member and dependents. The coverage will cease upon the earlier of 5 years or member Medicare age. The member and dependents may elect dental and vision coverage by paying the full premiums. If the 5 years are exhausted and the member has not reached Medicare age, the member and dependents may continue coverage by paying the full premiums.

If the retired member did not qualify for the District subsidized benefit, but has retired through PSERS, the member and dependents may elect available coverage by paying the full premiums.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2016

LONG-TERM LIABILITIES (Cont'd.)

Other post employment benefits (OPEBs) (Cont'd.)

Plan description (Cont'd.)

Retired administrators are eligible for health care insurance coverage similar to the above.

Retired classified employees, hired before July 2007, are eligible for health care insurance coverage similar to the above. If hired after June 2007, the retiree and dependents may elect available coverage by paying the full premiums.

Retiree's premiums are less than the District's actual cost to provide health care coverage to retirees. The premium amount retirees pay is a blended rate for covering both active and retired Plan members. The fact that the blended rate that retirees pay is less than the cost of covering retired members and their dependents results in what is known as an "implicit rate subsidy," which creates an additional cost to the District.

Participant information	
Active participants	262
Vested former members	2
Retired participants	<u>63</u>
	<u>327</u>

Funding policy

The District funds Plan liabilities on a "pay-as-you-go" basis, and has not established an OPEB trust fund to accumulate assets to fund Plan obligations. The District has no statutory or contractual obligation to fund the Plan and would only do so at the District's discretion.

Annual OPEB cost and net OPEB obligation

The annual OPEB cost (expense) is calculated based on the actuarially determined annual required contribution (ARC) of the District. The ARC represents a funding level that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liability (UAAL) over 30 years (22 years remaining).

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2016

LONG-TERM LIABILITIES (Cont'd.)

Other post employment benefits (OPEBs) (Cont'd.)

Annual OPEB cost and net OPEB obligation (Cont'd.)

Components of the annual OPEB cost, the amount contributed to the Plan, and changes in the net OPEB obligation are as follows:

District normal cost	\$ 210,598
Amortization of unfunded actuarial accrued liability	<u>232,080</u>
Annual required contribution	442,678
Interest on the net OPEB obligation	36,712
Adjustment to the ARC	<u>(50,084)</u>
Annual OPEB cost	429,306
Contributions made to the plan	<u>(211,424)</u>
Increase in net OPEB obligation	217,882
Net OPEB obligation - beginning	<u>815,818</u>
 Net OPEB obligation - ending	 <u><u>\$ 1,033,700</u></u>

The percentage of annual OPEB cost contributed was as follows:

<u>Year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 2016	\$ 429,306	49.25%	\$ 1,033,700

Funding status and funding progress

The actuarial accrued liability (AAL) for OPEBs as of July 2014 was \$ 3,780,330. There are no Plan assets, thus, the entire amount is unfunded. The District does not have any current plans to fund the AAL.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
July 2014	\$ -	\$ 3,780,330	\$ 3,780,330	0.00%	\$13,999,854	27.00%

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2016

LONG-TERM LIABILITIES (Cont'd.)

Other post employment benefits (OPEBs) (Cont'd.)

Actuarial assumptions and methods

Actuarial assumptions and methods used in the July 2014 actuarial valuation include the following:

Interest rate	4.50%
General inflation rate	2.50%
Health care cost trend rate	6.5% in 2014 decreasing by 0.5% per year to 5.5% in 2015. Rates gradually decrease from 5.3% in 2017 to 4.2% in 2089 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.
Actuarial cost method	Benefits are allocated on a level basis over the earnings of an individual from date of hire to assumed retirement age.
Amortization period	30 years (22 years remaining)

Actuarial evaluations on an ongoing basis involve estimates of the reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Projections of benefits are based on the types of benefits provided under the plan at the time of each valuation and on the pattern of sharing of benefit costs between the District and plan members to that point in time.

Actuarial calculations reflect a long-term perspective, and consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in accrued liabilities.

The required schedule of funding progress in the other required supplementary information (ORSI) immediately following the notes to financial statements, presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. However, because the District maintains no Plan assets, information relative to Plan asset disclosures is not applicable.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2016

LONG-TERM LIABILITIES (Cont'd.)

PSERS health insurance premium assistance

While PSERS is primarily responsible for administering a defined benefit pension plan, it also administers its Health Insurance Premium Assistance Program (Premium Assistance). Under this program, employer contribution rates for Premium Assistance are established to provide reserves in its Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year.

The contribution rate for employers used to fund Premium Assistance was .84% for the year ended June 2016. Contributions to the Premium Assistance plan for the District were \$ 154,702 for the year ended June 2016. This is in addition to the 25.00% employer contribution rate for the pension plan.

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 \$ 61,205,486 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 .1413%, which was an increase of .0003 from its proportion measured as of June 30, 2014.

For the year ended June 2016, the District recognized pension expense of \$ 5,467,884. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings	\$ -	\$ (124,229)
Difference between expected and actual experience	-	(252,222)
Changes in proportions	502,403	-
Difference between employer contributions and proportionate share of total contributions	41,325	-
Contributions subsequent to the measurement date	<u>4,604,223</u>	<u>-</u>
	<u>\$ 5,147,951</u>	<u>\$ (376,451)</u>

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2016

LONG-TERM LIABILITIES (Cont'd.)

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions (Cont'd.)

At June 30, 2016, \$ 4,604,223 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date that are recognized as a reduction of the net pension liability. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense for the years ended June 30 as follows:

<u>Year Ending June</u>	
2017	\$ (191,000)
2018	(191,000)
2019	(191,000)
2020	700,000

Actuarial assumptions

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

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

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

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2016

LONG-TERM LIABILITIES (Cont'd.)

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions (Cont'd.)

Actuarial assumptions (Cont'd.)

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 provide 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)	<u>(14.0%)</u>	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%. 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.

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2016

LONG-TERM LIABILITIES (Cont'd.)

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions (Cont'd.)

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

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
District's proportionate share of the net pension liability	\$ 75,440,000	\$ 61,205,000	\$ 49,239,000

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.

RISK MANAGEMENT

Health insurance

The District's health insurance plan through South Central Trust allows each participant to choose one of the three available coverage options. South Central Trust is not a risk sharing pool. The Trust was established for processing claims and obtaining reinsurance through commercial insurance carriers. The Trust has reinsurance for claims in excess of \$ 100,000 specific (per person) and 125% aggregate (estimated District annual cost). Financial statements of the trust are provided to the member districts. District transactions within the Trust were as follows:

Cash balance in the trust - beginning	\$ 2,175,168
Payments from the District and its retirees	3,734,337
Benefit claims paid by the trust	\$ (3,076,147)
Administrative and other fees, net of interest earned	(146,881)
Stop loss premiums	<u>(77,900)</u>
	<u>(3,300,928)</u>
Cash balance in the trust - ending	2,608,577
District prepaid health insurance	<u>(1,100,000)</u>
Amount available for benefit claims	<u>\$ 1,508,577</u>

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2016

RISK MANAGEMENT (Cont'd.)

The amount available for benefit claims was as follows:

Accrual for benefit claims	\$ 862,857
Accrual for administrative and other fees	56,195
Accrual for health insurance coverage on payroll payable	<u>589,525</u>
 Amount available for benefit claims	 <u>\$ 1,508,577</u>

There are various methodologies for estimating a reasonable accrual for benefit claims. District management has selected the methodology of approximately '3 months of paid claims'. District management believes this methodology provides an adequate amount for accrued costs.

Other insurance

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. The District maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

For State unemployment compensation laws, the District is self-insured, which is a common practice for local governmental units. Any unemployment claims are paid by the District on a quarterly basis as incurred.

For workers' compensation insurance, approximately 80 Districts participate in a public entity risk sharing pool (School Districts Insurance Consortium) for processing claims and obtaining reinsurance through commercial insurance carriers. Under this plan, the District's annual cost should not exceed standard commercial insurance rates.

ASSIGNED FUND BALANCE

Assigned fund balance amounts of the General Fund are as follows:

Technology	\$ 2,300,000
Pension plan rate increases	650,000
Health care	350,000
Special education	250,000
Software	<u>200,000</u>
	 <u>\$ 3,750,000</u>

BIG SPRING SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Cont'd.)
JUNE 30, 2016

COMMITMENTS AND CONTINGENCIES

The District's contract with its teaching staff expires in June 2017. The District contract with its classified staff expires in June 2019.

In the normal course of business, the District is subject to legal disputes and claims. The District does not anticipate any material losses from any pending or threatened litigation.

In the normal course of preparing for the subsequent school year, the District has awarded bids for various supplies, fuel contracts, etc. No major commitments in excess of routine requirements have been made by the District.

The District participates in state and federal grant programs which are governed by various rules and regulations. Expenditures charged to these grant programs are subject to program compliance audits and reviews by the grantor agencies. The District is potentially liable for any expenditure which may be disallowed by the rules of these grant programs. The District does not anticipate any material disallowance of program expenditures.

BIG SPRING SCHOOL DISTRICT
BUDGETARY COMPARISON INFORMATION - GENERAL FUND
YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Revenues				
Local sources - taxes	\$ 27,347,544	\$ 27,347,544	\$ 26,847,113	\$ (500,431)
Local sources - other	1,080,531	1,080,531	937,164	(143,367)
State sources	17,696,352	17,696,352	17,792,628	96,276
Federal sources	568,850	568,850	558,644	(10,206)
Total revenues	<u>46,693,277</u>	<u>46,693,277</u>	<u>46,135,549</u>	<u>(557,728)</u>
Expenditures				
Regular programs	19,072,109	19,069,534	17,628,285	1,441,249
Special programs	8,168,021	8,162,921	7,543,459	619,462
Vocational programs	653,000	653,000	550,447	102,553
Other instructional programs	97,786	93,286	9,376	83,910
Higher education programs	-	4,500	4,282	218
Pupil personnel	1,173,125	1,173,125	1,091,802	81,323
Instructional staff	1,923,557	1,926,057	1,620,697	305,360
Administration	2,427,908	2,430,483	2,360,741	69,742
Pupil health	538,085	538,085	512,382	25,703
Business	389,327	399,327	395,099	4,228
Operation and maintenance of plant	3,958,193	3,847,578	3,449,750	397,828
Student transportation	2,484,693	2,487,293	2,386,102	101,191
Central services	299,796	424,796	421,836	2,960
Other support services	28,000	28,000	27,589	411
Student activities	938,589	937,089	888,322	48,767
Community services	28,229	29,729	28,560	1,169
Capital outlay	-	16,000	15,597	403
Debt service (principal and interest)	4,160,000	4,160,000	3,685,113	474,887
Total expenditures	<u>46,340,418</u>	<u>46,380,803</u>	<u>42,619,439</u>	<u>3,761,364</u>
Excess (deficiency) of revenues over expenditures	352,859	312,474	3,516,110	3,203,636
Other financing sources (uses)				
Sale of assets	-	-	41,615	41,615
Transfers to other funds	(525,000)	(525,000)	(2,778,835)	(2,253,835)
Budgetary reserve	(84,322)	(43,937)	-	43,937
Net change in fund balance	(256,463)	(256,463)	778,890	1,035,353
Fund balance - beginning	<u>6,789,823</u>	<u>6,789,823</u>	<u>8,421,144</u>	<u>1,631,321</u>
Fund balance - ending	<u>\$ 6,533,360</u>	<u>\$ 6,533,360</u>	<u>\$ 9,200,034</u>	<u>\$ 2,666,674</u>

BIG SPRING SCHOOL DISTRICT
OTHER POST EMPLOYMENT BENEFIT PLANS
LAST 3 BIENNIAL VALUATIONS

HEALTH CARE BENEFITS
SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
July 2014	\$ -	\$ 3,780,330	\$ 3,780,330	0.00%	\$ 13,999,854	27.00%
July 2012	-	3,251,275	3,251,275	0.00%	15,274,804	21.29%
July 2010	-	3,732,005	3,732,005	0.00%	16,852,109	22.15%

The District is required to have an actuarial valuation at least biennially (every 2 years). If the plan experiences significant changes, a new actuarial valuation should be performed rather than waiting for the next scheduled valuation date.

BIG SPRING SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
LAST 10 FISCAL YEARS*

<u>Year Ending</u>	<u>District Proportion of the Net Pension Liability</u>	<u>District Proportionate Share of the Net Pension Liability</u>	<u>District's Covered Employee Payroll</u>	<u>District Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</u>
June 2015	0.1410%	\$ 55,808,811	\$ 17,995,841	310.12%	57.24%
June 2016	0.1413%	61,205,486	18,175,445	336.75%	54.36%

* The amounts presented for each fiscal year were determined as of the measurement date of June 30 of the year prior to the fiscal year presented. This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in fiscal year ending June 30, 2015, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.

BIG SPRING SCHOOL DISTRICT
SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS
LAST 10 FISCAL YEARS*

Year Ended	Statutorily Required Contribution	Actual Employer Contribution	Contribution Excess/ (Deficiency)	District's Covered Member Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2015	\$ 3,700,183	\$ 3,700,183	\$ -	\$ 18,049,673	20.50%
June 30, 2016	4,758,923	4,758,923	-	19,035,700	25.00%

* The amounts presented for each fiscal year were determined as of the measurement date of June 30 of the year prior to the fiscal year presented. This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in fiscal year ending June 30, 2015, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.

BIG SPRING SCHOOL DISTRICT

**SUPPLEMENTARY AUDIT REPORT
ON FEDERAL AWARD PROGRAMS**

YEAR ENDED JUNE 30, 2016

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Greenawalt & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Since 1955

Deborah J. Kelly

Scott J. Christ

Ronald S. Morgan

James E. Lyons

Howard R. Greenawalt

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

Board of School Directors
Big Spring School District
Newville, 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 fiduciary funds of the Big Spring School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Big Spring School District's basic financial statements, and have issued our report thereon dated January 10, 2017.

Internal Control Over Financial Reporting

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

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

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

**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* (Cont'd.)**

Compliance and Other Matters

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

Big Spring School District's Response to Finding

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

Purpose of this Report

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


GREENAWALT & COMPANY, P.C.

January 10, 2017

Mechanicsburg, Pennsylvania



Greenawalt & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Since 1955

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Scott J. Christ

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Howard R. Greenawalt

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Board of School Directors
Big Spring School District
Mechanicsburg, Pennsylvania

Report on Compliance For Each Major Federal Program

We have audited the Big Spring School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Big Spring School District's major federal programs for the year ended June 30, 2016. Big Spring 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 the Big Spring 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 the Big Spring 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 the Big Spring School District's compliance.

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE AND
THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (Cont'd.)**

Opinion on Each Major Federal Program

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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE AND
THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (Cont'd.)**

Report on Schedule of Expenditures of Federal and State Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the fiduciary funds of the Big Spring School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Big Spring School District's basic financial statements. We issued our report thereon dated January 10, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by the Uniform Guidance 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 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 and state awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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.


GREENAWALT & COMPANY, P.C.

January 10, 2017

Mechanicsburg, Pennsylvania

BIG SPRING SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass Through Grantor Program Title	Source Code	Federal CFDA #	Pass Through Grantor's #	Grant Period Beginning/ Ending Date	Program or Award Amount	Total Received For Year	Accrued (Unearned) Revenue 7/1/2015	Revenue Recognized	Expenditures	Accrued (Unearned) Revenue 6/30/2016	Passed Through to Subrecipients
<u>U.S. Department of Agriculture</u>											
Passed through PA Department of Education											
Child Nutrition Cluster											
School Breakfast Program - Cash Assistance	I(F)	10.553	N/A	7/01/15-6/30/16	N/A	\$ 54,240	\$ -	\$ 64,657	\$ 64,657	\$ 10,417	\$ -
School Breakfast Program - Cash Assistance	I(F)	10.553	N/A	7/01/14-6/30/15	N/A	7,442	7,442	-	-	-	-
Total School Breakfast Program						61,682	7,442	64,657	64,657	10,417	-
National School Lunch Program - Cash Assistance	I(F)	10.555	N/A	7/01/15-6/30/16	N/A	355,945	-	411,015	411,015	55,070	-
National School Lunch Program - Cash Assistance	I(F)	10.555	N/A	7/01/14-6/30/15	N/A	53,307	53,307	-	-	-	-
Passed through PA Department of Agriculture											
National School Lunch Program - Non-Cash Assistance	I(F)	10.555	N/A	7/01/15-6/30/16	N/A	65,197	-	65,197	65,197	-	-
Total National School Lunch Program						474,449	53,307	476,212	476,212	55,070	-
Total Child Nutrition Cluster						536,131	60,749	540,869	540,869	65,487	-
National School Lunch Program - Cash Assistance	I(S)	N/A	N/A	7/01/15-6/30/16	N/A	23,306	-	26,902	26,902	3,596	-
National School Lunch Program - Cash Assistance	I(S)	N/A	N/A	7/01/14-6/30/15	N/A	3,725	3,725	-	-	-	-
School Breakfast Program - Cash Assistance	I(S)	N/A	N/A	7/01/15-6/30/16	N/A	3,223	-	3,843	3,843	620	-
School Breakfast Program - Cash Assistance	I(S)	N/A	N/A	7/01/14-6/30/15	N/A	541	541	-	-	-	-
Total U.S. Department of Agriculture						\$ 566,926	\$ 65,015	\$ 571,614	\$ 571,614	\$ 69,703	\$ -
<u>U.S. Department of Education</u>											
Passed through PA Department of Education											
Title I Part A Cluster											
Title I - Grants to Local Educational Agencies	I(F)	84.010(M)	013-160037	8/19/15-9/30/16	\$ 423,460	\$ 339,379	\$ -	\$ 423,460	\$ 423,460	\$ 84,081	\$ -
Title I - Grants to Local Educational Agencies	I(F)	84.010(M)	013-150037	9/04/14-9/30/15	444,232	115,793	115,793	-	-	-	-
Total Title I, Part A Cluster						455,172	115,793	423,460	423,460	84,081	-
Title II - Improving Teacher Quality - State Grants	I(F)	84.367	020-160037	8/19/15-9/30/16	123,845	99,159	-	123,845	123,845	24,686	-
Title II - Improving Teacher Quality - State Grants	I(F)	84.367	020-150037	9/04/14-9/30/15	124,618	49,806	49,806	-	-	-	-
Title II - Improving Teacher Quality - State Grants	I(F)	84.367	020-140037	9/04/14-9/30/15	124,749	24,898	13,559	11,339	11,339	-	-
Total Title II - Improving Teacher Quality - State Grants						173,863	63,365	135,184	135,184	24,686	-
Total Passed through PA Department of Education						629,035	179,158	558,644	558,644	108,767	-
Passed through Capital Area Intermediate Unit #15											
Special Education Cluster (IDEA)											
Special Education - Grants to States (IDEA, Part B)	I(F)	84.027A	H027A140093	7/01/15-6/30/16	552,661	535,162	-	552,661	552,661	17,499	-
Special Education - Grants to States (IDEA, Part B)	I(F)	84.027A	H027A140093	7/01/14-6/30/15	552,893	552,893	552,893	-	-	-	-
Special Education - Preschool Grants (IDEA Preschool)	I(F)	84.173	131-1300015	7/01/15-6/30/16	3,991	3,991	-	3,991	3,991	-	-
Special Education - Preschool Grants (IDEA Preschool)	I(F)	84.173	131-1200015	7/01/14-6/30/15	3,288	3,288	3,288	-	-	-	-
Total Special Education Cluster (IDEA)						1,095,334	556,181	556,652	556,652	17,499	-
Total U.S. Department of Education						\$ 1,724,369	\$ 735,339	\$ 1,115,296	\$ 1,115,296	\$ 126,266	\$ -
Total Federal and State Awards						\$ 2,291,295	\$ 800,354	\$ 1,686,910	\$ 1,686,910	\$ 195,969	\$ -
Less: State Awards						\$ (30,795)	\$ (4,266)	\$ (30,745)	\$ (30,745)	\$ (4,216)	\$ -
Total Federal Awards						\$ 2,260,500	\$ 796,088	\$ 1,656,165	\$ 1,656,165	\$ 191,753	\$ -

BIG SPRING SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (Cont'd.)
YEAR ENDED JUNE 30, 2016

Note A - Significant accounting policies

This schedule is a summary of the District's federal awards programs presented on the accrual basis of accounting; that is revenues are recognized when the expenditures are incurred.

Relationship to financial statements

The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Indirect cost rates

The District does not have an approved indirect cost rate, and has not elected to change a de minimis rate.

Note B - National School Lunch Program - Non-Cash Assistance

Nonmonetary assistance is reported in the schedule at market value (provided by USDA) of the commodities received.

Calculation of 20% Rule

Total federal expenditures per schedule		<u>\$ 1,656,165</u>
Major program		
<u>Grant Program Title</u>	<u>Federal</u>	<u>Total</u>
U.S. Department of Education	CFDA#	Expenditures
Passed through of PA Department of Education		
Title I - Grants to Local Educational Agencies	84.010	<u>\$ 423,460</u>
Total (25.57% of total federal expenditures)		<u>\$ 423,460</u>

Source codes:

- I - Indirect funding
- F - Federal share
- S - State share

Legends:

- (M) Major program

BIG SPRING SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

A. Summary of auditor's results

1. The opinion expressed in the independent auditor's report was:

☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimed

2. The independent auditor's report on internal control over financial reporting described:

Significant deficiency(ies) noted considered material weakness(es)? ☐ Yes ☒ No

Significant deficiency(ies) noted that are not considered
to be a material weakness? ☒ Yes ☐ No

3. Noncompliance considered material to the financial
statements was disclosed by the audit?

☐ Yes ☒ No

4. The independent auditor's report on internal control over compliance with requirements applicable to major federal awards programs described:

Significant deficiency(ies) noted considered material weakness(es)? ☐ Yes ☒ No

Significant deficiency(ies) noted that are not considered
to be a material weakness? ☐ Yes ☒ No

5. The opinion expressed in the independent auditor's report on compliance with requirements applicable to major federal awards was:

☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimed

6. The audit disclosed findings required to be reported in accordance
with 2 CFR 200.516(a)?

☒ Yes ☐ No

BIG SPRING SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Cont'd.)
YEAR ENDED JUNE 30, 2016

A. Summary of auditor's results (Cont'd.)

7. The District's major program are:

<u>Grant Program Title</u>	<u>Federal CFDA#</u>
U.S. Department of Education	
Passed through of PA Department of Education	
Title I - Grants to Local Educational Agencies	84.010
8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in the Uniform Guidance was \$ 750,000.	
9. The District qualified as a low-risk auditee as that term is defined in the Uniform Guidance?	
	X Yes No

BIG SPRING SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Cont'd.)
YEAR ENDED JUNE 30, 2016

B. Findings - financial statement audit

#2016-001 Internal Control - significant deficiency

Criteria

The performance of key control procedures over District financial transactions helps to ensure that errors and/or irregularities are identified in a timely manner.

Condition

During the 2015-2016 fiscal year, key control procedures were not timely performed for the reconciliation of fixed assets.

Cause

The District engaged a third party vendor to perform an inventory of their fixed assets to provide current and future year fixed asset schedules and the related depreciation information. This information was not received from the vendor timely, and was not easily reconcilable to the District's fixed assets balances as of the beginning of the current fiscal year, and the additions and disposals during fiscal year 2016.

Effect

There was a delay in recording the year-end adjusted account balances.

Identification as a repeat finding

There was no similar error in the prior year.

Recommendations

We recommend that the District require the third party vendor to provide the year-end fixed asset information in a timely manner in future years. In addition, to ensure that the information provided to the vendor is accurate, fixed asset purchases and disposals should be tracked and reported to the vendor on an ongoing basis throughout the fiscal year, based on District activity recorded on each applicable fund.

View of responsible officials and planned corrective action

In the years prior the District conducted its own fixed asset tracking. The transition to vendor supported tracking failed due to poor vendor selection. In February the District will issue request for proposals for fixed asset tracking and associated functions with the goal of finding a more capable vendor; that RFP will also include strict guidelines on submissions and reporting throughout the year.

BIG SPRING SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Cont'd.)
YEAR ENDED JUNE 30, 2016

C. Findings and questioned costs - major federal award program audits

None

BIG SPRING SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2016

NONE



BIG SPRING SCHOOL DISTRICT

Business Office
45 Mount Rock Road
Newville, PA 17241-9466
(717) 776-2404

January 8, 2017

Subject: Corrective Action Plan

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

Name and address of the independent public accounting firm: Greenawalt & Company, P.C.,
400 West Main St., Mechanicsburg, PA 17055

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

FINDINGS – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCY

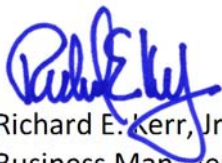
2016-001-Internal Control

Recommendation: Greenawalt recommends that the District require the third party vendor to provide the year-end fixed asset information in a timely manner in future years. In addition, to ensure that the information provided to the vendor is accurate, fixed asset purchases and disposals should be tracked on and reported to the vendor on an ongoing basis throughout the fiscal year, based on District activity recorded on each applicable fund.

Action Taken: In years prior the District conducted its own fixed asset tracking. The transition to vendor supported tracking failed due to poor vendor selection. In February the District will issue request for proposals for fixed asset tracking and associated functions with the goal of finding a more capable vendor; that RFP will also include strict guidelines on submissions and reporting throughout the year.

If the Department of Education has questions regarding this plan, please call Richard Kerr at 717-776-2404

Sincerely,



Richard E. Kerr, Jr.
Business Manager