

DANIEL BOONE AREA SCHOOL DISTRICT

FINANCIAL AND COMPLIANCE REPORT

Year Ended June 30, 2016



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INDEPENDENT AUDITOR'S REPORT

**To the Board of School Directors
Daniel Boone Area School District
Douglasville, Pennsylvania**

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule for the general fund, pension, and other postemployment benefit information on pages 64 through 66, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Daniel Boone Area School District's basic financial statements. The combining nonmajor governmental funds and private purpose trust funds financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

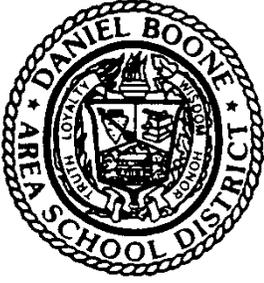
The combining nonmajor governmental funds and private purpose trust funds financial statements, and the schedule of expenditures of federal awards, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Herbein + Company, Inc.

**Reading, Pennsylvania
November 16, 2016**



DANIEL BOONE AREA SCHOOL DISTRICT

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

JUNE 30, 2016

The discussion and analysis of the financial performance of Daniel Boone Area School District (the "District") provides an overall review of the District's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers also should review the financial statements and the notes to the financial statements.

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

Financial Highlights

District-Wide

- During the fiscal year ended June 30, 2016, the change in the total Governmental Funds fund balance was an increase of \$977,974 to \$5.7 million. This change was primarily due to additional state subsidies came in higher than original projections.
- The largest District revenue stream is local property tax. The Board of School Directors was able to balance the 2015-16 general fund budget with a decrease in the real estate tax rate. Total 2015-16 millage was 28.96 mills. (Please note that one mill is equal to one-tenth of a cent or \$.001 of assessed value.)
- Property tax revenues were affected by a 0.33% increase in the taxable real property assessment value, which increased \$4 million to \$1.063 billion.
- On an entity-wide basis, the District's total net position was a deficit of \$69,333,101. This deficit was due to recording a pension liability being added to the financial statements in 2014-15 FY due to GASB Statement No. 68 & No. 71. Further explanation on this change can be found in Note 8 in the Notes to Basic Financial Statements. As of June 30, 2016, the District had an accrued balance due to PSERS of \$2,367,327.

- The net position for business-type activities (food service), increased by \$35,987 to \$128,709, primarily due to an operating gain in the enterprise fund (food service). The gain is primarily caused by the outsourcing of all employees, 2015-16 is the first complete year without the additional expenses for salary and benefits. The total reimbursable funds from federal and state governments amounted to \$494,558. The District contracted with the food service management company Nutrition Inc. Depreciation expense amounted to \$11,248 dollars.

Fund Level

- At the close of the fiscal year, the General Fund ending fund balance increased by \$523,595 to \$5,085,589. Of the \$5,085,589, \$143,962 is classified as nonspendable due to prepaid expenditures; \$1,673,812 is classified as assigned due to these funds being used to balance the 2016-17 budget; \$1,000,000 for capital reserve; \$665,500 is for retirement rate increases; \$1,602,315 is unassigned and is available for any purpose. The District approved the 2016-2017 budget on June 13, 2016. The district is mandated to approve a budget by June 30th.

Long-Term Liabilities excluding Postemployment Benefits

- Long-term liabilities excluding postemployment benefits for government activities decreased to \$85.6 million from \$86.9 million. General obligation debt ended the year at \$45.0 million. The district also has a \$37.3 million capital lease and a \$3.3 million energy performance lease. During the year ended June 30, 2016, the District issued General Obligation Bonds, Series of 2016 in the amount of \$9,995,000. The issued bonds were used to advance refund a portion of the General Obligation Bonds, Series of 2008. The bond refundings resulted in a cash flow savings to the district of \$1.3 million; this was due to the new debt refunding the older debt at more favorable interest rates.

Overview of the Financial Statements

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

The first type includes two district-wide financial statements that provide both short-term and long-term information about the District’s overall financial status. The other type and remaining statements are the fund financial statements that focus on individual parts of the District – reporting the District’s operations in more detail than the district-wide statements. The governmental fund statements indicate how basic services such as regular and special education were financed in the short term as well as indicate future spending plans. Proprietary fund statements offer short-term and long-term financial information about the activities the District operates like a business, such as food services. Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, such as student activity funds and scholarship funds.

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

Figure A-1

Organization of Daniel Boone Area School District Annual Financial Report

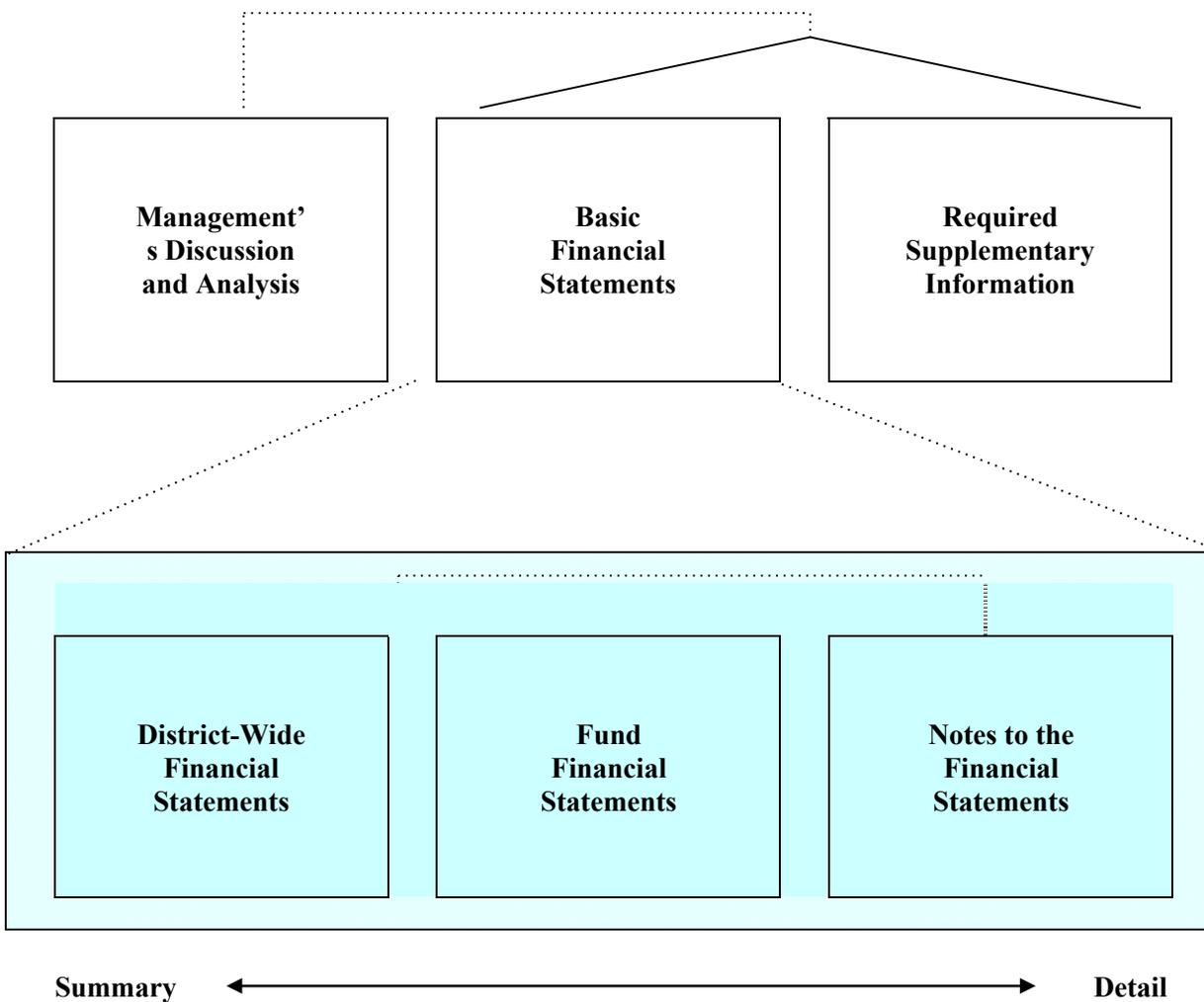


Figure A-2 summarizes the major features of the District’s statements. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2

| <u>Major Features of the District-Wide and Fund Financial Statements</u> | | | | |
|---------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|
| | District-Wide Statements | Fund Financial Statements | | |
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire District (except fiduciary funds) | Activities of the District that is not proprietary or fiduciary, such as general operating and capital projects. | Activities the District operates similar to private businesses, such as food services. | Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies. |
| Required financial statements | <ul style="list-style-type: none"> • Statement of net position • Statement of activities | <ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances | <ul style="list-style-type: none"> • Statement of net position • Statement of revenue, expenses, and changes in net position • Statement of cash flows | <ul style="list-style-type: none"> • Statement of net position • Statement of changes in net position |
| Accounting Basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital, short-term and long-term. | Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included. | All assets and liabilities, both financial and capital, and short-term and long-term. | All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can. |
| Type of inflow/outflow information | All revenues and expenses during year, regardless of when cash is received or paid. | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable. | All revenues and expenses during the year, regardless of when cash is received or paid. | All additions and deductions during the year, regardless of when cash is received or paid. |

District-Wide Statements

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

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

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

Both statements report two activities:

- **Governmental Activities** – Most of the District's basic services such as regular and special education, maintenance and operation of plant services are reported under this category. Taxes, state formula aid finance, and state and federal grants generally fund these programs.
- **Business-type Activities** – The only business-type activity in the District is food service operations. The sources of funding for operations consist of charges for meal purchases and federal and state subsidies.

Fund Financial Statements

The fund financial statements provide more detailed information about the major individual funds of the District. A fund is a fiscal and accounting entity with a self-balancing set of accounts used to keep track of specific sources of funding and spending for particular programs. The District's funds are divided into three categories – (1) governmental, (2) proprietary, and (3) fiduciary.

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

These funds are reported using the modified accrual accounting method, which measures cash, and all other financial assets that can readily be converted to cash. Governmental funds include the general fund, debt service fund, and the non-major funds. The non-major governmental funds include the capital projects fund and the special revenue fund. Because this information does not encompass the additional long-term focus of the District-Wide statements, additional information behind the governmental funds statement explains the relationship (or differences) between them.

- Proprietary Fund (Enterprise) – Services for which the District charges a fee are generally reported in the proprietary fund and utilize the accrual accounting method; the same method used by the private sector businesses.
- Fiduciary Funds – The District acts as a trustee or fiduciary for assets that belong to others, such as scholarship funds or student activity funds. The District is responsible for ensuring that the assets reported in these funds are used only for the intended purposes and by those to whom the assets belong. These activities are excluded from the district-wide financial statements since these assets cannot be used to finance the District’s operations.

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

Financial Analysis of the District as a Whole

The District’s combined net position decreased over the course of the fiscal year’s operations. This decrease occurred in the governmental activities, which fell by \$1.9 million (See A-4). The net position of the District’s business-type activities increased to \$35,987 due primarily to the outsourcing of the Food Services.

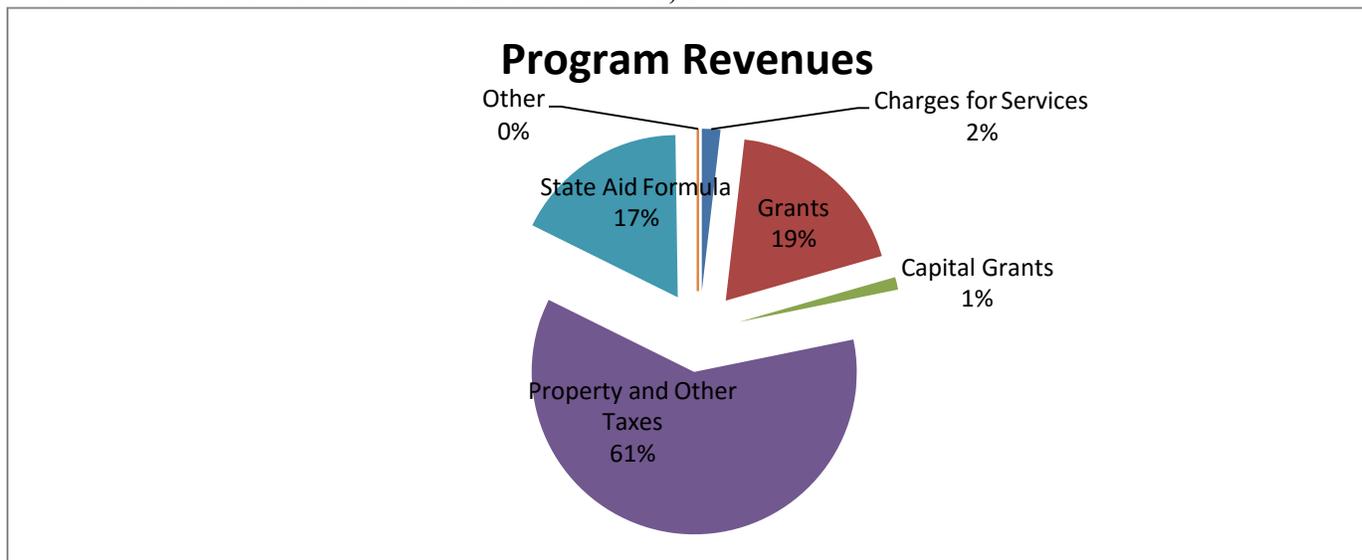
Figure A-3
Condensed Statement of Net Position - for Years Ended June 30, 2015 and 2016

| | Governmental | Governmental | Business-type | Business-type | Total | Total |
|--------------------------------------|-----------------------|-----------------------|------------------|------------------|-----------------------|-----------------------|
| | Activities | Activities | Activities | Activities | Total | Total |
| | <u>2014-2015</u> | <u>2015-2016</u> | <u>2014-2015</u> | <u>2015-2016</u> | <u>2014-2015</u> | <u>2015-2016</u> |
| Current and other assets | \$10,551,297 | \$12,057,175 | \$81,684 | \$106,339 | \$10,632,981 | \$12,163,514 |
| Capital assets | \$84,627,381 | \$81,234,072 | \$65,931 | \$54,683 | \$84,693,312 | \$81,288,755 |
| Other assets | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Total Assets | \$95,178,678 | \$93,291,247 | \$147,615 | \$161,022 | \$95,326,293 | \$93,452,269 |
| Deferred Outflows of Resource | \$8,690,046 | \$13,286,351 | \$0 | \$0 | \$8,690,046 | \$13,286,351 |
| Current Liabilities | \$8,884,021 | \$6,748,342 | \$54,893 | \$32,313 | \$8,938,914 | \$6,780,655 |
| Long-term Debt Liabilities | \$158,041,350 | \$168,790,066 | \$0 | \$0 | \$158,041,350 | \$168,790,066 |
| Total Liabilities | \$166,925,371 | \$175,538,408 | \$54,893 | \$32,313 | \$166,980,264 | \$175,570,721 |
| Deferred Inflows of Resource | \$4,001,048 | \$501,000 | \$0 | \$0 | \$4,001,048 | \$501,000 |
| Net Position: | | | | | | |
| Net investment in capital assets | \$1,515,393 | \$246,500 | \$65,931 | \$54,683 | \$1,581,324 | \$301,183 |
| Restricted | \$170,027 | \$624,406 | \$0 | \$0 | \$170,027 | \$624,406 |
| Unrestricted | (\$68,743,115) | (\$70,332,716) | \$26,791 | \$74,026 | (\$68,716,324) | (\$70,258,690) |
| Total Net Position | (\$67,057,695) | (\$69,461,810) | \$92,722 | \$128,709 | (\$66,964,973) | (\$69,333,101) |

Figure A-4
Changes in Net Position from Operating Results – for Years Ended June 30, 2015 and 2016

| Revenues | Governmental Activities | Governmental Activities | Business-Type Activities | Business-Type Activities | Total | Total |
|--------------------------------------------|-------------------------|-------------------------|--------------------------|--------------------------|----------------------|----------------------|
| Program Revenues | <u>2014-2015</u> | <u>2015-2016</u> | <u>2014-2015</u> | <u>2015-2016</u> | <u>2014-2015</u> | <u>2015-2016</u> |
| Charges for services | \$295,340 | \$269,370 | \$670,392 | \$734,922 | \$965,732 | \$1,004,292 |
| Operating grants and contributions | \$9,213,960 | \$9,691,583 | \$557,395 | \$494,558 | \$9,771,355 | \$10,186,141 |
| Capital grants and contributions | \$797,859 | \$684,004 | \$0 | \$0 | \$797,859 | \$684,004 |
| General Revenues | | | | | | |
| Property taxes and other | | | | | | |
| taxes levied for general purposes | \$32,844,912 | \$32,973,721 | \$0 | \$0 | \$32,844,912 | \$32,973,721 |
| State formula aid | \$9,372,845 | \$9,502,278 | \$0 | \$0 | \$9,372,845 | \$9,502,278 |
| Other | \$143,944 | \$127,924 | \$789 | \$946 | \$144,733 | \$128,870 |
| Total Revenues | \$52,668,860 | \$53,245,880 | \$1,228,576 | \$1,230,426 | \$53,897,436 | \$54,476,306 |
| Expenses | | | | | | |
| Instruction | \$33,572,346 | \$33,676,250 | \$0 | \$0 | \$33,572,346 | \$33,676,250 |
| Instructional student support | \$3,070,330 | \$3,295,110 | \$0 | \$0 | \$3,070,330 | \$3,295,110 |
| Admin. & financial support services | \$4,173,158 | \$4,411,079 | \$0 | \$0 | \$4,173,158 | \$4,411,079 |
| Operation & maintenance | \$4,340,499 | \$4,200,801 | \$0 | \$0 | \$4,340,499 | \$4,200,801 |
| Pupil transportation | \$2,949,104 | \$3,014,265 | \$0 | \$0 | \$2,949,104 | \$3,014,265 |
| Other | \$5,867,712 | \$7,052,490 | \$1,248,615 | \$1,194,439 | \$7,116,327 | \$8,246,929 |
| Total Expenses | \$53,973,149 | \$55,649,995 | \$1,248,615 | \$1,194,439 | \$55,221,764 | \$56,844,434 |
| Increase (Decrease) in Net Position | (\$1,304,289) | (\$2,404,115) | (\$20,039) | \$35,987 | (\$1,324,328) | (\$2,368,128) |

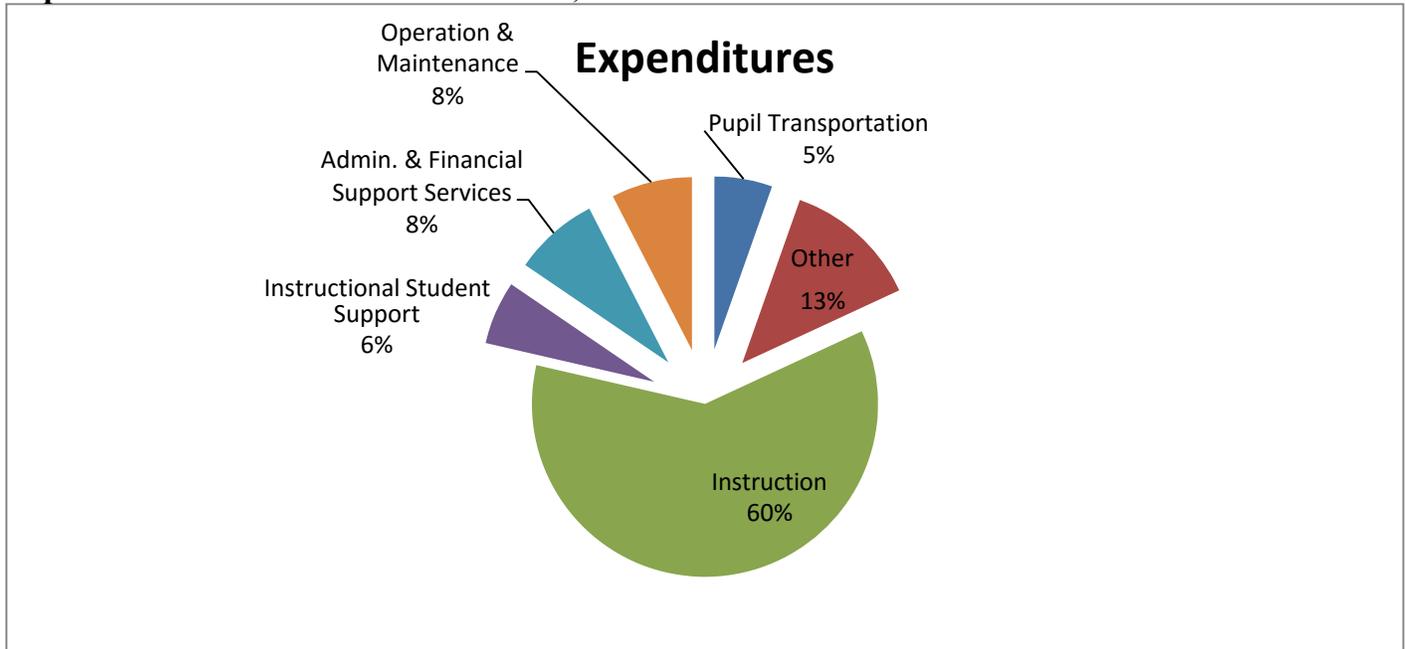
Figure A-5
Sources of Revenues for the Year Ended June 30, 2015



EXPENDITURES

Total expenditures increased 3.0% to \$55.6 million from the previous year. This increase was primarily caused by increase in PSERS contribution. PSERS contribution rate increased from 21.4 in 2014-15 to 25.8 in 2015-16, causing a \$1.23 million increase in expense.

Figure A-6
Expenditures for the Year Ended June 30, 2016



History of actual ending enrollments during the past seven years

Figure A-7

Enrollment

| ACTUAL ENROLLMENTS | | | | |
|--------------------|---------------------|-------------------|------------------|--------------|
| <u>School Year</u> | <u>Kindergarten</u> | <u>Elementary</u> | <u>Secondary</u> | <u>Total</u> |
| 2008/09 | 291 | 1,520 | 2,086 | 3,897 |
| 2009/10 | 300 | 1,545 | 2,128 | 3,973 |
| 2010/11 | 273 | 1,507 | 2,115 | 3,895 |
| 2011/12 | 254 | 1,430 | 2,112 | 3,796 |
| 2012/13 | 229 | 1,391 | 2,142 | 3,762 |
| 2013/14 | 227 | 1,385 | 2,072 | 3,684 |
| 2014/15 | 214 | 1,572 | 1,749 | 3,535 |
| | Kindergarten | Elementary | Secondary | Total |

Figure A-8

Facilities

| <u>Building</u> | <u>Year Constructed</u> | <u>Year of Renovations or Additions</u> | <u>Grades Served</u> |
|----------------------------------|-------------------------|-----------------------------------------|----------------------|
| Monocacy Elementary | 2008 | --- | K-5 |
| Amity Primary | 1931 | 1953, 1972, 1991, 2010 | K-2 |
| Amity Intermediate | 2002 | --- | 3-5 |
| Birdsboro Elementary | 1990 | --- | K-5 |
| Daniel Boone Middle School..... | 2005 | --- | 6-8 |
| Daniel Boone High School | 1998 | --- | 9-12 |
| Daniel Boone High School Annex.. | 1966 | 1971 | 9-12 |

Figure A-9

Capital Assets, Net of Depreciation:

| | Governmental Activities | Governmental Activities | Business - Type Activity | Business - Type Activity | Total District | Total District |
|--------------------------|--------------------------------|--------------------------------|---------------------------------|---------------------------------|-----------------------|-----------------------|
| | 2015-2016 | 2014-2015 | 2015-2016 | 2014-2015 | 2015-2016 | 2014-2015 |
| Land | 3,082,699 | 3,082,699 | 0 | 0 | 3,082,699 | 3,082,699 |
| Site Improvements | 6,664,956 | 7,217,633 | 0 | 0 | 6,664,956 | 7,217,633 |
| Buildings | 69,300,587 | 71,994,135 | 0 | 0 | 69,300,587 | 71,994,135 |
| Fixtures & Equipment | 2,185,830 | 2,303,338 | 54,683 | 65,931 | 2,240,513 | 2,369,269 |
| Construction in Progress | 0 | 29,576 | 0 | 0 | 0 | 29,576 |
| Total | 81,234,072 | 84,627,381 | 54,683 | 65,931 | 81,288,755 | 84,693,312 |

LIABILITIES

Total liabilities amounted to \$175.54 million. The change was due to recording a pension liability of \$81.5 million due to GASB Statement No. 68 & Statement No. 71. Further explanation on this change can be found in Note 8 in the Notes to Basic Financial Statements. The General Obligation Bonds decreased by \$395 thousand to \$44.6 mil. This was due to the structure of the two refundings that netted a \$1.3 million cash flow saving to the district over the duration of the new issues done in 14-15 and 15-16. The Lease Revenue Bonds decreased by \$580 thousand to \$37.3 million. The Energy Performance Lease decreased by \$403 thousand to \$3.29 million. Current liabilities increased by \$2.14 mil. Current liabilities were primarily comprised of \$737 thousand in accounts payable, \$2.9 million in accrued salaries and benefits, \$1.1 million in accrued interest, \$2.0 million in payroll deductions, and \$3.1 million in current portion of long term debt (current portion of bonds payable). Long-term liabilities consisted of \$43.2 million in bonds payable (net of issuance premiums and discounts), \$39.2 million in capitalized lease obligation, \$725 thousand in compensated absences, \$1.1 million in other post-employment benefits obligation, and \$81.5 million in the District’s portion of the net pension liability.

Outstanding obligations of bonds, compensated absences, and capitalized leases are as follows:

**Outstanding Long-Term Liabilities
Totals**

| | <u>2014-15</u> | <u>2015-16</u> | <u>% Decrease</u> |
|--------------------------|----------------------|----------------------|-------------------|
| Bonds Payable | \$ 45,345,000 | \$ 44,950,000 | |
| Capital Leases | 37,905,000 | 37,325,000 | |
| Energy Performance Lease | 3,688,579 | 3,286,038 | |
| Compensated Absences | <u>722,186</u> | <u>725,080</u> | |
| | <u>\$ 87,660,795</u> | <u>\$ 86,286,118</u> | <u>0.016%</u> |

LABOR RELATIONS

There are two unions representing employees of the School District. The Daniel Boone Education Association (“DBEA”), an affiliate of the Pennsylvania State Education Association (“PSEA”), represents the Professional Personnel such as teachers and guidance counselors. The current professional staff contract expires on August 31, 2015. The Daniel Boone Federation of Support Staff represents Non-Professional Personnel and is comprised of secretaries, aides, cafeteria, technology, custodial, and maintenance employees. The existing contract expired on June 30, 2015.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET

Standard & Poor’s (“S&P”) Ratings Services affirmed its “AA-” rating on the District’s General Obligation debt in November 2015. S&P also held a stable outlook on the District. The factors included in the rating determination included; Stable and diverse economy in the Reading metro area, very strong income and wealth in the local economy, and strong financial performance over the last few years.

The District’s largest debt issue, State Public School Building Authority (“SPSBA”) Series of 2007, becomes available for refinancing in 2017. If the current economic environment remains stable until 2017, the cash flow savings to the District for future budgets beyond 2016-17 should be significant.

The District has an approved budget of \$55.5 million for fiscal year 2016-2017. This is an unbalanced budget with estimated revenues at \$53.8 million. In order to balance the budget, the Board of School Directors authorized the use of \$1.7 million of fund balance. The millage rate for 2016-2017 was increased by .74 of a mil and was approved at 29.70 mills.

A benefit expense that is a concern to the District is the Public School Employees’ Retirement System (PSERS). The rate the District is responsible for paying into the retirement fund is set in December for the following year. The rate that the District must pay into the PSERS retirement fund is also projected to have steady increases, jumping from 25.84% in the year 2015-16 to 29.69% in year 2016-17. The rate is projected to increase again in 2016-17, but it is then projected to remain steady for the foreseeable future.

School districts throughout the state continue to operate under the restrictions of Act 1. On June 27, 2006, Governor Rendell signed into law Special Session Act 1 of 2006, the Taxpayer Relief Act, also known as Act 1. Act 1 places restrictions on the District's ability to raise property taxes. The district can only increase property taxes by an index percentage. The index is an average of the Statewide Average Weekly Wage (SAWW) and the Employment Cost Index for Elementary and Secondary Schools (ECI). Any millage increase above this index will have to be approved through back-end referendum. The index for 2016-2017 is 2.4%, which is adjusted for the aid ratio to 3.3%. That means the district can only increase the tax millage to a maximum of 29.9157 mills. This equates to an increase of 0.95568 mills. Any increase above 3.3% would require voter approval of the budget. However, the District may also be eligible for exceptions that can also increase the millage above the index. Approval of exceptions must be done by the PA Department of Education.

The District has received gaming revenue from casino games for the seventh straight year for the 2015-16 school year. The funds are used to lower property taxes.

GASB Statement No. 68 has no bearing on the short-term cash flow or the operations of the District. The change is for the inclusion of the District's proportionate share of PSERS net pension liability, pension expense, and pension deferred inflows and outflows of resources on the government-wide financial statements. It is possible for the liability to become an asset if the unfunded portion of the pension fund becomes fully funded.

The top ten taxpayers represent 3.66% of the district's total assessed value of \$1.068 billion (2016-17).

| Taxpayer | Business | Current Assessment |
|-----------------------------------|------------|----------------------|
| Two Douglassville Properties, LP | Developer | \$ 6,911,900 |
| One Douglassville Properties | Developer | \$ 6,851,800 |
| 447 Old Swede Holdings, LLC | Developer | \$ 6,300,000 |
| Amity Equity Partners LP | Banking | \$ 4,523,100 |
| O Norheim Corporation | Commercial | \$ 3,688,100 |
| WGRP LP | Commercial | \$ 3,220,300 |
| Signature Living At. | Developer | \$ 2,109,100 |
| Walter Properties Association LLC | Developer | \$ 2,031,000 |
| Valley View Communities LP | Developer | \$ 1,776,800 |
| MB Investments. | Industrial | \$ 1,709,200 |
| Total | | \$ 39,121,300 |

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Office, Daniel Boone Area School District, 2144 Weavertown Road, Douglassville, PA 19518.

DANIEL BOONE AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2016

| | Governmental Activities | Business- Type Activities | Total |
|---------------------------------------------------------------|----------------------------|---------------------------------|------------------------|
| ASSETS | | | |
| Cash and Investments | \$ 7,714,550 | \$ 570,572 | \$ 8,285,122 |
| Taxes Receivable, Net | 1,262,292 | - | 1,262,292 |
| Internal Balances | 575,563 | (575,563) | - |
| Intergovernmental Receivables | 2,313,044 | 11,330 | 2,324,374 |
| Other Receivables | 47,764 | 100,000 | 147,764 |
| Prepaid Expenses | 143,962 | - | 143,962 |
| Capital Assets Not Being Depreciated: | | | |
| Land | 3,082,699 | - | 3,082,699 |
| Capital Assets, Net of Accumulated Depreciation: | | | |
| Building and Building Improvements | 69,300,587 | - | 69,300,587 |
| Land Improvements | 6,664,956 | - | 6,664,956 |
| Equipment, Furniture, and Fixtures | 1,805,121 | 54,683 | 1,859,804 |
| Vehicles | 85,826 | - | 85,826 |
| Library and Textbooks | <u>294,883</u> | <u>-</u> | <u>294,883</u> |
| TOTAL ASSETS | <u>93,291,247</u> | <u>161,022</u> | <u>93,452,269</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred Charge on Bond Refunding | 4,487,214 | - | 4,487,214 |
| Deferred Outflows of Resources for Pension | 2,974,778 | - | 2,974,778 |
| Pension Contributions made Subsequent to the Measurement Date | <u>5,824,359</u> | <u>-</u> | <u>5,824,359</u> |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 13,286,351 | - | 13,286,351 |
| LIABILITIES | | | |
| Accounts Payable | 736,958 | 782 | 737,740 |
| Accrued Salaries and Benefits | 2,861,858 | - | 2,861,858 |
| Payroll Deductions and Withholdings | 1,984,336 | - | 1,984,336 |
| Accrued Interest | 1,052,751 | - | 1,052,751 |
| Unearned Revenues | 112,439 | 31,531 | 143,970 |
| Noncurrent Liabilities: | | | |
| Due Within One Year | 3,093,016 | - | 3,093,016 |
| Bonds Payable, Net | 43,188,749 | - | 43,188,749 |
| Capitalized Lease Obligations | 39,193,022 | - | 39,193,022 |
| Long-Term Portion of Compensated Absences | 725,080 | - | 725,080 |
| Net Pension Liability | 81,476,000 | - | 81,476,000 |
| Other Postemployment Benefits Obligation | <u>1,114,199</u> | <u>-</u> | <u>1,114,199</u> |
| TOTAL LIABILITIES | <u>175,538,408</u> | <u>32,313</u> | <u>175,570,721</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred Inflows of Resources for Pension | <u>501,000</u> | <u>-</u> | <u>501,000</u> |
| NET POSITION | | | |
| Net Investment in Capital Assets | 246,500 | 54,683 | 301,183 |
| Restricted for: | | | |
| Capital Projects | 529,273 | - | 529,273 |
| Other Purposes | 95,133 | - | 95,133 |
| Unrestricted (Deficit) | <u>(70,332,716)</u> | <u>74,026</u> | <u>(70,258,690)</u> |
| TOTAL NET POSITION (DEFICIT) | <u>\$ (69,461,810)</u> | <u>\$ 128,709</u> | <u>\$ (69,333,101)</u> |

See accompanying notes.

DANIEL BOONE AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016

| Functions/Programs | Expenses | Program Revenue | | | Net (Expense) Revenue and Changes in Net Position | | |
|---------------------------------------------------------------------------|----------------------|----------------------|------------------------------------|----------------------------------|---------------------------------------------------|-------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Governmental Activities: | | | | | | | |
| Instructional Services: | | | | | | | |
| Regular | \$ 25,073,744 | \$ 15,551 | \$ 3,595,352 | \$ - | \$ (21,462,841) | \$ - | \$ (21,462,841) |
| Special | 7,638,557 | - | 3,406,697 | - | (4,231,860) | - | (4,231,860) |
| Vocational | 916,089 | - | 9,596 | - | (906,493) | - | (906,493) |
| Other Instructional Programs | 43,215 | - | 3,856 | - | (39,359) | - | (39,359) |
| Nonpublic | 4,645 | - | 4,645 | - | - | - | - |
| Total Instructional Services | 33,676,250 | 15,551 | 7,020,146 | - | (26,640,553) | - | (26,640,553) |
| Support Services: | | | | | | | |
| Pupil Personnel | 1,760,624 | - | 193,197 | - | (1,567,427) | - | (1,567,427) |
| Instructional Staff | 1,534,486 | - | 137,106 | - | (1,397,380) | - | (1,397,380) |
| Administration | 3,153,658 | - | 229,827 | - | (2,923,831) | - | (2,923,831) |
| Pupil Health | 598,846 | - | 132,049 | - | (466,797) | - | (466,797) |
| Business Services | 658,575 | - | 68,807 | - | (589,768) | - | (589,768) |
| Operation of Plant and Maintenance Services | 4,200,801 | 75,455 | 244,468 | - | (3,880,878) | - | (3,880,878) |
| Student Transportation Services | 3,014,265 | - | 1,479,374 | - | (1,534,891) | - | (1,534,891) |
| Central | 260,738 | - | 3,546 | - | (257,192) | - | (257,192) |
| Other Support Services | 36,680 | - | - | - | (36,680) | - | (36,680) |
| Total Support Services | 15,218,673 | 75,455 | 2,488,374 | - | (12,654,844) | - | (12,654,844) |
| Noninstructional Services: | | | | | | | |
| Student Activities | 815,081 | 178,364 | 56,306 | - | (580,411) | - | (580,411) |
| Community Services | 3,416 | - | 126,757 | - | 123,341 | - | 123,341 |
| Interest on Long-Term Debt | 3,614,099 | - | - | 684,004 | (2,930,095) | - | (2,930,095) |
| Unallocated Depreciation | 2,322,476 | - | - | - | (2,322,476) | - | (2,322,476) |
| Total Noninstructional Services | 6,755,072 | 178,364 | 183,063 | 684,004 | (5,709,641) | - | (5,709,641) |
| Total Governmental Activities | 55,649,995 | 269,370 | 9,691,583 | 684,004 | (45,005,038) | - | (45,005,038) |
| Business-Type Activities: | | | | | | | |
| Food Services | 1,194,439 | 734,922 | 494,558 | - | - | 35,041 | 35,041 |
| Total Primary Government | <u>\$ 56,844,434</u> | <u>\$ 1,004,292</u> | <u>\$ 10,186,141</u> | <u>\$ 684,004</u> | (45,005,038) | 35,041 | (44,969,997) |
| General Revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property Taxes | | | | | 29,391,551 | - | 29,391,551 |
| Public Utility Realty, Earned Income, and Mercantile Tax | | | | | 3,582,170 | - | 3,582,170 |
| Grants, Subsidies, and Contributions Not Restricted for Specific Programs | | | | | 9,502,278 | - | 9,502,278 |
| Investment Earnings | | | | | 32,505 | 946 | 33,451 |
| Miscellaneous Income | | | | | 92,419 | - | 92,419 |
| Total General Revenues | | | | | 42,600,923 | 946 | 42,601,869 |
| Change in Net Position | | | | | (2,404,115) | 35,987 | (2,368,128) |
| Net Position (Deficit) - Beginning of Year | | | | | (67,057,695) | 92,722 | (66,964,973) |
| Net Position (Deficit) - End of Year | | | | | <u>\$(69,461,810)</u> | <u>-\$ 128,709</u> | <u>\$(69,333,101)</u> |

See accompanying notes.

DANIEL BOONE AREA SCHOOL DISTRICT

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2016

| | <u>General</u> | <u>Nonmajor Funds</u> | <u>Total Governmental Funds</u> |
|--------------------------------------------------------------------------------|----------------------|---------------------------|-----------------------------------------|
| ASSETS | | | |
| Cash and Investments | \$ 7,586,718 | \$ 127,832 | \$ 7,714,550 |
| Taxes Receivable | 1,275,590 | - | 1,275,590 |
| Intergovernmental Receivables | 2,313,044 | - | 2,313,044 |
| Interfund Receivable | 575,563 | 500,000 | 1,075,563 |
| Other Receivables | 47,764 | - | 47,764 |
| Prepaid Expenditures | <u>143,962</u> | <u>-</u> | <u>143,962</u> |
| TOTAL ASSETS | <u>\$ 11,942,641</u> | <u>\$ 627,832</u> | <u>\$ 12,570,473</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | | |
| LIABILITIES | | | |
| Interfund Payable | \$ 500,000 | \$ 3,426 | \$ 503,426 |
| Accounts Payable | 733,532 | - | 733,532 |
| Accrued Salaries and Benefits | 2,861,858 | - | 2,861,858 |
| Payroll Deductions and Withholdings | 1,984,336 | - | 1,984,336 |
| Unearned Revenues | <u>112,439</u> | <u>-</u> | <u>112,439</u> |
| TOTAL LIABILITIES | 6,192,165 | 3,426 | 6,195,591 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable Revenue - Property Taxes | 664,887 | - | 664,887 |
| FUND BALANCES | | | |
| Nonspendable | 143,962 | - | 143,962 |
| Restricted | - | 624,406 | 624,406 |
| Assigned | 3,339,312 | - | 3,339,312 |
| Unassigned | <u>1,602,315</u> | <u>-</u> | <u>1,602,315</u> |
| TOTAL FUND BALANCES | <u>5,085,589</u> | <u>624,406</u> | <u>5,709,995</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | <u>\$ 11,942,641</u> | <u>\$ 627,832</u> | <u>\$ 12,570,473</u> |

DANIEL BOONE AREA SCHOOL DISTRICT

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

June 30, 2016

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

| | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|------------------------|
| TOTAL FUND BALANCES - GOVERNMENTAL FUNDS | | \$ 5,709,995 |
| Capital assets used in governmental activities are not financial resources and therefore, are not reported as assets in governmental funds. The cost of the assets is \$131,876,473 and the accumulated depreciation is \$50,642,401. | | 81,234,072 |
| Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and therefore, are reported as unavailable revenue in the funds adjusted for allowance of doubtful accounts. | | 651,589 |
| The net pension and other postemployment benefit obligations are not reflected on the fund financial statements. | | (82,590,199) |
| Deferred outflows and inflows of resources for pensions are recorded and amortized in the statement of net position. | | 8,298,137 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of: | | |
| | Bonds Payable | \$ (44,950,000) |
| | Capitalized Lease Obligations | (40,611,038) |
| | Accrued Interest on Long-Term Liabilities | (1,052,751) |
| | Unamortized Bond Discount | 287,724 |
| | Unamortized Bond Premium | (201,473) |
| | Deferred Charge on Bond Refunding | 4,487,214 |
| | Long-Term Portion of Compensated Absences | (725,080) |
| | | <u>(82,765,404)</u> |
| TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES | | <u>\$ (69,461,810)</u> |

DANIEL BOONE AREA SCHOOL DISTRICT

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

For the Year Ended June 30, 2016

| | General | Nonmajor Funds | Total Governmental Funds |
|--------------------------------------------------------------|----------------------------|--------------------------|--------------------------------|
| REVENUES | | | |
| Local Sources | \$ 34,012,715 | \$ 155,980 | \$ 34,168,695 |
| State Sources | 18,096,523 | - | 18,096,523 |
| Federal Sources | 977,857 | - | 977,857 |
| | <u>53,087,095</u> | <u>155,980</u> | <u>53,243,075</u> |
| TOTAL REVENUES | 53,087,095 | 155,980 | 53,243,075 |
| EXPENDITURES | | | |
| Current: | | | |
| Instructional Services | 30,978,193 | - | 30,978,193 |
| Support Services | 14,588,416 | 83,216 | 14,671,632 |
| Operation of Noninstructional Services | 670,140 | 118,385 | 788,525 |
| Debt Service: | | | |
| Principal | 2,572,541 | - | 2,572,541 |
| Interest | 3,409,754 | - | 3,409,754 |
| | <u>52,219,044</u> | <u>201,601</u> | <u>52,420,645</u> |
| TOTAL EXPENDITURES | 52,219,044 | 201,601 | 52,420,645 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 868,051 | (45,621) | 822,430 |
| OTHER FINANCING SOURCES (USES) | | | |
| Issuance of Refunding Bonds | 9,995,000 | - | 9,995,000 |
| Payment to Refunded Bond Escrow Agent | (9,817,864) | - | (9,817,864) |
| Discount on Bond Issuance | (21,742) | - | (21,742) |
| Sale of Capital Assets | 150 | - | 150 |
| Transfers In | - | 500,000 | 500,000 |
| Transfers Out | (500,000) | - | (500,000) |
| | <u>(344,456)</u> | <u>500,000</u> | <u>155,544</u> |
| TOTAL OTHER FINANCING SOURCES (USES) | (344,456) | 500,000 | 155,544 |
| NET CHANGE IN FUND BALANCES | 523,595 | 454,379 | 977,974 |
| FUND BALANCES - BEGINNING OF YEAR | <u>4,561,994</u> | <u>170,027</u> | <u>4,732,021</u> |
| FUND BALANCES - END OF YEAR | <u><u>\$ 5,085,589</u></u> | <u><u>\$ 624,406</u></u> | <u><u>\$ 5,709,995</u></u> |

See accompanying notes.

DANIEL BOONE AREA SCHOOL DISTRICT

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

For the Year Ended June 30, 2016

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

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 977,974

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

| | | |
|---------------------------------|--------------------|-------------|
| Capital Outlays | \$ 495,409 | |
| Less: Loss on Disposal of Asset | (322) | |
| Less: Depreciation Expense | <u>(3,888,396)</u> | (3,393,309) |

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

2,656

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

| | | |
|---------------------------------------------------|------------------|-----------|
| Repayment of Bond Principal | 1,590,000 | |
| Repayment of Capital Lease Obligations | 982,541 | |
| Payment to Refunded Bond Escrow Agent | 9,817,864 | |
| Issuance of Refunding Bonds | (9,995,000) | |
| Discount on Bond Issuance | 21,742 | |
| Amortization of Bond Discount | (23,221) | |
| Amortization of Bond Premium | 14,696 | |
| Amortization of Deferred Charge on Bond Refunding | <u>(284,206)</u> | 2,124,416 |

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

88,386

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

(2,894)

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

(2,201,344)

CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES

\$ (2,404,115)

DANIEL BOONE AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION
PROPRIETARY FUND

June 30, 2016

| | <u>Enterprise Fund Food Service</u> |
|----------------------------------|-----------------------------------------|
| ASSETS | |
| CURRENT ASSETS | |
| Cash and Investments | \$ 570,572 |
| Intergovernmental Receivables | 11,330 |
| Other Receivables | <u>100,000</u> |
| TOTAL CURRENT ASSETS | 681,902 |
| NONCURRENT ASSETS | |
| Machinery and Equipment, Net | <u>54,683</u> |
| TOTAL ASSETS | <u>736,585</u> |
| LIABILITIES | |
| CURRENT LIABILITIES | |
| Interfund Payable | 575,563 |
| Accounts Payable | 782 |
| Unearned Revenues | <u>31,531</u> |
| TOTAL LIABILITIES | <u>607,876</u> |
| NET POSITION | |
| Net Investment in Capital Assets | 54,683 |
| Unrestricted | <u>74,026</u> |
| TOTAL NET POSITION | <u><u>\$ 128,709</u></u> |

DANIEL BOONE AREA SCHOOL DISTRICT

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

For the Year Ended June 30, 2016

| | <u>Enterprise Fund Food Service</u> |
|-----------------------------------------|-----------------------------------------|
| OPERATING REVENUES | |
| Food Service Revenue | \$ 734,922 |
| OPERATING EXPENSES | |
| Salaries | 108 |
| Employee Benefits | 181 |
| Other Purchased Services | 14,139 |
| Food Service Management Fees | 1,105,262 |
| Supplies | 63,501 |
| Depreciation | <u>11,248</u> |
| TOTAL OPERATING EXPENSES | <u>1,194,439</u> |
| OPERATING LOSS | (459,517) |
| NONOPERATING REVENUES | |
| Local Sources - Earnings on Investments | 946 |
| State Sources | 30,786 |
| Federal Sources | <u>463,772</u> |
| TOTAL NONOPERATING REVENUES | <u>495,504</u> |
| CHANGE IN NET POSITION | 35,987 |
| NET POSITION - BEGINNING OF YEAR | <u>92,722</u> |
| NET POSITION - END OF YEAR | <u><u>\$ 128,709</u></u> |

DANIEL BOONE AREA SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND

For the Year Ended June 30, 2016

| | <u>Enterprise Fund Food Service</u> |
|-------------------------------------------------------------|-----------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Receipts from Users | \$ 637,302 |
| Payments to Employees for Services | 29,465 |
| Payments to Suppliers for Goods and Services | <u>(1,155,348)</u> |
| NET CASH USED FOR OPERATING ACTIVITIES | (488,581) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| State Sources | 31,344 |
| Federal Sources | <u>418,709</u> |
| NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES | 450,053 |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Earnings on Investments | <u>946</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (37,582) |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | <u>608,154</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u><u>\$ 570,572</u></u> |

DANIEL BOONE AREA SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - CONTINUED
PROPRIETARY FUND

For the Year Ended June 30, 2016

| | Enterprise Fund Food Service |
|-------------------------------------------------------------------------------------------|---------------------------------|
| <u>Reconciliation of Operating Loss to Net Cash Used for Operating Activities:</u> | |
| Operating Loss | \$ (459,517) |
| Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities: | |
| Depreciation | 11,248 |
| Donated Commodities Used | 50,624 |
| Changes in Assets and Liabilities: | |
| Other Receivables | (100,000) |
| Interfund Payable | 31,644 |
| Accounts Payable | (23,071) |
| Unearned Revenues | 2,381 |
| Compensated Absences | (1,890) |
| Total Adjustments | (29,064) |
| NET CASH USED FOR OPERATING ACTIVITIES | \$ (488,581) |

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the District used \$50,624 of commodities from the U.S. Department of Agriculture.

DANIEL BOONE AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION
FIDUCIARY FUNDS

June 30, 2016

| | Private Purpose Trust Funds (Scholarships) | Agency Funds (Student Activities) |
|----------------------------------------------------|--------------------------------------------------|--------------------------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and Investments | \$ 31,707 | \$ 249,520 |
| Interfund Receivable | - | 3,426 |
| | <u>31,707</u> | <u>252,946</u> |
| TOTAL ASSETS | 31,707 | \$ 252,946 |
| LIABILITIES AND NET POSITION | | |
| CURRENT LIABILITIES | | |
| Other Current Liabilities | - | \$ 252,946 |
| | <u>-</u> | <u>252,946</u> |
| TOTAL LIABILITIES | - | |
| NET POSITION HELD IN TRUST FOR SCHOLARSHIPS | <u>\$ 31,707</u> | |

DANIEL BOONE AREA SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUND

For the Year Ended June 30, 2016

| | Private Purpose Trust Funds (Scholarships) |
|-----------------------------------------|--------------------------------------------------|
| ADDITIONS | |
| Contributions | \$ 26,804 |
| Earnings on Investments | 31 |
| TOTAL ADDITIONS | 26,835 |
| DEDUCTIONS | |
| Scholarships | 15,944 |
| CHANGE IN NET POSITION | 10,891 |
| NET POSITION - BEGINNING OF YEAR | 20,816 |
| NET POSITION - END OF YEAR | \$ 31,707 |

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

Daniel Boone Area School District (the "District") is located in Berks County, Pennsylvania. The District tax base consists of the Borough of Birdsboro, Amity Township, and Union Township.

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A. Reporting Entity - continued

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

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

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

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

Joint Venture: The District is a participating member of the Berks Career and Technology Center. See Note 11 for details of involvement and financial information of the joint venture.

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

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

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Presentation - Government-Wide Financial Statements

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

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

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

C. Basis of Presentation - Fund Financial Statements

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

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

The District Reports the Following Major Governmental Fund:

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

The District has the Following Major Proprietary Fund:

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

Additionally, the District Reports the Following Fund Type:

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

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

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

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

D. Measurement Focus and Basis of Accounting

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

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

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

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Measurement Focus and Basis of Accounting - continued

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

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

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

E. Budgetary Process

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

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

Accelerated Budget Process Option

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

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

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Budgetary Process - continued

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

Board Resolution Option

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

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the PDE 2028 when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all 2015/2016 budget transfers.

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

1. Cash and Investments

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

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

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

2. Receivables/Payables

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

3. Prepaid Items

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

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

4. Capital Assets, Depreciation, and Amortization

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

The District generally capitalizes assets with cost of \$3,000 or more as purchase and construction outlays occur. Management has elected to include certain homogeneous asset categories with individual assets less than \$3,000 as composite groups for financial reporting purposes. Assets purchased or constructed with long-term debt may be capitalized regardless of the threshold established. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

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

| Assets | Years |
|-------------------------------------|---------|
| Buildings and building improvements | 20 - 50 |
| Land improvements | 15 - 20 |
| Equipment, furniture, and fixtures | 3 - 20 |
| Vehicles | 8 - 10 |
| Library and textbooks | 5 - 7 |

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

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

5. Deferred Outflows/Inflows of Resources

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

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

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

6. Unearned Revenues

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

7. Net Position

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

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

8. Fund Balance Policies and Flow Assumptions

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

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

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

8. Fund Balance Policies and Flow Assumptions - continued

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

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

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

G. Revenues and Expenditures/Expense

1. Program Revenues

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

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

G. Revenues and Expenditures/Expense - continued

2. Compensated Absences

Sick Pay

Under the District's various bargaining agreements and plans, professional employees and administrators accumulate unused sick days up to certain maximums. These unused sick days may be accumulated for future illnesses and are not vested. Upon retirement, professional employees are paid for unused sick days at the rate of \$20 to \$60/day, depending upon employment classification.

Vacation Leave

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

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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

H. Other Use of Estimates

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

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Compliance With Finance Related Legal and Contractual Provisions

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

B. Deficit Fund Balance or Net Position of Individual Funds

For the year ended June 30, 2016, no individual funds had a deficit fund balance or net position.

C. Excess of Expenditures Over Appropriations in Individual Funds

No individual fund, which had a legally adopted budget, had an excess of expenditures over appropriations.

D. Budgetary Compliance

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

NOTE 3 - CASH AND INVESTMENTS

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

The carrying amount of cash and investments at June 30, 2016 consists of the following:

| | | |
|-----------------------------|----|------------------|
| Petty cash | \$ | 700 |
| Demand deposit accounts | | 3,856,739 |
| Pooled cash and investments | | <u>4,708,910</u> |
| | \$ | <u>8,566,349</u> |

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2016, the carrying amount of the District's deposits was \$3,856,739 and the bank balance was \$3,878,944. Of the bank balance, \$400,172 was covered by federal depository insurance, and \$3,478,772 was exposed to custodial credit risk because it was uninsured and the collateral held by the depository's agent was not in the District's name, but was covered by collateralization requirements in accordance with Act 72.

Investments

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

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

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

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

DANIEL BOONE AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

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

| | Maturities | Fair Value | Carrying Value |
|-----------------------------------------------|------------|------------|-------------------|
| PA School District Liquid Asset Fund (PSDLAF) | | | |
| MAX Account Balance | <1 year | 4,690,981 | \$ 4,690,981 |
| PA Liquid Government Investments (PLGIT) | | | |
| Money Market Fund | | 17,929 | 17,929 |
| Total Investments | | | \$ 4,708,910 |

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

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

As of June 30, 2016, the entire PSDLAF and PLGIT book balances of \$4,708,910 are considered to be cash equivalents for presentation on the government-wide and fund financial statements.

Interest Rate Risk

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

DANIEL BOONE AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Credit Risk

The District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2016, the District's investments were rated as:

| Investment | Standard & Poor's |
|------------|----------------------|
| PSDLAF | AAA |
| PLGIT | AAA |

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer. No investments subject to concentration of credit risk exceed the five percent threshold.

Custodial Credit Risk

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

NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE

The District has three independently elected tax collectors who have relinquished responsibility for the collection of taxes. The tax collectors have deputized a District approved financial institution for the collection of taxes on their behalf via a lockbox account. Assessed values are established by the County Board of Assessment. All taxable real property was assessed at \$1,062,975,000. In accordance with Act 1 of 2006, the District received \$1,199,867 in property tax reduction funds for the 2015/2016 fiscal year. The District tax rate for the year ended June 30, 2016 was 28.96 mills (\$28.96 per \$1,000 of assessed valuation) as levied by the board of school directors. The schedule for real estate taxes levied for each fiscal year is as follows:

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

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE - CONTINUED

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

The balances at June 30, 2016 are as follows:

| | Gross Taxes Receivable | Allowance for Uncollectible Taxes | Net Estimated to be Collectible | Tax Revenue Recognized | Unavailable Revenue |
|-------------------------|------------------------------|-----------------------------------------|------------------------------------------|------------------------------|------------------------|
| Real estate tax | \$ 815,003 | \$ 13,298 | \$ 801,705 | \$ 150,116 | \$ 664,887 |
| Transfer tax | 37,415 | - | 37,415 | 37,415 | - |
| Earned income tax | 390,343 | - | 390,343 | 390,343 | - |
| Other miscellaneous tax | <u>32,829</u> | <u>-</u> | <u>32,829</u> | <u>32,829</u> | <u>-</u> |
| | <u>\$ 1,275,590</u> | <u>\$ 13,298</u> | <u>\$ 1,262,292</u> | <u>\$ 610,703</u> | <u>\$ 664,887</u> |

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES

The following amounts were intergovernmental receivables as of June 30, 2016:

| <u>Name of Governmental Unit</u> | <u>General Fund</u> | <u>Proprietary Fund</u> |
|--------------------------------------------------------------|-------------------------|-----------------------------|
| Berks County Intermediate Unit - Special Education | \$ 178,203 | \$ - |
| Berks County Intermediate Unit - Special Education Preschool | 1,841 | - |
| Comm. of PA - Social Security | 48,096 | - |
| Comm. of PA - Retirement | 1,183,376 | - |
| Comm. of PA - Transportation | 19,613 | - |
| Comm. of PA - Lunch Subsidies | - | 11,330 |
| Comm. of PA - Health Services | 67,912 | - |
| Comm. of PA - Ready to Learn | 83,001 | - |
| Comm. of PA - Rental Subsidy | 684,004 | - |
| Federal Grant - Disaster Grant - Public Assistance | 10,443 | - |
| Federal Grant - ACCESS Administration | 2,438 | - |
| Other Local Agencies | <u>34,117</u> | <u>-</u> |
| TOTAL | <u>\$ 2,313,044</u> | <u>\$ 11,330</u> |

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 6 - CHANGES IN CAPITAL ASSETS

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

Governmental Activities

| | Beginning Balance | Increase | Reclassify Decrease | Ending Balance |
|-----------------------------------------------------|----------------------|-----------------------|------------------------|----------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 3,082,699 | \$ - | \$ - | \$ 3,082,699 |
| Construction in progress | 29,576 | - | (29,576) | - |
| Capital assets being depreciated: | | | | |
| Buildings and building improvements | 107,313,962 | 47,861 | - | 107,361,823 |
| Land improvements | 11,777,401 | 5,980 | - | 11,783,381 |
| Equipment, furniture, and fixtures | 6,955,314 | 379,281 | (789) | 7,333,806 |
| Vehicles | 165,140 | 53,300 | - | 218,440 |
| Library and textbooks | 2,057,761 | 38,563 | - | 2,096,324 |
| Totals being depreciated | 128,269,578 | 524,985 | (789) | 128,793,774 |
| Less accumulated depreciation for: | | | | |
| Buildings and building improvements | 35,319,827 | 2,741,409 | - | 38,061,236 |
| Land improvements | 4,559,768 | 558,657 | - | 5,118,425 |
| Equipment, furniture, and fixtures | 5,116,760 | 412,392 | (467) | 5,528,685 |
| Vehicles | 118,823 | 13,791 | - | 132,614 |
| Library and textbooks | 1,639,294 | 162,147 | - | 1,801,441 |
| Total accumulated depreciation | 46,754,472 | 3,888,396 | (467) | 50,642,401 |
| TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET | 81,515,106 | (3,363,411) | (322) | 78,151,373 |
| GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET | \$ 84,627,381 | \$ (3,363,411) | \$ (29,898) | \$ 81,234,072 |

Business-Type Activities

| | | | | |
|------------------------------------------------------|------------------|--------------------|-------------|------------------|
| Capital assets being depreciated: | | | | |
| Equipment | \$ 417,563 | \$ - | \$ - | \$ 417,563 |
| Accumulated depreciation for: | | | | |
| Equipment | 351,632 | 11,248 | - | 362,880 |
| BUSINESS-TYPE ACTIVITIES, CAPITAL ASSETS, NET | \$ 65,931 | \$ (11,248) | \$ - | \$ 54,683 |

DANIEL BOONE AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 6 - CHANGES IN CAPITAL ASSETS - CONTINUED

Depreciation expense was changed to functions/program of the governmental activities of primary government as follows:

| | |
|-----------------------------------------------------------------|----------------------------|
| Instruction: | |
| Regular | \$ 1,238,375 |
| Special | 19,604 |
| Vocational | <u>386</u> |
| | 1,258,365 |
| Support Services: | |
| Instructional Staff | 141,466 |
| Administration | 1,021 |
| Pupil Health | 171 |
| Operation of Plant and Maintenance Services | 148,822 |
| Student Transportation Services | <u>214</u> |
| | 291,694 |
| Noninstructional Services: | |
| School-Sponsored Activities | 13,345 |
| Community Services | <u>2,516</u> |
| | 15,861 |
| Unallocated Depreciation | <u>2,322,476</u> |
| | |
| TOTAL DEPRECIATION EXPENSE - GOVERNMENTAL ACTIVITIES | <u><u>\$ 3,888,396</u></u> |

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 7 - LONG-TERM LIABILITIES

Bonds and capital lease obligations payable are as follows at June 30, 2016:

Energy Performance Lease:

Issued March 3, 2008, with installments due quarterly through April 1, 2023, bearing interest at a 3.79% rate. Proceeds will be used to purchase equipment to reduce energy consumption at the high school.

\$ 3,286,038

School Lease Revenue Bonds:

In January 2007, the District entered into a capital lease obligation with the State Public School Building Authority. Proceeds are being used to refund the School Districts outstanding Lease Revenue Bonds, Series of 2003, to complete the construction, furnishing, and equipping of the new Monocacy Center and certain other projects being undertaken by the School District, and to pay costs related to the issuance of the bonds. Lease payments are due semi-annually through April 2030, and interest rates range from 3.50% to 5.00%.

37,325,000

General Obligation Notes - Series of 2008:

Issued August 29, 2008, with installments due semi-annually through August 15, 2032, bearing interest at a rate from 3.00% to 5.25%. Proceeds were used to currently refund the School District's outstanding General Obligation Bonds - Series of 1998, the Variable Rate Demand Bonds - Series of 2000, the Variable Rate Demand Bonds - Series of 2004, to pay for capital improvements at various school properties throughout the District, and to pay costs related to issuance of the notes. During the year ended June 30, 2016, a portion of these bonds (\$8,800,000) were advance refunded by the General Obligation Bonds - Series of 2016.

14,970,000

General Obligation Bonds - Series of 2014:

The District is liable for general obligation bonds issued on December 30, 2014, in the aggregate amount of \$9,990,000, for the purpose of advance refunding a portion of the School District's outstanding General Obligation Notes - Series of 2008 and to pay debt issuance costs. Principal maturities occur on August 15 through the year 2030. Interest is payable semi-annually on February 15 and August 15. Interest rates range from 0.60% to 3.50%. The District realized a net present value savings of \$566,064 as a result of the refunding.

9,990,000

DANIEL BOONE AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 7 - LONG-TERM LIABILITIES - CONTINUED

General Obligation Bonds - Series of 2015:

The District is liable for general obligation bonds issued on January 30, 2015, in the aggregate amount of \$9,995,000, for the purpose of advance refunding a portion of the School District's outstanding General Obligation Notes - Series of 2008 and to pay debt issuance costs. Principal maturities occur on August 15 through the year 2031. Interest is payable semi-annually on February 15 and August 15. Interest rates range from 0.55% to 3.25%. The District realized a savings of \$769,134 as a result of the refunding.

9,995,000

General Obligation Bonds - Series of 2016:

The District is liable for general obligation bonds issued on January 6, 2016, in the aggregate amount of \$9,995,000, for the purpose of advance refunding a portion of the School District's outstanding General Obligation Notes - Series of 2008 and to pay debt issuance costs. Principal maturities occur on August 15 through the year 2032. Interest is payable semi-annually on February 15 and August 15. Interest rates range from 0.50% to 3.50%. The District realized a savings of \$927,872 as a result of the refunding.

9,995,000

Total Bonds and Capital Lease Obligations Payable

\$ 85,561,038

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 7 - LONG-TERM LIABILITIES - CONTINUED

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

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year |
|---------------------------------------------|----------------------|---------------------|------------------------|----------------------|--------------------------------------|
| Governmental Activities | | | | | |
| General Obligation Debt: | | | | | |
| Bonds and Notes Payable | \$ 45,345,000 | \$ 9,995,000 | \$ (10,390,000) | \$ 44,950,000 | \$ 1,675,000 |
| Less Deferred Amounts: | | | | | |
| For Issuance Premiums | 216,169 | - | (14,696) | 201,473 | - |
| For Issuance Discounts | <u>(332,605)</u> | <u>(21,742)</u> | <u>66,623</u> | <u>(287,724)</u> | <u>-</u> |
| Subtotal | 45,228,564 | 9,973,258 | (10,338,073) | 44,863,749 | 1,675,000 |
| Capital Lease Obligations: | | | | | |
| Energy Performance Lease | 3,688,579 | - | (402,541) | 3,286,038 | 418,016 |
| School Lease Revenue Bonds | <u>37,905,000</u> | <u>-</u> | <u>(580,000)</u> | <u>37,325,000</u> | <u>1,000,000</u> |
| Subtotal | 41,593,579 | - | (982,541) | 40,611,038 | 1,418,016 |
| Other Liabilities: | | | | | |
| Compensated Absences | <u>722,186</u> | <u>2,894</u> | <u>-</u> | <u>725,080</u> | <u>-</u> |
| Total Governmental Long-Term Liabilities | <u>\$ 87,544,329</u> | <u>\$ 9,976,152</u> | <u>\$ (11,320,614)</u> | <u>\$ 86,199,867</u> | <u>\$ 3,093,016</u> |

Payments on bonds and notes payable and capital leases payable are made by the governmental fund. The compensated absence liabilities will be liquidated by the general fund. Total interest expense paid during the year ended June 30, 2016 was \$3,409,754.

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 7 - LONG-TERM LIABILITIES - CONTINUED

The future annual payments required to amortize all bonds, notes, and leases payable for the years ending June 30 are as follows:

| | Energy Performance Lease | School Lease Revenue Bonds | General Obligation Notes, Series of 2008 | General Obligation Bonds, Series of 2014 | General Obligation Bonds, Series of 2015 |
|--------------|------------------------------------------------------|---------------------------------------|------------------------------------------------------|------------------------------------------------------|------------------------------------------------------|
| 2017 | \$ 418,016 | \$ 1,000,000 | \$ 1,570,000 | \$ 95,000 | \$ 5,000 |
| 2018 | 434,085 | 1,035,000 | 1,730,000 | 105,000 | 105,000 |
| 2019 | 450,772 | 1,065,000 | 2,075,000 | 105,000 | 110,000 |
| 2020 | 468,101 | 1,095,000 | 2,195,000 | 110,000 | 115,000 |
| 2021 | 486,095 | 1,130,000 | 2,320,000 | 105,000 | 115,000 |
| 2022 - 2026 | 1,028,969 | 18,340,000 | 2,865,000 | 590,000 | 610,000 |
| 2027 - 2031 | - | 13,660,000 | 1,660,000 | 8,880,000 | 4,590,000 |
| 2032 - 2034 | - | - | 555,000 | - | 4,345,000 |
| Total | <u>\$ 3,286,038</u> | <u>\$ 37,325,000</u> | <u>\$ 14,970,000</u> | <u>\$ 9,990,000</u> | <u>\$ 9,995,000</u> |
| | General Obligation Bonds, Series of 2016 | Total General Long-Term Debt | Interest Maturities | | |
| 2017 | \$ 5,000 | \$ 3,093,016 | \$ 3,346,328 | | |
| 2018 | 5,000 | 3,414,085 | 3,194,210 | | |
| 2019 | 5,000 | 3,810,772 | 3,036,519 | | |
| 2020 | 90,000 | 4,073,101 | 2,865,936 | | |
| 2021 | 110,000 | 4,266,095 | 2,682,179 | | |
| 2022 - 2026 | 575,000 | 24,008,969 | 10,733,746 | | |
| 2027 - 2031 | 650,000 | 29,440,000 | 5,306,566 | | |
| 2032 - 2034 | 8,555,000 | 13,455,000 | 451,306 | | |
| Total | <u>\$ 9,995,000</u> | <u>\$ 85,561,038</u> | <u>\$ 31,616,790</u> | | |

Defeased Debt

During the year ended June 30, 2016, the District issued General Obligation Bonds, Series of 2016 in the amount of \$9,995,000, that were used to advance refund a portion of the General Obligation Notes, Series of 2008. The advance refunding met the requirements of an in-substance debt defeasance and the bonds were removed from the District's long-term liabilities.

As of June 30, 2016, outstanding general obligation notes of the District in the amount of \$25,550,000 were considered to be defeased with a related \$28,177,146 (market value at June 30, 2016) held in escrow funds.

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 8 - EMPLOYEE RETIREMENT PLANS

Employee Defined Benefit Pension Plan

Summary of Significant Accounting Policies

Pension Plan

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

General Information about the Pension Plan

Plan Description

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

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to two percent or 2.5 percent, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after 10 years of service.

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

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

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (10 years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

Contributions

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

Member Contributions:

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

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

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

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

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employer Contributions:

The District's contractually required contribution rate for fiscal year ended June 30, 2016 was 25.00 percent of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The rate was certified by the PSERS Board of Trustees. Contributions to the pension plan from the District were \$5,824,359 for the year ended June 30, 2016.

The District is also required to contribute a percentage of covered payroll to PSERS for healthcare insurance premium assistance. For the year ended June 30, 2016, the contribution rate was 0.84 percent of covered payroll and the District contributed \$195,698.

Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for approximately one-half of the employer contributions made, including contributions related to pension and healthcare. This arrangement does not meet the criteria of a special funding situation in accordance with GASB standards. Therefore, the net pension liabilities and related to pension expense represents 100 percent of the District's share of these amounts. The total reimbursement recognized by the District for the year ended June 30, 2016 was \$3,407,054.

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

At June 30, 2016, the District reported a liability of \$81,476,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2014 to June 30, 2015. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2015, the District's proportion was 0.1881 percent, which was an increase of 0.0059 percent from its proportion measured as of June 30, 2014.

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

For the year ended June 30, 2016, the District recognized pension expense of \$7,865,068. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|------------------------------------------------------------------------------------------|-----------------------------------------|----------------------------------------|
| Net difference between projected and actual investment earnings | \$ - | \$ 165,000 |
| Difference between expected and actual experience | - | 336,000 |
| Changes in proportions - plan level | 2,803,000 | - |
| Difference between employer contributions and proportionate share of total contributions | 171,778 | - |
| Contributions made subsequent to the measurement date | 5,824,359 | - |
| | \$ 8,799,137 | \$ 501,000 |

The \$5,824,359 reported as deferred outflows of resources related to pensions resulting from District pension contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the years ending June 30:

| | |
|------|----------------|
| 2017 | \$ (346,066) |
| 2018 | (346,066) |
| 2019 | (346,066) |
| 2020 | (1,435,580) |
| | \$ (2,473,778) |

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Actuarial Assumptions

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

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

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

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

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

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

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|------------------------------|--------------------------|-----------------------------------------------|
| Public markets global equity | 22.5% | 4.8% |
| Private markets (equity) | 15.0% | 6.6% |
| Private real estate | 12.0% | 4.5% |
| Global fixed income | 7.5% | 2.4% |
| U.S. long treasuries | 3.0% | 1.4% |
| TIPS | 12.0% | 1.1% |
| High yield bonds | 6.0% | 3.3% |
| Cash | 3.0% | 0.7% |
| Absolute return | 10.0% | 4.9% |
| Risk parity | 10.0% | 3.7% |
| MLPs/Infrastructure | 5.0% | 5.2% |
| Commodities | 8.0% | 3.1% |
| Financing (LIBOR) | <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 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

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

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

| | <u>1% Decrease 6.50%</u> | <u>Discount Rate 7.50%</u> | <u>1% Increase 8.50%</u> |
|-------------------------------------------------------------|------------------------------|--------------------------------|------------------------------|
| District's proportionate share of the net pension liability | \$ 100,427,000 | \$ 81,476,000 | \$ 65,548,000 |

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

At June 30, 2016, the District had an accrued balance due to PSERS of \$2,367,327. This amount represents the District's contractually obligated contributions for wages earned in April 2016 through June 2016. The balance will be paid in September 2016.

403(b) Tax Shelter Plan

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

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS

Plan Description

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

Funding Policy

Contribution requirements also are negotiated between the District and union representatives. The required contribution is based on pay as you go financing. For all employees with 30 years of PSERS service or upon superannuation retirement (age 60 with 30 years of service, age 62 with one year of service, or 35 years of service regardless of age), the retired plan member pays the premium determined for the purpose of COBRA. The retired plan member may elect to continue coverage for themselves and their dependents until the retired plan member reaches Medicare age. For the fiscal year ended June 30, 2016, the District contributed \$140,450 to the plan related to retirees.

Annual OPEB Cost and Net OPEB Obligation

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

| | |
|--------------------------------------------|---------------------|
| Annual required contribution | \$ 316,718 |
| Interest on net OPEB obligation | 42,910 |
| Adjustment to annual required contribution | <u>(58,541)</u> |
| Annual OPEB cost | 301,087 |
| Contributions made | <u>(140,450)</u> |
| Increase in net OPEB obligation | 160,637 |
| Net OPEB obligation - beginning of year | <u>953,562</u> |
| Net OPEB obligation - end of year | <u>\$ 1,114,199</u> |

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

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

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------------|------------------|--------------------------------------------|---------------------|
| 6/30/2016 | \$ 301,087 | 46.60% | \$ 1,114,199 |
| 6/30/2015 | 303,328 | 54.90% | 953,562 |
| 6/30/2014 | 289,262 | 63.70% | 828,171 |

Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the Plan was unfunded. The actuarial accrued liability for benefits was \$2,441,610, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,441,610. The covered payroll (annual payroll of active employees covered by the Plan) was \$21,989,667, and the ratio of the UAAL to the covered payroll was 11.10 percent.

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

Actuarial Methods and Assumptions

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

In the July 1, 2014 actuarial valuation, the entry age actuarial normal cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5 percent initially, decreasing 0.5 percent per year to an ultimate rate of 5.5 percent in 2016. Rates gradually decrease from 5.3 percent in 2017 to 4.2 percent in 2089 and later based on Society of Actuaries Long-Run Medical Cost Trend Model. The unfunded actuarial accrued liability is being amortized at the end of the year based on level dollar, 30-year open amortization period.

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 10 - INTERFUND BALANCES AND TRANSFERS

The following is a summary of interfund receivables and payables at June 30, 2016:

| | <u>Interfund Receivables</u> | <u>Interfund Payables</u> |
|----------------------------------|----------------------------------|-------------------------------|
| General Fund | \$ 575,563 | \$ 500,000 |
| Nonmajor Fund - Capital Projects | 500,000 | - |
| Nonmajor Fund - Special Revenue | - | 3,426 |
| Enterprise Fund | - | 575,563 |
| Agency | <u>3,426</u> | <u>-</u> |
| | <u>\$ 1,078,989</u> | <u>\$ 1,078,989</u> |

Interfund receivables and payables exist as a result of a time lag between dates when payments between funds are made. All balances, except the amount due to the general fund from the food service fund, will be repaid within one year. The amount the food service fund owes to the general fund will be repaid depending on available cash flows.

Interfund transfers are summarized as follows:

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|----------------------------------|---------------------|----------------------|
| General Fund | \$ - | \$ 500,000 |
| Nonmajor Fund - Capital Projects | <u>500,000</u> | <u>-</u> |
| | <u>\$ 500,000</u> | <u>\$ 500,000</u> |

Transfers were made for anticipated capital improvement needs.

NOTE 11 - JOINT VENTURE

The District is a participating member of the Berks Career & Technology Center. The Berks Career & Technology Center is controlled and governed by a joint board, which is composed of representative school board members of the participating schools. Direct oversight of Berks Career & Technology Center operations is the responsibility of the joint board. The District's share of annual operating and capital costs for Berks Career & Technology Center fluctuates based on the percentage of enrollment. The District's share for the 2015/2016 year was \$844,355.

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 11 - JOINT VENTURE - CONTINUED

During the year ended June 30, 1998, Berks County Vocational Technical School Authority issued \$34,850,000 of General Obligation Bonds and lent the proceeds to Berks Career & Technology Center. The proceeds are being used to renovate and build an addition to Berks Career & Technology Center's facilities. Each member district adopted a resolution approving the project and the project's maximum cost. Under the amended Articles of Agreement, each member district is required to pay from current revenues its annual share of the sublease rental based on the District's share of taxable real estate to the total market valuation of the taxable real estate of all participating school districts. The District's share for the 2015/ 2016 year was \$144,771.

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

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

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

NOTE 12 - RISK MANAGEMENT

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

NOTE 13 - CONTINGENT LIABILITIES

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

The District is involved in routine litigation incidental to the conduct of its business. The results, in the opinion of management, are not likely to affect the District's financial condition, results of operations, or cash flows.

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 13 - CONTINGENT LIABILITIES - CONTINUED

The District has a letter of credit for \$210,550 relating to building projects at Monocacy Elementary required by Pennsylvania Department of Transportation. At June 30, 2016, the letter of credit was unused.

In April 2016, the District entered into a qualified interest rate management agreement in accordance with the provisions of the Local Government Unit Debt Act. The management agreement is designed to preserve the economic benefit the District would receive based on current interest rates if they refunded the 2007 General Obligation bonds which can only be refunded January 1, 2017 or later. The agreement is based on a notional amount of \$32,150,000 to be effective April 2017 with termination April 2030.

The collective bargaining agreement between the District and Daniel Boone Education Association expired August 31, 2015. The employees continue to work under the expired contract with no agreement at the date of this report.

NOTE 14 - COMMITMENTS

In June 2011, the District entered into a lease agreement for the lease of 18 copiers. The lease term ended June 29, 2016. Total lease expense for the year ended June 30, 2016 is \$41,232.

In June 2011, the District entered into a lease agreement for the lease of Print analysis and recovery software. The lease term will end July 7, 2016. Total lease expense for the year ended June 30, 2016 is \$4,200.

Minimum lease payments for future years at June 30, 2017 are \$350.

NOTE 15 - FUND BALANCE

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

General Fund

The general fund has a nonspendable fund balance of \$143,962 for prepaid expenditures, assigned funds of \$3,339,312 consisting of appropriation of fund balance of \$1,673,812 for the 2016/2017 budget, \$1,000,000 for future capital projects, and \$665,500 for retirement rate increases, and unassigned fund balance of \$1,602,315.

Nonmajor Funds

The special revenue fund has restricted funds of \$95,133, consisting of receipts that are received from sources to be used for specific purposes.

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 15 - FUND BALANCE - CONTINUED

The capital projects fund has restricted funds of \$529,273 comprised of surplus moneys transferred from the general fund for the acquisition or construction of capital facilities and qualifying capital assets as authorized by Municipal Code P.L. 145 Act of April 30, 1943.

NOTE 16 - NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

DANIEL BOONE AREA SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

For the Year Ended June 30, 2016

| | BUDGET | | ACTUAL | VARIANCE |
|------------------------------------------------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|
| | Original | Final | (GAAP Basis) | Final to Actual |
| REVENUES | | | | |
| Local Sources | \$ 35,758,431 | \$ 35,758,431 | \$ 34,012,715 | \$ (1,745,716) |
| State Sources | 15,985,947 | 15,985,947 | 18,096,523 | 2,110,576 |
| Federal Sources | 878,886 | 878,886 | 977,857 | 98,971 |
| | | | | |
| TOTAL REVENUES | 52,623,264 | 52,623,264 | 53,087,095 | 463,831 |
| EXPENDITURES | | | | |
| INSTRUCTION | | | | |
| Regular Programs - Elementary/Secondary | 22,835,183 | 22,868,417 | 22,720,230 | 148,187 |
| Special Programs - Elementary/Secondary | 7,546,465 | 7,545,954 | 7,331,833 | 214,121 |
| Vocational Education Programs | 951,502 | 951,702 | 884,809 | 66,893 |
| Other Instructional Programs - Elementary/Secondary | 50,632 | 50,732 | 36,676 | 14,056 |
| Nonpublic Schools | 9,289 | 9,289 | 4,645 | 4,644 |
| | | | | |
| TOTAL INSTRUCTION | 31,393,071 | 31,426,094 | 30,978,193 | 447,901 |
| SUPPORT SERVICES | | | | |
| Pupil Personnel | 1,389,181 | 1,388,681 | 1,670,142 | (281,461) |
| Instructional Staff | 1,882,612 | 1,884,254 | 1,536,253 | 348,001 |
| Administration | 2,715,940 | 2,692,631 | 2,914,601 | (221,970) |
| Pupil Health | 563,190 | 583,190 | 566,286 | 16,904 |
| Business | 640,241 | 636,841 | 636,282 | 559 |
| Operation and Maintenance of Plant Services | 4,189,557 | 4,189,057 | 3,954,147 | 234,910 |
| Student Transportation Services | 2,927,570 | 2,927,570 | 3,014,051 | (86,481) |
| Central | 369,382 | 335,926 | 259,974 | 75,952 |
| Other Support Services | 45,000 | 45,000 | 36,680 | 8,320 |
| | | | | |
| TOTAL SUPPORT SERVICES | 14,722,673 | 14,683,150 | 14,588,416 | 94,734 |
| OPERATION OF NONINSTRUCTIONAL SERVICES | | | | |
| Student Activities | 756,738 | 763,238 | 669,240 | 93,998 |
| Community Services | 900 | 900 | 900 | - |
| | | | | |
| TOTAL OPERATION OF NONINSTRUCTIONAL SERVICES | 757,638 | 764,138 | 670,140 | 93,998 |
| DEBT SERVICE | 6,168,725 | 6,168,725 | 5,982,295 | 186,430 |
| | | | | |
| TOTAL EXPENDITURES | 53,042,107 | 53,042,107 | 52,219,044 | 823,063 |
| | | | | |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (418,843) | (418,843) | 868,051 | 1,286,894 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Issuance of Refunding Bonds | - | - | 9,995,000 | 9,995,000 |
| Payment to Refunded Bond Escrow Agent | - | - | (9,817,864) | (9,817,864) |
| Discount or Bond Issuance | - | - | (21,742) | (21,742) |
| Sale of Capital Assets | - | - | 150 | 150 |
| Transfers Out | - | - | (500,000) | (500,000) |
| Budgetary Reserve | (150,000) | (150,000) | - | 150,000 |
| | | | | |
| TOTAL OTHER FINANCING SOURCES (USES) | (150,000) | (150,000) | (344,456) | (194,456) |
| | | | | |
| REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES | <u>\$ (568,843)</u> | <u>\$ (568,843)</u> | 523,595 | <u>\$ 1,092,438</u> |
| FUND BALANCE - BEGINNING OF YEAR | | | 4,561,994 | |
| | | | | |
| FUND BALANCE - END OF YEAR | | | <u>\$ 5,085,589</u> | |

See note to required supplementary information.

DANIEL BOONE AREA SCHOOL DISTRICT

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

June 30, 2016

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|-------------------------------------------------------------------------------------------------------------|---------------|---------------|---------------|
| District's proportion of the net pension liability | 0.1881% | 0.1822% | 0.1790% |
| District's proportionate share of the net pension liability | \$ 81,476,000 | \$ 72,116,000 | \$ 73,276,000 |
| District's covered employee payroll | \$ 24,200,200 | \$ 23,254,594 | \$ 22,972,654 |
| District's proportionate share of the net pension liability as a percentage of its covered employee payroll | 336.67% | 310.12% | 318.97% |
| Plan fiduciary net position as a percentage of the total pension liability | 54.36% | 57.24% | 54.50% |

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

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

DANIEL BOONE AREA SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - PENSION PLAN

LAST 10 FISCAL YEARS

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|----------------------------------------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|----------------|----------------|------------------|------------------|
| Contractually required contribution | \$ 5,824,359 | \$ 4,979,892 | \$ 3,752,440 | \$ 2,712,322 | \$ 1,840,370 | \$ 1,181,944 | \$ 921,773 | \$ 868,671 | \$ 1,323,191 | \$ 1,111,874 |
| Contributions in relation to the contractually required contribution | <u>5,824,359</u> | <u>4,979,892</u> | <u>3,752,440</u> | <u>2,712,322</u> | <u>1,840,370</u> | <u>1,181,944</u> | <u>921,773</u> | <u>868,671</u> | <u>1,323,191</u> | <u>1,111,874</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered employee payroll | \$ 23,116,535 | \$ 24,200,200 | \$ 23,254,594 | \$ 22,972,654 | | | | | | |
| Contributions as a percentage of covered employee payroll | 25.20% | 20.58% | 16.14% | 11.81% | | | | | | |

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

DANIEL BOONE AREA SCHOOL DISTRICT

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a / b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b - a) / c) |
|--------------------------------|----------------------------------------|------------------------------------------------------------------|--------------------------------------|----------------------------|---------------------------|-------------------------------------------------------------------|
| 7/1/2014 | \$ - | \$ 2,441,610 | \$ 2,441,610 | 0.00% | \$ 21,989,667 | 11.10% |
| 7/1/2012 | - | 2,237,036 | 2,237,036 | 0.00% | 21,397,457 | 10.45% |
| 7/1/2010 | - | 2,204,666 | 2,204,666 | 0.00% | 21,978,227 | 10.03% |

DANIEL BOONE AREA SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

BUDGETARY DATA

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

SUPPLEMENTARY INFORMATION

DANIEL BOONE AREA SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2016

| | Special Revenue | Capital Projects | Total Nonmajor Funds |
|--------------------------------------------|--------------------|---------------------|----------------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| ASSETS | | | |
| Cash and Investments | \$ 98,559 | \$ 29,273 | \$ 127,832 |
| Interfund Receivable | <u> -</u> | <u>500,000</u> | <u>500,000</u> |
| TOTAL ASSETS | 98,559 | 529,273 | 627,832 |
| LIABILITIES AND FUND BALANCES | | | |
| LIABILITIES | | | |
| Interfund Payable | <u>3,426</u> | <u> -</u> | <u>3,426</u> |
| TOTAL LIABILITIES | 3,426 | - | 3,426 |
| FUND BALANCES | | | |
| Restricted Fund Balance | <u>95,133</u> | <u>529,273</u> | <u>624,406</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 98,559</u> | <u>\$ 529,273</u> | <u>\$ 627,832</u> |

DANIEL BOONE AREA SCHOOL DISTRICT

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

For the Year Ended June 30, 2016

| | <u>Special Revenue</u> | <u>Capital Projects</u> | <u>Total Nonmajor Funds</u> |
|--------------------------------------------------------------|----------------------------|-----------------------------|-------------------------------------|
| REVENUES | | | |
| Local Sources | \$ 119,413 | \$ 36,567 | \$ 155,980 |
| EXPENDITURES | | | |
| Support Services | - | 83,216 | 83,216 |
| Operation of Noninstructional Services | <u>118,385</u> | <u>-</u> | <u>118,385</u> |
| TOTAL EXPENDITURES | <u>118,385</u> | <u>83,216</u> | <u>201,601</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 1,028 | (46,649) | (45,621) |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers In | <u>-</u> | <u>500,000</u> | <u>500,000</u> |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>-</u> | <u>500,000</u> | <u>500,000</u> |
| NET CHANGE IN FUND BALANCES | 1,028 | 453,351 | 454,379 |
| FUND BALANCES - BEGINNING OF YEAR | <u>94,105</u> | <u>75,922</u> | <u>170,027</u> |
| FUND BALANCES - END OF YEAR | <u>\$ 95,133</u> | <u>\$ 529,273</u> | <u>\$ 624,406</u> |

DANIEL BOONE AREA SCHOOL DISTRICT

COMBINING STATEMENT OF NET POSITION - PRIVATE PURPOSE TRUST FUNDS

June 30, 2016

| | Paul Kolesar Scholarship Fund | Amity HS Alumni | Matt Mourar Scholarship Fund | Loquan L Lockett Scholarship Fund | Kenneth Murray Scholarship Fund | Birdsboro HS Alumni Scholarship Fund | Total |
|--------------------------------------------------------|----------------------------------------|-----------------------|---------------------------------------|--------------------------------------------|------------------------------------------|-----------------------------------------------|------------------|
| ASSETS | | | | | | | |
| Cash and Investments | \$ - | \$ 5,041 | \$ 5,909 | \$ 8,202 | \$ 544 | \$ 12,011 | \$ 31,707 |
| TOTAL ASSETS | - | 5,041 | 5,909 | 8,202 | 544 | 12,011 | 31,707 |
| NET POSITION HELD IN TRUST FOR SCHOLARSHIPS | <u>\$ -</u> | <u>\$ 5,041</u> | <u>\$ 5,909</u> | <u>\$ 8,202</u> | <u>\$ 544</u> | <u>\$ 12,011</u> | <u>\$ 31,707</u> |

DANIEL BOONE AREA SCHOOL DISTRICT

COMBINING STATEMENT OF CHANGES IN NET POSITION - PRIVATE PURPOSE TRUST FUNDS

For the Year Ended June 30, 2016

| | Paul Kolesar Scholarship Fund | Amity Alumni HS Fund | Matt Mourar Scholarship Fund | Loquan L Lockett Scholarship Fund | Kenneth Murray Scholarship Fund | Birdsboro HS Alumni Scholarship Fund | Total |
|-----------------------------------------|----------------------------------------|----------------------------|---------------------------------------|--------------------------------------------|------------------------------------------|-----------------------------------------------|------------------|
| ADDITIONS | | | | | | | |
| Contributions | \$ 10,000 | \$ 1,260 | \$ - | \$ - | \$ 1,544 | \$ 14,000 | \$ 26,804 |
| Earnings on Investments | - | 5 | 7 | 8 | - | 11 | 31 |
| TOTAL ADDITIONS | 10,000 | 1,265 | 7 | 8 | 1,544 | 14,011 | 26,835 |
| DEDUCTIONS | | | | | | | |
| Scholarships | 10,344 | 1,000 | 600 | 1,000 | 1,000 | 2,000 | 15,944 |
| CHANGE IN NET POSITION | (344) | 265 | (593) | (992) | 544 | 12,011 | 10,891 |
| NET POSITION - BEGINNING OF YEAR | 344 | 4,776 | 6,502 | 9,194 | - | - | 20,816 |
| NET POSITION - END OF YEAR | <u>\$ -</u> | <u>\$ 5,041</u> | <u>\$ 5,909</u> | <u>\$ 8,202</u> | <u>\$ 544</u> | <u>\$ 12,011</u> | <u>\$ 31,707</u> |

DANIEL BOONE AREA SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2016

| Federal Grantor/Pass-Through Grantor/Program Title | Source Code | CFDA Number | Pass-Through Grantor's Number | Grant Period Beginning/Ending Dates | Award Amount | Receipts for the Year | Accrued (Unearned) Revenue at July 1, 2015 | Revenue/Expenditures | Accrued (Unearned) Revenue at June 30, 2016 |
|-----------------------------------------------------------------------------|-------------|-------------|-------------------------------|-------------------------------------|--------------|-----------------------|--------------------------------------------|----------------------|---------------------------------------------|
| <u>U.S. Department of Agriculture</u> | | | | | | | | | |
| Child Nutrition Cluster | | | | | | | | | |
| Passed through Commonwealth of Pennsylvania Department of Education: | | | | | | | | | |
| National School Lunch Program | I | 10.555 | N/A | 07/01/15- 06/30/16 | N/A | \$ 340,248 | \$ - | \$ 348,618 | \$ 8,370 |
| National School Lunch Program | I | 10.555 | N/A | 07/01/14- 06/30/15 | N/A | 13,498 | 13,498 | - | - |
| School Breakfast Program | I | 10.553 | N/A | 07/01/15- 06/30/16 | N/A | 62,335 | - | 64,529 | 2,194 |
| School Breakfast Program | I | 10.553 | N/A | 07/01/14- 06/30/15 | N/A | 2,628 | 2,628 | - | - |
| Passed through Commonwealth of Pennsylvania Department of Agriculture: | | | | | | | | | |
| National School Lunch | I | 10.555 | N/A | 07/01/15- 06/30/16 | N/A | 50,624 | - | 50,624 | - |
| TOTAL CHILD NUTRITION CLUSTER AND U.S. DEPARTMENT OF AGRICULTURE | | | | | | 469,333 | 16,126 | 463,771 | 10,564 |
| <u>U.S. Department of Health and Human Services</u> | | | | | | | | | |
| Passed through Pennsylvania Department of Welfare: | | | | | | | | | |
| Medical Assistance Reimbursement for Administration, Revenue Code 8820 | I | 93.778 | N/A | 07/01/15 - 06/30/16 | N/A | 4,068 | - | 6,506 | 2,438 |
| <u>U.S. Department of Education</u> | | | | | | | | | |
| Passed through Commonwealth of Pennsylvania Department of Education: | | | | | | | | | |
| Title I - Grants to Local Educational Agencies | I | 84.010 | 013-160113 | 08/26/15-09/30/16 | \$310,843 | 310,960 | - | 288,516 | (22,444) |
| Title I - Grants to Local Educational Agencies | I | 84.010 | 013-150113 | 09/19/14 - 09/30/15 | \$336,128 | - | (97,658) | 97,658 | - |
| Total Title I | | | | | | 310,960 | (97,658) | 386,174 | (22,444) |
| Supporting Effective Instruction State Grant | I | 84.367 | 020-160113 | 08/26/15-09/30/16 | \$42,734 | 42,926 | - | 42,734 | (192) |
| Passed through Berks County Intermediate Unit: | | | | | | | | | |
| Special Education Cluster (IDEA) | | | | | | | | | |
| Special Education - Preschool Grants | I | 84.173 | N/A | 07/01/15 - 06/30/16 | 1,841 | - | - | 1,841 | 1,841 |
| Special Education - Preschool Grants | I | 84.173 | N/A | 07/01/14 - 06/30/15 | 2,681 | 2,681 | 2,681 | - | - |
| Special Education - Grants to States | I | 84.027 | N/A | 07/01/15 - 09/30/16 | 552,060 | 373,857 | - | 552,060 | 178,203 |
| Special Education - Grants to States | I | 84.027 | N/A | 07/01/14 - 09/30/15 | 547,390 | 279,779 | 279,779 | - | - |
| Total Special Education Cluster (IDEA) | | | | | | 656,317 | 282,460 | 553,901 | 180,044 |
| TOTAL U.S. DEPARTMENT OF EDUCATION | | | | | | 1,010,203 | 184,802 | 982,809 | 157,408 |
| <u>U.S. Department of Homeland Security</u> | | | | | | | | | |
| Passed through Pennsylvania Emergency Management Agency: | | | | | | | | | |
| Disaster Grant - Public Assistance | I | 97.036 | N/A | 03/23/16 - 09/23/16 | 10,443 | - | - | 10,443 | 10,443 |
| TOTAL FEDERAL AWARDS | | | | | | <u>\$ 1,483,604</u> | <u>\$ 200,928</u> | <u>\$ 1,463,529</u> | <u>\$ 180,853</u> |

I = Indirect Source of Funding

See Notes to Schedule of Expenditures of Federal Awards.

DANIEL BOONE AREA SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2016

NOTE 1 - BASIS OF PRESENTATION

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

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

NOTE 3 - DE MINIMUS RATE FOR INDIRECT COSTS

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

NOTE 4 - FOOD COMMODITIES

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



Herbein + Company, Inc.
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

**To the Board of School Directors
Daniel Boone Area School District
Douglassville, Pennsylvania**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Daniel Boone Area School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Daniel Boone Area School District's basic financial statements and have issued our report thereon dated November 16, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Herbein + Company, Inc.

**Reading, Pennsylvania
November 16, 2016**



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

**To the Board of School Directors
Daniel Boone Area School District
Douglassville, Pennsylvania**

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Daniel Boone Area 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 Daniel Boone Area 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 Daniel Boone Area School District's compliance.

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2016-001. Our opinion on each major federal program is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

Management of Daniel Boone Area School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Daniel Boone Area School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing 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 Daniel Boone Area School District's internal control over compliance.

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

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, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-001, that we consider to be a significant deficiency.

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

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

Herbein + Company, Inc.

**Reading, Pennsylvania
November 16, 2016**

DANIEL BOONE AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified not considered to be material weaknesses? X yes _____ none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? X yes _____ no

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------------------------|------------------------------------------------|
| 84.010 | Title I - Grants to Local Educational Agencies |
| <u>Special Education Cluster (IDEA)</u> | |
| 84.027 | Special Education - Grants to States |
| 84.173 | Special Education - Preschool Grants |

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

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

DANIEL BOONE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2016

Section II - Financial Statement Findings

There were no financial statements findings reported.

Section III - Federal Award Findings and Questioned Costs

2016-001 CASH MANAGEMENT/REPORTING - SIGNIFICANT DEFICIENCY

Federal Programs:

Title I Grants to Local Educational Agencies 84.010 - Contracts 013-160113 and 013-150113

Special Education - Grants to States (IDEA, Part B) 84.027 - 2015/2016 Award

Special Education - Preschool Grants (IDEA 619) 84.173 - 2015/2016 Award

Criteria

As a subrecipient of the Pennsylvania Department of Education for Title I funds, the District is required to submit quarterly cash on hand reports detailing expenditures incurred during the quarter as well as cash received to date.

As a subrecipient of the Berks County Intermediate Unit (BCIU) for IDEA funds, the District is required to submit invoices to the BCIU periodically throughout the year as a formal request to receive reimbursement for expenditures incurred to date.

Condition

The District is a subrecipient of both Title I Grants to Local Educational Agencies from the Pennsylvania Department of Education and IDEA Special Education funds from the BCIU and, as such, is required to submit quarterly cash on hand reports.

Although reports were filed, they were often without proper support and there was no indication of supervision and review.

Context

The District filed one cash on hand report for Title I during the 2015/2016 fiscal year. No general ledger support was attached to the report and no review and approval of the report was noted. Therefore, accuracy of the information submitted on the report could not be verified.

The District submitted three quarterly expenditure reimbursement requests to the BCIU throughout the 2015/2016 fiscal year. Two of the reports submitted had supporting general ledger funding source reports attached to the requests submitted. However, the last request submitted had no supporting general ledger support attached to it. None of the requests submitted were reviewed or approved.

Questioned Costs

None noted.

DANIEL BOONE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2016

Section III - Federal Award Findings and Questioned Costs - continued

2016-001 CASH MANAGEMENT/REPORTING - SIGNIFICANT DEFICIENCY - CONTINUED

Cause

The Assistant Business Manager prepared the quarterly cash on hand reports and expenditure reimbursement requests, but proper supporting documentation was not maintained and reports were not reviewed and approved before being submitted.

Effect

The District was not in compliance with the reporting requirements that are part of the consolidated grant agreement between the District and the Pennsylvania Department of Education for Title I and the reporting requirements that are part of the agreement between the District and the BCIU for IDEA. This noncompliance could affect future grant expenditure reimbursement payments.

Recommendation

All cash on hand reports and expenditure reimbursement requests should be prepared based on the supporting general ledger funding source documentation. This support should be maintained with copies of the reports filed to support the accuracy of the information submitted. A second person should review and approve all federal expenditure reports before they are submitted to request reimbursement of federal funds to determine that the reports are filed accurately and timely.

Use of Statistical Sampling

No.

Repeat Audit Finding

No.

Views of Responsible Officials

See corrective action plan included in this report package.

DANIEL BOONE AREA SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2016

Section II - Financial Statement Findings

2015-001 CASH DISBURSEMENTS - APPROVAL PROCESS

Criteria

A good system of controls involves multiple levels of approval of the District's purchases. This system includes the board of school directors approving an annual budget, management approval of purchase requests through the purchase order approval process, matching invoices to approved purchase orders, or separate management approval of invoices without purchase orders. The District began utilizing the electronic purchase order approval system within the CSIU accounting software during the year ended June 30, 2015. It is the District's policy that every cash disbursement is made based on an approved purchase order or a signed approved invoice, if a purchase order was not used.

Condition/Cause

During our cash disbursement control testing, we noted that 6 of the 40 cash disbursements that we tested (all six were in February 2015 or later) did not have an approved purchase order or an approved invoice. The disbursement was made based on an invoice, but there was no indication of approval on the invoice. We also noted that for two of the cash disbursements selected, the original documentation (supporting invoice, purchase order, etc.) could not be located. The District did obtain copies of the invoices from the vendors to support the disbursements, but no approval of the transaction could be noted.

Effect

The District did not have proper controls in place over the cash disbursement process. As a result, there are instances where no documented evidence exists that management reviewed and approved the invoices that were paid. We acknowledge that management became aware of these deficient conditions during the year and in February 2015 implemented procedural changes requiring payments not be paid without properly approved purchase orders and invoices.

Recommendation

We commend the District on instituting new policies, whereby all cash disbursements should be supported by approved purchase orders or approved invoices. We recommend that the District follow through with the policies implemented and develop oversight to determine that policies are being adhered to and diligence is used in following the electronic purchase order approval and invoice approval process for cash disbursements.

Benefit

The District will have proper controls and segregation of duties in place over cash disbursements, which will help the District to prevent or detect potential misappropriation of assets.

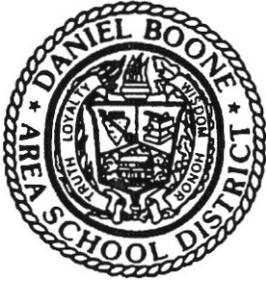
Current Status of Corrective Action Plan

This is no longer a finding in the current year.

DANIEL BOONE AREA SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016

Section III - Federal Award Findings and Questioned Costs

There were no federal award findings or questioned costs reported.



DANIEL BOONE AREA SCHOOL DISTRICT

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Tel. No. (610) 582-6107

FAX No. (610) 689-6215

Mr. James Harris
S11peri11te11de111

Mr. Loren Small
Business Manager

Kathlene Haines
Asst. 811si11ess illa11ager

PA Department of Education
Special Accounting Division
Central Agencies and School Finance
555 Walnut Street
Harrisburg, PA 17101

RE: Corrective Action Plan for Audited Financial Statements ending June 30, 2016

Daniel Boone Area School District respectfully submits the following corrective action plan for the year ended 6/30/2016.

Name and address of independent public accounting firm:

Herbein + Company, Inc.
An Independent Member of Allinial Global
2763 Century Boulevard, Reading, PA 19610
T: 610.378.1175 ext. 4635
F: 610.378.0999

Audit period:

July 1, 2015 through June 30, 2016

The finding from the year ending June 30, 2016 schedule of findings and questioned costs are discussed below. The finding is numbered consistently with numbers assigned in the schedule.

FINDINGS - FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCY

2016-001 Cash Management / Reporting - Significant Deficiency

Recommendation:

All cash on hand reports and expenditure requests should be prepared based on the supporting general ledger funding source documentation. This support should be

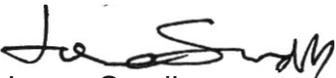
maintained with copies of the reports filed to support the accuracy of the information submitted. A second person should review and approve all federal expenditures reports before they are submitted to request reimbursement of federal funds to determine that the reports are filed accurately and timely.

Action taken:

With the appointment of the new Asst. Business Manager effective July 1, 2016 procedures are in place for the timely filing of all cash reports and appropriate filing of same with backup documentation. All reports are reviewed by the District Federal Programs Coordinator with signoff prior to submission.

If the PA Department of Education has questions regarding this plan, please call Loren Small at (610) 528-6107.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Loren Small".

Loren Small
Business Manager