

PINE GROVE AREA SCHOOL DISTRICT

SINGLE AUDIT REPORT

PINE GROVE, PENNSYLVANIA

FOR THE YEAR ENDED JUNE 30, 2017

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JONES & CO.
A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

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Board of School Directors
Pine Grove Area School District
Pine Grove, Pennsylvania

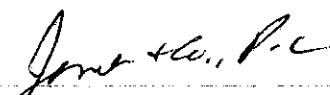
We have performed the Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements, for Federal Awards (Uniform Guidance) of the Pine Grove Area School District for the year ended June 30, 2017. Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements, for Federal Awards (Uniform Guidance) indicates that the auditee is responsible for ensuring appropriate submission of the audit reports to appropriate government officials.

The reporting packages must be submitted no later than 30 days after you receive our Single Audit Report but no later than nine months after the year end (March 31, 2018).

The Single Audit was done to fulfill the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements, for Federal Awards (Uniform Guidance). It entailed: (1) an audit of the general purpose financial statements and our opinion thereon; (2) an examination of the Schedule of Expenditures of Federal Awards and our opinion thereon; (3) a review of the internal control structure based solely on the understanding obtained as part of the audit of the general purpose financial statements; (4) a review of the internal control structure made as a part of the audit of the federal financial assistance programs; (5) a review of compliance based on an audit of the general purpose financial statements in accordance with Government Auditing Standards; and (6) a review of compliance with laws and regulations related to the federal financial assistance programs and our opinion thereon.

As part of our report, we have enclosed a management letter for the fiscal year ended June 30, 2017.

When filing the Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements, for Federal Awards (Uniform Guidance) and the Data Collection Form with the agencies listed on Page 2, the District must enclose the appropriate number of reports as listed.


February 5, 2018
Pottsville Pennsylvania

PINE GROVE AREA SCHOOL DISTRICT

LIST OF REPORT DISTRIBUTION

JUNE 30, 2017

1 Single Audit Report

Schuylkill Intermediate Unit #29
Box 130, Second Floor
Marlin, PA 17951

**1 Single Audit Report and
Data Collection Form
Single Audit Clearing
Package Checklist**

Must be submitted Via Electronic Mail (E-mail)
Commonwealth of Pennsylvania
Office of the Budget - Bureau of Audits,
Special Audit Services Division
RA-BOASingleAudit@state.pa.us

**1 Single Audit Report and
Data Collection Form**

Federal Audit Clearing House
Via Internet Website
www.harvester.census.gov/sac

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INDEPENDENT AUDITOR'S REPORT

Board of School Directors
Pine Grove Area School District
Pine Grove, 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 Pine Grove Area School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Pine Grove Area School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Pine Grove Area School District, as of June 30, 2017, 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 and budgetary comparison information on pages 9-22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

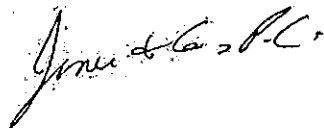
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pine Grove Area School District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented 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 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 and individual nonmajor fund 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 and individual nonmajor fund 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.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2018 on our consideration of the Pine Grove Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pine Grove Area School District's internal control over financial reporting and compliance.



February 5, 2018
Pottsville, Pennsylvania

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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**

Board of School Directors
Pine Grove Area School District
Pine Grove, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Pine Grove Area School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Pine Grove Area School District's basic financial statements and have issued our report thereon dated February 5, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Pine Grove 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 the Pine Grove Area School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pine Grove Area School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses 2017-01.

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.

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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**

Board of School Directors
Pine Grove Area School District
Pine Grove, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited the Pine Grove 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 Pine Grove Area School District's major federal programs for the year ended June 30, 2017. Pine Grove 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 the Pine Grove 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 the Pine Grove 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 the Pine Grove Area School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Pine Grove 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, 2017.

PINE GROVE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017
(Unaudited)

This Management's Discussion and Analysis (MD&A) is intended to provide a narrative overview and analysis of the financial activities of the Pine Grove Area School District (the "District") for the year ended June 30, 2017. The District's financial performance is discussed and analyzed within the context of the financial statements and the disclosures that follow. This discussion focuses on the District's financial performance as a whole; readers should review the basic financial statements and the notes to the financial statements for a better understanding of the District as a whole.

FINANCIAL HIGHLIGHTS

Total Net Position of the District decreased \$642,927 in 2017 to (\$9,603,945) at June 30, 2017. Net position of governmental activities decreased \$751,900 or (8.09%) below 2016. Net position of the business-type activity increased \$108,973, or 34.11%, above 2016.

The District had \$23,885,720 in expenses related to governmental activities in 2017; of these expenses, \$4,970,938 was offset by program-specific charges for services, grants or contributions. General revenues (primarily taxes and state subsidies) of \$18,167,419 were adequate to provide for these programs.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basis financial statements. The District's basin financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting. The focus of these statements is long-term.

The statement of Net Position presents information on all of the District's assets and liabilities and deferred inflows and outflows of resources. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

PINE GROVE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017
(Unaudited)

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include all of the District's instructional programs and support services except for its food service operation, which is considered a business-type activity.

The government-wide financial statements can be found on pages 23-24 of this report.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of fund financial statements is short-term. Fund financial statements are prepared using the modified accrual basis of accounting. The District uses several different types of funds but the two most significant types are the governmental and proprietary fund types.

GOVERNMENTAL FUNDS

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the District's major funds (General Fund and Capital Project Fund).

The basic governmental fund financial statements can be found on pages 25 through 34 of this report.

PINE GROVE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017
(Unaudited)

The District adopts an annual budget for its General Fund. A budgetary comparison statement for the General Fund has been provided on page 29 of this report to demonstrate compliance with this budget.

PROPRIETARY FUNDS

The District accounts for its food service operation in a proprietary fund, which report the same functions presented as business-type activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found on pages 30-32 of this report.

FIDUCIARY FUNDS

The District maintains fiduciary funds for private purpose trust and student activity funds. All of the District's fiduciary activities are reported in a separate statement of Net Position on page 34 of this report as these activities cannot be used to finance District operations.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 35-67 of this report.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District prepares a budget each year for its General Fund according to Pennsylvania law. The budget complied with all applicable state laws and financial policies approved by the School Board of Directors.

The General Fund's approved budget for 2017 included revenue of \$22,999,376 and expenditures and other financing uses of \$23,237,802. There were no amendments made to the budget in 2017.

Actual revenues in 2017 were \$23,128,520, exceeding budgeted revenues of \$22,999,376 by \$249,144. The favorable variance was attributable primarily to actual exceeding budgeted amounts of \$178,253 and \$132,325 in local and state source revenues, respectively, offset by actual final amounts less than budgeted amounts of \$61,434 in federal source revenues.

Actual expenditures exceeded the budgeted expenditures in 2017 by \$1,957,892. The primary cause for the unfavorable variance is an increase in instruction and operation of non-instructional services expenditures (due to construction-related expenditures) and an increase in support services expenditures of \$2,511,116 and \$147,658, respectively, offset by a decrease in instruction expenditures of \$700,882.

PINE GROVE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017
(Unaudited)

Other financing uses were \$2,018,415 in 2017, less than the budgeted amount of \$2,314,608 by \$296,193. \$300,000 of the favorable variance is attributable to the district not utilizing the interfund transfer budgeted amount of \$300,000, offset by \$3,807 debt service expenditures in excess of the budgeted amount of \$2,018,415.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District's condensed government-wide financial statements are presented comparatively as follows:

	CONDENSED STATEMENT OF NET POSITION					
	GOVERNMENTAL ACTIVITIES		BUSINESS TYPE ACTIVITY		TOTALS	
	6/30/2017	6/30/2016	6/30/2017	6/30/2016	6/30/2017	6/30/2016
Current and Other assets	\$11,935,900	\$12,894,347	\$590,408	\$1,035,460	\$12,526,308	\$13,929,807
Capital assets	28,793,536	27,000,449	8,355	9,553	28,801,891	27,010,002
Deferred Outflows of resources	3,856,658	1,645,834	0	0	3,856,658	1,645,834
Total Assets & Deferred Outflows of Resources	\$44,586,094	\$41,540,630	\$598,763	\$1,045,013	\$45,184,857	\$42,585,643
Current and Other liabilities	\$5,702,146	\$4,182,492	\$148,146	\$708,243	\$5,850,292	\$4,890,735
Long-term liabilities	48,402,531	46,127,544	0	0	48,402,531	46,127,544
Deferred Inflows of resources	513,794	511,071	22,185	17,311	535,979	528,382
Total Liabilities & Deferred Inflows	\$54,618,471	\$50,821,107	\$170,331	\$725,554	\$54,788,802	\$51,546,661
Net Position:						
Invested in capital assets, net of related debt	\$16,273,536	\$11,108,741	\$8,355	\$4,519	\$16,281,891	\$11,113,260
Restricted	807,790	2,013,794	0	0	807,790	2,013,794
Committed	0	0	0	0	0	0
Unassigned	(27,113,703)	(21,120,770)	420,077	282,831	(26,693,626)	(20,837,939)
Total Net Position	(10,032,377)	(9,280,477)	428,432	319,459	(9,603,945)	(8,961,018)
Total Liabilities & Net Position	\$44,586,094	\$41,540,630	\$598,763	\$1,045,013	\$45,184,857	\$42,585,643

PINE GROVE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017
(Unaudited)

CONDENSED STATEMENT OF ACTIVITIES (IN 000'S)

	GOVERNMENTAL ACTIVITIES		BUSINESS TYPE ACTIVITY		TOTALS	
	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2017</u>	<u>6/30/2016</u>
Revenues						
Program Revenues:						
Charges for Services	\$66,812	\$63,849	\$437,398	\$477,115	\$504,210	\$540,964
Operating Grants and Contributions	4,819,783	4,360,646	446,887	444,011	5,266,670	4,804,657
Capital Grants and Contributions	84,343	66,239	0	0	84,343	66,239
Taxes Levied for General Purposes	10,375,642	10,271,135	0	0	10,375,642	10,271,135
Grants, Subsidies and Other Contr.	7,307,854	7,159,872	0	0	7,307,854	7,159,872
Transfers and Other	479,386	408,355	4,537	1,473	483,923	409,828
Total Revenues	\$23,133,820	\$22,330,096	\$888,822	\$921,126	\$24,022,642	\$23,252,695
Program Expenditures						
Instruction	\$14,701,807	\$15,032,286	\$0	\$0	\$14,701,807	\$15,032,286
Instructional Student Support	2,039,966	1,866,209	0	0	2,039,966	1,866,209
Administrative & Financial Support	2,834,756	2,430,826	0	0	2,834,756	2,430,826
Operation & Maintenance of Plant	2,213,187	1,996,374	0	0	2,213,187	1,996,374
Pupil Transportation	1,212,129	1,303,390	0	0	1,212,129	1,303,390
Student Activities	558,135	631,297	0	0	558,135	631,297
Community Services	0	0	0	0	0	0
Interest on Long-Term Debt	325,740	351,956	0	0	325,740	351,956
Unallocated Depreciation						
Food services	0	0	779,849	890,490	779,849	890,490
Total Expenditures	\$23,885,720	\$23,612,338	\$779,849	\$890,490	\$24,665,569	\$24,502,828
Change in Net Position	(751,900)	(1,282,242)	108,973	32,109	(642,927)	(1,250,133)
Net Position, Beginning	(9,280,477)	(7,998,235)	319,459	287,350	(8,961,018)	(7,710,885)
Prior Period Adjustment	0	0	0	0	0	0
Net Position, Ending	(\$10,032,377)	(\$9,280,477)	\$428,432	\$319,459	(\$9,603,945)	(\$8,916,018)

PINE GROVE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017
(Unaudited)

GOVERNMENTAL ACTIVITIES

The Net Position of the governmental activities decreased by \$751,900 or 8.10% below 2016. The majority of the decrease was due to an increase in the District's reportable Net Pension Liability as of 6/30/17 as a result of the adoption of GASB Statement No. 68, *Accounting and Financial Reporting Pensions* in prior years, as disclosed in Note 15 to the financial statements. Revenues increased approximately 3.61%, attributable primarily to an increase in local tax collections. Expenditures increased approximately 14.94% in 2017 due to increases in instruction and operation of non-instructional services.

BUSINESS-TYPE ACTIVITY

The Net Position of the District's food service operation increased by \$108,973 in 2017.

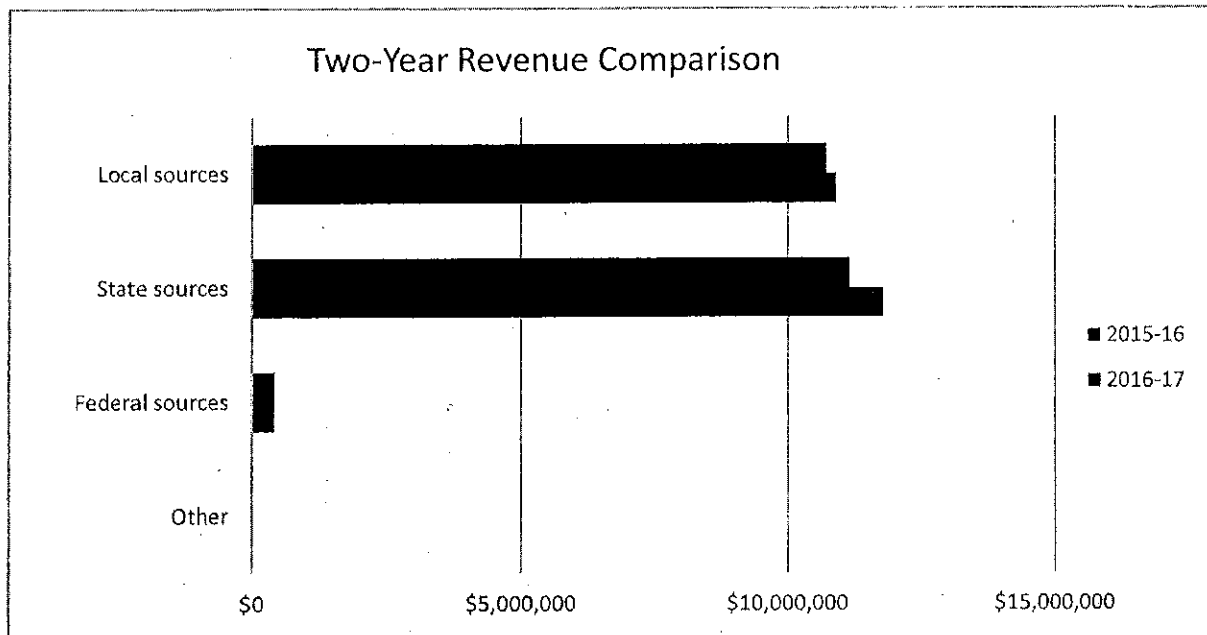
FINANCIAL ANALYSIS OF THE FUNDS

GENERAL FUND (MAJOR)

The following represents a summary of Actual General Fund revenue, by source, for the years June 30, 2017 and 2016.

	2017 Amount	2016 Amount	Increase (Decrease)
		\$	
Local Sources	\$ 10,916,541	10,736,543	\$ 179,998
State Sources	11,805,860	11,170,978	634,882
Federal Sources	406,119	415,779	(9,660)
Other	0	0	0
Total	<u>\$ 23,128,520</u>	<u>\$ 22,323,300</u>	<u>\$ 805,220</u>

PINE GROVE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017
(Unaudited)



LOCAL SOURCES

Approximately 72% of the District's 2016-17 local source revenue is generated from real estate taxes. During 2017, local revenues increased slightly over 2016. The current real estate tax revenue increased by approximately \$68,500, delinquent tax collections increased approximately \$71,845, and interest income increased by approximately \$26,590.

STATE SOURCES

State sources increased by \$634,882. The subsidies associated with the Basic Education Funding, Special Education Funding, Transportation, and the increase in Social Security and Retirement revenue account for a majority of the increase in state source revenue. Note: The District's retirement expense is offset by the revenue source received from the State.

FEDERAL SOURCES

Federal sources of revenue decreased by \$9,660 or 2.40% primarily due to lower receipts of Medicaid ACCESS and Title I funding than in prior year.

PINE GROVE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017
(Unaudited)

OTHER SOURCES

Revenues from other sources increased by \$1,242 due to receipt of \$1,042 from residual proceeds due to the advance refunding of General Obligation Bonds of Series A and Series B of 2010 in the prior year and an increase of \$200 in proceeds from the sale of fixed assets over prior year.

The following represents a summary of General Fund Expenditures by function for the year June 30, 2017 and 2016.

	<u>2016-17 Amount</u>	<u>2015-16 Amount</u>	<u>Increase (Decrease)</u>
Instruction	\$ 12,775,600	\$ 12,860,973	(\$85,373)
Support Services	7,286,724	6,461,024	825,700
Non-Instructional Services	2,818,762	585,776	2,232,986
Other Financing Uses	<u>2,018,415</u>	<u>1,720,759</u>	<u>297,656</u>
Total	<u>\$ 24,899,501</u>	<u>\$ 21,628,532</u>	<u>\$3,270,969</u>

INSTRUCTION

The amount of instructional expenses reported at June 30, 2017 decreased approximately \$85,373 from the prior year. The decrease can be attributed in predominantly to a decrease in the number of professional positions and the resulting employee benefits related to the pension expense.

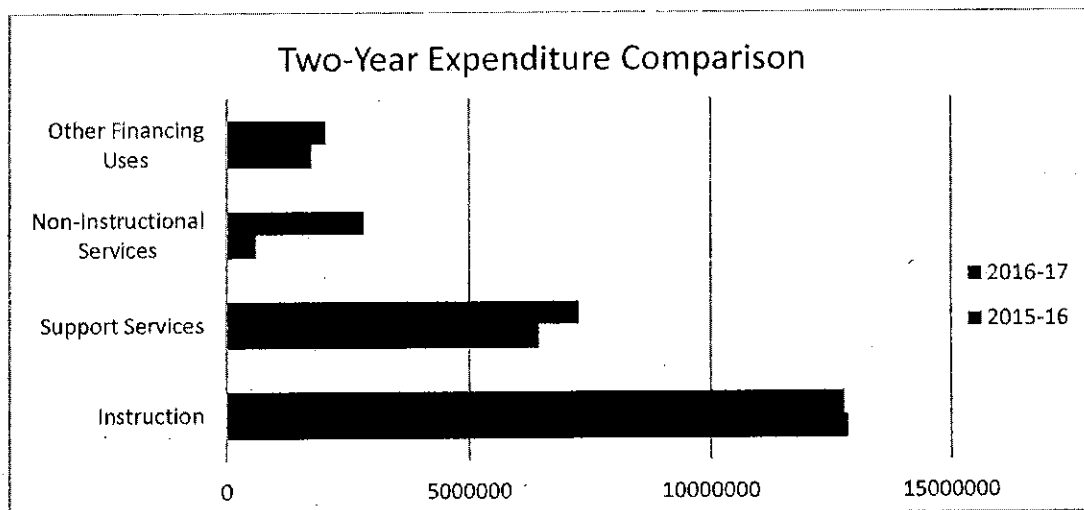
SUPPORT SERVICES

The amount of expenditures recognized in this category increased by approximately \$825,700 from the prior year. The increase in support services expenditures can be attributed to increases in special education service costs, the addition of several part-time aide positions, the addition of a Curriculum Director, and curriculum expenditures.

PINE GROVE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017
(Unaudited)

NON-INSTRUCTIONAL SERVICES, CAPITAL OUTLAY, REFUND OF PRIOR YEAR, AND DEBT SERVICE

The amount of expenditures in this category increased by approximately \$2,232,986. The majority of this increase can be attributed to the ongoing hvac renovation project in the district's middle school.



DEBT SERVICE FUND

The Debt Service Fund is used to account for resources accumulated for the payment of long-term obligations. It is normally used to account for refunding of bond issues and the payment of the annual debt service on existing bonds. The District periodically reviews its existing debt and refunds such debt when economically feasible. The following is a recap of the District's bond activity for 2017:

	<u>Balance</u> <u>07/01/2016</u>	<u>Additions</u>	<u>Payments/</u> <u>Refinancing</u>	<u>Balance</u> <u>06/30/17</u>	<u>Due Within</u> <u>One Year</u>
General Obligation Bond Series 2012	8,685,000	0	(370,000)	8,315,000	855,000
General Obligation Bond Series 2015	5,520,000	0	(1,315,000)	4,205,000	865,000
	<u>\$ 14,205,000</u>	<u>\$ 0</u>	<u>\$ (1,685,000)</u>	<u>\$ 12,520,000</u>	<u>\$ 1,720,000</u>

PINE GROVE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017
(Unaudited)

LONG-TERM DEBT

During the prior school year, the District issued General Obligation Series of 2015 and utilized the funds to retire General Obligation Series A of 2010 and General Obligation Series B of 2010.

At June 30, 2017, the District's general obligation debt was approximately \$12,520,000. This amount is approximately 23.19% of its legal limit of \$54 million. The District's bonds have a stable outlook "AA-" rating from Standard and Poor's Rating Group.

CAPITAL PROJECTS FUND (MAJOR)

The Capital Project Fund accounts for major construction projects in the District. The Capital Projects Fund earned \$4,058 of interest income and expended \$562,370 on facility acquisition, construction and improvement projects. Additionally, \$125,446 on operation of non-instructional services was expensed during 2016. The fund balance of the Capital Project Fund at June 30, 2017 was \$807,790.

CAPITAL ASSETS

The District's investment in capital assets as of June 30, 2017 is summarized below.

	Governmental Activities		Business-type Activities		Totals	
	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2017</u>	<u>6/30/2016</u>
Construction in Progress	2,868,576				2,868,576	
Land and Site Improvements, Net	137,034	138,959	0	0	137,034	138,959
Building and Improvements, Net	24,926,142	25,759,633	0	0	24,926,142	25,759,633
Furniture and Equipment, Net	857,172	1,088,332	8,355	9,553	865,527	1,097,885
Vehicles, Net	4,612	13,525			4,612	13,525
Totals	<u>28,793,536</u>	<u>27,000,449</u>	<u>8,355</u>	<u>9,553</u>	<u>28,801,891</u>	<u>27,010,002</u>

NONCURRENT LIABILITIES

Noncurrent liabilities will be paid one year or later from the date of the Statement of Net Position. The District's noncurrent liabilities include compensated absences, bonds payable, and other long-term obligations, net of current portions. It should be noted the Governmental Accounting Standards Board (GASB) Statement #45 Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions became effective for the District in the 2008-2009 fiscal year.

PINE GROVE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017
(Unaudited)

The Postemployment Benefits obligation approximated \$1,305,485 as of June 30, 2017 and is reflected on the statement of Net Position.

In June 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. This statement is intended to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The District adopted Statement No. 68 beginning with its fiscal year 2015 financial statements. The District has worked in conjunction with actuaries and representatives from the State pension system to calculate the liability moving forward, as disclosed in Note 15 to the financial statements.

SELECTED SUPPLEMENTAL INFORMATION

The District is required to update, on an annual basis, information as it relates to Continuing Disclosure for Bond Obligation Compliance.

TAX COLLECTION RECORD

<u>Fiscal Year</u>	<u>Tax Rate</u>	<u>Tax Levy</u>	<u>Current Year Collection</u>	<u>Percent Collected</u>	<u>Delinquent</u>	<u>Total + Delinquent</u>	<u>Percent Collected Total</u>
2011-2012	38.9	7,476,745	7,936,224	106%			106%
2012 - 2013	38.9	8,142,630	7,599,272	93%	530,085	8,129,357	100%
2013-2014	38.9	8,193,201	7,539,252	92%	691,728	8,230,980	100%
2014-2015	38.9	8,241,643	7,678,691	93%	585,968	8,264,659	100%
2015-2016	38.9	8,265,642	7,753,656	94%	413,088	8,166,744	99%
2016-2017	38.9	8,944,787	7,822,183	88%	411,052	8,233,235	92%

The school district sells its delinquent taxes to a third-party entity for a lump sum payment determined annually.

For year 11-12, the tax levy is:

Current Levy + Penalties – Discounts, Exonerations and Refunds

For year 11-12, tax collection included delinquent taxes.

PINE GROVE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017
(Unaudited)

**Source: Pennsylvania State Tax Equalization Board (STEB).

MUNICIPAL REAL ESTATE TAX RATES

<u>Municipality</u>	<u>School District</u>	<u>Municipal</u>	<u>County</u>	<u>Total</u>
Frailey Township *	38.9	9.25	13.98	62.13
Pine Grove Borough	38.9	14	13.98	66.88
Pine Grove Township	38.9	0	13.98	52.88
Tremont Borough **	38.9	14	13.98	66.88
Tremont Township	38.9	7	13.98	59.88
Washington Twp	38.9	3.5	13.98	56.38
* Includes millage street lighting				
**Includes millage for fire house				
Source:				
Pennsylvania Department of Community and Economic Development (DCED)				

ECONOMIC CONDITION AND OUTLOOK

The District expects some growth in the near future given the residential and commercial nature of the local economy, though the amount of growth is not readily determinable. The District's assessed values over the prior two years averaged significant growth, and above-average growth was seen in the current year. The District's student population has remained consistent during the same period.

The District is also complying with the enacted law as passed within the Commonwealth of Pennsylvania entitle Act 1 of Special Session of 2007. The goal of the Act 1 legislation seeks to reduce property taxes but in doing so also ensures that the District does not suffer any loss of revenue attributable to the shifting of local revenue sources. During June 30, 2017, the District has complied with all aspects of Act 1.

Retirement Costs associated with District Personnel increased during the fiscal year due to an increase in the rate certified by the Public School Employees' Retirement System. The table below illustrates the rates charged to the District.

PINE GROVE AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017
(Unaudited)

<u>Year</u>	<u>District Rate on Covered Payroll</u>
2011-12	8.65%
2012-13	12.36%
2013-14	16.93%
2014-15	21.40%
2015-16	25.84%
2016-17	30.03%
2017-18	32.57%
2018-19	33.43%

Over the next several years, it is projected that the contribution rates for the Public School Employees' Retirement System of Pennsylvania will rise, though not as significantly as in prior years. Based on actuarial projections, it is anticipated that by the school year 2021-2022, the total employer contribution rate is projected to be 36.56%.

EMPLOYEE RELATIONS

The following represents the Collective Bargaining Agreements in effect at June 30, 2017:

The Pine Grove Area School District and the Pine Grove Area Education Association currently have a contract for a term commencing September 1, 2015 and ending June 30, 2019.

The Pine Grove Area School District and the American Federation of State, County, and Municipal Employees currently have a contract for a term commencing July 1, 2015 and ending June 30, 2018.

The Pine Grove Area School District and the Pine Grove Area Administrative Staff and Act 93 Staff currently have a contract for a term commencing July 1, 2016 and ending June 30, 2021.

REQUESTS FOR INFORMATION

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Jodie I. Dermo, Business Administrator, Pine Grove Area School District, 103 School Street, Pine Grove, PA 17963.

PINE GROVE AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION (DEFICIT)

JUNE 30, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
CURRENT ASSETS			
Cash and investments	\$ 9,111,012	\$ 254,516	\$ 9,365,528
Taxes receivable, net	187,171	0	187,171
Intergovernmental receivables	2,275,270	1,983	2,277,253
Internal balances	107,801	316,050	423,851
Prepaid Expenses	116,407	0	116,407
Other account receivables	107,986	0	107,986
Inventories	30,253	17,859	48,112
TOTAL CURRENT ASSETS	11,935,900	590,408	12,526,308
NON-CURRENT ASSETS			
Construction In Progress	2,868,576	0	2,868,576
Land and site improvements - net	137,034	0	137,034
Building and building improvements - net	24,926,142	0	24,926,142
Machinery and equipment - net	857,172	8,355	865,527
Vehicles - net	4,612	0	4,612
TOTAL NON-CURRENT ASSETS	28,793,536	8,355	28,801,891
TOTAL ASSETS	40,729,436	598,763	41,328,199
DEFERRED OUTFLOWS OF RESOURCES	3,856,658	0	3,856,658
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 44,586,094	\$ 598,763	\$ 45,184,857
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)			
CURRENT LIABILITIES			
Internal balances	\$ 282,733	\$ 135,342	\$ 418,075
Accounts payable	1,389,721	12,804	1,402,525
Accrued salaries and benefits	2,202,876	0	2,202,876
Current portion of long-term debt	1,720,000	0	1,720,000
Accrued interest	106,816	0	106,816
TOTAL CURRENT LIABILITIES	5,702,146	148,146	5,850,292
NON-CURRENT LIABILITIES			
Bonds payable	10,800,000	0	10,800,000
OPEB liability	1,305,485	0	1,305,485
Pension Liability	35,978,000	0	35,978,000
Long-term portion of compensated absences	319,046	0	319,046
TOTAL NON-CURRENT LIABILITIES	48,402,531	0	48,402,531
TOTAL LIABILITIES	54,104,677	148,146	54,252,823
DEFERRED INFLOWS OF RESOURCES	513,794	22,185	535,979
NET POSITION (DEFICIT)			
Invested in capital assets, net of related debt	16,273,536	8,355	16,281,891
Restricted for:			
Capital projects	807,790	0	807,790
Unrestricted (Deficit)	(27,113,703)	420,077	(26,693,626)
TOTAL NET POSITION (DEFICIT)	(10,032,377)	428,432	(9,603,945)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)	\$ 44,586,094	\$ 598,763	\$ 45,184,857

PINE GROVE AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

Functions/Programs	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES					
Instruction	\$ 14,701,807	0	3,348,539	\$ (11,353,268)	\$ (11,353,268)
Instructional student support	2,039,966	0	218,346	(1,821,620)	(1,821,620)
Administrative and financial support services	2,834,756	0	186,186	(2,648,570)	(2,648,570)
Operation and maintenance of plant services	2,213,187	19,555	189,461	(2,004,171)	(2,004,171)
Pupil transportation	1,212,129	0	811,652	(400,477)	(400,477)
Student activities	558,135	47,257	65,599	(445,279)	(445,279)
Community services	0	0	0	0	0
Interest on long-term debt	325,740	0	84,343	(241,397)	(241,397)
TOTAL GOVERNMENTAL ACTIVITIES	23,885,720	66,812	4,904,126	(18,914,782)	(18,914,782)
BUSINESS-TYPE ACTIVITIES					
Food services	779,849	437,398	446,887	0	104,436
TOTAL PRIMARY GOVERNMENT	24,665,569	504,210	5,351,013	(18,914,782)	(18,810,346)
GENERAL REVENUES AND TRANSFERS					
Taxes:				7,931,700	7,931,700
Property taxes, levied for general purposes, net					
Public utility, realty, earned income and miscellaneous taxes levied for general purposes, net				2,443,942	2,443,942
Grants, subsidies, and contributions not restricted				7,307,854	7,307,854
Investment earnings				57,457	61,994
Gain on Sale of Fixed Asset				200	200
Miscellaneous				420,687	420,687
Transfers				1,042	1,042
TOTAL GENERAL REVENUES AND TRANSFERS				18,162,882	18,167,419
CHANGE IN NET POSITION					
				(751,900)	(642,927)
NET POSITION (DEFICIT)- BEGINNING					
				(9,280,477)	(8,961,018)
NET POSITION (DEFICIT) - ENDING					
				\$ (10,032,377)	\$ (9,603,945)
				\$ 428,432	\$ (9,603,945)

See notes to financial statements
which are an integral part of this statement.

PINE GROVE AREA SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2017

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
ASSETS			
Cash and investments	\$ 8,290,322	\$ 820,690	\$ 9,111,012
Taxes receivable	187,171	0	187,171
Internal Balances	107,801	0	107,801
Intergovernmental receivables	2,275,270	0	2,275,270
Prepaid expense	116,407	0	116,407
Other receivables	107,986	0	107,986
Inventories	30,253	0	30,253
TOTAL ASSETS	<u>11,115,210</u>	<u>820,690</u>	<u>11,935,900</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 11,115,210</u>	<u>\$ 820,690</u>	<u>\$ 11,935,900</u>
LIABILITIES, DEFERRD INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES			
Due to other funds	\$ 282,733	\$ 0	\$ 282,733
Accounts payable	1,376,821	12,900	1,389,721
Accrued salaries and benefits	2,202,875	0	2,202,875
TOTAL LIABILITIES	<u>3,862,429</u>	<u>12,900</u>	<u>3,875,329</u>
DEFERRED INFLOWS OF RESOURCES	513,794	0	513,794
FUND BALANCES			
Restricted	0	807,790	807,790
Committed	300,000	0	300,000
Assigned	6,438,987	0	6,438,987
TOTAL FUND BALANCES	<u>6,738,987</u>	<u>807,790</u>	<u>7,546,777</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 11,115,210</u>	<u>\$ 820,690</u>	<u>\$ 11,935,900</u>

See notes to financial statements
which are an integral part of this statement.

PINE GROVE AREA SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION (DEFICIT)

GOVERNMENTAL FUNDS

AS OF JUNE 30, 2017

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS **\$ 7,546,777**

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

Cost of capital assets	50,447,104
Less: accumulated depreciation	(21,653,569)

Long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds.

Bond principle payable	(12,520,000)
Pension Liability - Net	(32,316,000)
Compensated absences	(319,046)
OPEB	(1,305,485)

Governmental funds report debt issuance premiums and discounts as an other financing source or use at the time of issuance. Premiums and discounts are reported as an unamortized asset or liability in the District-wide financial statements.

194,658

Governmental funds do not report a liability for accrued interest until due and payable.

(106,816)

TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES **\$ (10,032,377)**

PINE GROVE AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES

ALL GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2017

	General	Capital Projects	Total Governmental Funds
REVENUES			
Local sources	\$ 10,916,541	\$ 4,058	\$ 10,920,599
State sources	11,805,860	0	11,805,860
Federal sources	406,119	0	406,119
TOTAL REVENUES	<u>23,128,520</u>	<u>4,058</u>	<u>23,132,578</u>
OTHER FINANCING SOURCES			
Interfund Transfers	1,042	0	1,042
Sale of fixed assets	200	0	200
TOTAL OTHER FINANCING SOURCES	<u>1,242</u>	<u>0</u>	<u>1,242</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>23,129,762</u>	<u>4,058</u>	<u>23,133,820</u>
EXPENDITURES			
Instruction	12,775,600	0	12,775,600
Support services	7,286,724	0	7,286,724
Operation of non-instructional services	2,818,762	125,446	2,944,208
Facilities acquisition, construction, and improvement services	0	562,370	562,370
TOTAL EXPENDITURES	<u>22,881,086</u>	<u>687,816</u>	<u>23,568,902</u>
OTHER FINANCING (USES)			
Debt service	2,018,415	0	2,018,415
TOTAL OTHER FINANCING (USES)	<u>2,018,415</u>	<u>0</u>	<u>2,018,415</u>
TOTAL EXPENDITURES AND OTHER FINANCING (USES)	<u>24,899,501</u>	<u>687,816</u>	<u>25,587,317</u>
NET CHANGE IN FUND BALANCES	<u>(1,769,739)</u>	<u>(683,758)</u>	<u>(2,453,497)</u>
FUND BALANCES - BEGINNING	<u>8,508,726</u>	<u>1,491,548</u>	<u>10,000,274</u>
FUND BALANCES - ENDING	<u>\$ 6,738,987</u>	<u>\$ 807,790</u>	<u>\$ 7,546,777</u>

See notes to financial statements
which are an integral part of this statement.

PINE GROVE AREA SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES**

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2017

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ (2,453,497)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	1,685,000
Previous year bond costs are expensed in the governmental funds when incurred but are amortized in the Statement of Activities.	(35,177)
Expenses reported in the Statement of Activities, such as compensated absences, OPEB, and net pension liability do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(1,748,987)
Interest is recognized in governmental funds when paid but is accrued in the Statement of Activities.	7,675
Governmental funds recognize capital outlays as expenditures versus as capital assets in the Statement of Net Assets.	2,952,073
Depreciation expense is recognized in the Statement of Activities but is not recognized in governmental funds.	<u>(1,158,987)</u>
CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES	\$ <u><u>(751,900)</u></u>

See notes to financial statements
which are an integral part of this statement.

PINE GROVE AREA SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual	Variance With
	Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Local sources	\$ 10,738,288	\$ 10,738,288	\$ 10,916,541	\$ 178,253
State sources	11,673,535	11,673,535	11,805,860	132,325
Federal sources	467,553	467,553	406,119	(61,434)
TOTAL REVENUES	<u>22,879,376</u>	<u>22,879,376</u>	<u>23,128,520</u>	<u>249,144</u>
OTHER FINANCING SOURCES				
Interfund Transfers	120,000	120,000	1,042	(118,958)
Sale of fixed assets	0	0	200	200
TOTAL OTHER FINANCING SOURCES	<u>120,000</u>	<u>120,000</u>	<u>1,242</u>	<u>(118,758)</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>22,999,376</u>	<u>22,999,376</u>	<u>23,129,762</u>	<u>130,386</u>
EXPENDITURES				
Instruction	13,476,482	13,476,482	12,775,600	700,882
Support services	7,139,066	7,139,066	7,286,724	(147,658)
Operation of non-instructional services	307,646	307,646	2,818,762	(2,511,116)
TOTAL EXPENDITURES	<u>20,923,194</u>	<u>20,923,194</u>	<u>22,881,086</u>	<u>(1,957,892)</u>
OTHER FINANCING (USES)				
Debt service	2,014,608	2,014,608	2,018,415	(3,807)
Interfund transfers	300,000	300,000	0	300,000
TOTAL OTHER FINANCING (USES)	<u>2,314,608</u>	<u>2,314,608</u>	<u>2,018,415</u>	<u>296,193</u>
TOTAL EXPENDITURES AND OTHER FINANCING (USES)	<u>23,237,802</u>	<u>23,237,802</u>	<u>24,899,501</u>	<u>(1,661,699)</u>
NET CHANGE IN FUND BALANCES	<u>(238,426)</u>	<u>(238,426)</u>	<u>(1,769,739)</u>	<u>(1,531,313)</u>
FUND BALANCE - BEGINNING OF YEAR	<u>5,606,325</u>	<u>5,606,325</u>	<u>8,508,726</u>	<u>2,902,401</u>
FUND BALANCE - END OF YEAR	<u>\$ 5,367,899</u>	<u>\$ 5,367,899</u>	<u>\$ 6,738,987</u>	<u>\$ 1,371,088</u>

See notes to financial statements
which are an integral part of this statement.

PINE GROVE AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

JUNE 30, 2017

	<u>Food Service</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
CURRENT ASSETS	
Cash	\$ 254,516
Intergovernmental receivables	1,983
Due from Other Funds	316,050
Inventories	17,859
TOTAL CURRENT ASSETS	<u>590,408</u>
NON-CURRENT ASSETS	
Machinery and equipment	346,242
Less: accumulated depreciation	<u>(337,887)</u>
TOTAL NON-CURRENT ASSETS	8,355
DEFERRED OUTFLOWS OF RESOURCES	<u>0</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 598,763</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
CURRENT LIABILITIES	
Due to other funds	\$ 135,342
Accounts Payable	12,804
TOTAL CURRENT LIABILITIES	<u>148,146</u>
TOTAL LIABILITIES	<u>148,146</u>
DEFERRED INFLOWS OF RESOURCES	22,185
NET POSITION	
Invested in capital assets - net of related debt	8,355
Unrestricted	<u>420,077</u>
TOTAL NET POSITION	<u>428,432</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u><u>\$ 598,763</u></u>

See notes to financial statements
which are an integral part of this statement.

PINE GROVE AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2017

	<u>Food Service</u>
OPERATING REVENUES	
Local sources:	
Food service revenues	\$ 437,398
TOTAL OPERATING REVENUES	<u>437,398</u>
OPERATING EXPENSES	
Other purchased services	730,343
Supplies	48,062
Depreciation	1,198
Dues and fees	246
TOTAL OPERATING EXPENSES	<u>779,849</u>
OPERATING (LOSS)	(342,451)
NON-OPERATING REVENUES (EXPENSES)	
Earnings on investments	4,537
State sources	26,093
Federal sources	420,794
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>451,424</u>
CHANGE IN NET POSITION	108,973
NET POSITION - BEGINNING OF YEAR	<u>319,459</u>
NET POSITION - END OF YEAR	<u><u>\$ 428,432</u></u>

See notes to financial statements
which are an integral part of this statement.

PINE GROVE AREA SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2017

	<u>Food Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers and intergovernments	\$ 447,351
Cash paid to suppliers	(1,660,419)
Cash paid for selling and general expenses	(246)
NET CASH (USED FOR) OPERATING ACTIVITIES	<u>(1,213,314)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Grants and subsidies received from non-operating activities:	
State sources	26,093
Federal sources	<u>420,794</u>
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>446,887</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	0
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on investments	<u>4,537</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(761,890)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,016,406</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ <u>254,516</u>
OPERATING (LOSS)	\$ (342,451)
ADJUSTMENTS TO RECONCILE OPERATING (LOSS) TO NET CASH (USED) BY OPERATING ACTIVITIES:	
Depreciation	1,198
Changes in current assets and current liabilities	
(Increase) Decrease in inventories	(5,867)
Increase (Decrease) in accounts payable	(3,478)
(Increase) Decrease in intergovernmental receivables	5,079
Increase (Decrease) in advance to other funds	(872,669)
Increase (Decrease) in deferred revenue	<u>4,874</u>
TOTAL ADJUSTMENTS	<u>(870,863)</u>
TOTAL CASH (USED FOR) OPERATING ACTIVITIES	\$ <u>(1,213,314)</u>

See notes to financial statements
which are an integral part of this statement.

PINE GROVE AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION

FIDUCIARY FUNDS

JUNE 30, 2017

	<u>Private Purpose Trust</u>	<u>Activity</u>	<u>Total Fiduciary Funds</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
ASSETS			
Cash	\$ 83,600	\$ 70,101	\$ 153,701
Interfund accounts receivable	625	360	985
TOTAL ASSETS	<u>84,225</u>	<u>70,461</u>	<u>154,686</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 84,225</u>	<u>\$ 70,461</u>	<u>\$ 154,686</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
LIABILITIES			
Interfund accounts payable	\$ 5,360	\$ 1,042	\$ 6,402
Other current liabilities	0	69,419	69,419
TOTAL LIABILITIES	<u>5,360</u>	<u>70,461</u>	<u>75,821</u>
DEFERRED INFLOWS OF RESOURCES	<u>0</u>	<u>0</u>	<u>0</u>
NET POSITION			
Unrestricted	78,865	0	78,865
TOTAL NET POSITION	<u>78,865</u>	<u>0</u>	<u>78,865</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 84,225</u>	<u>\$ 70,461</u>	<u>\$ 154,686</u>

See notes to financial statements
which are an integral part of this statement.

PINE GROVE AREA SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Private Purpose Trust
ADDITIONS	
Investment income	\$ 516
Contributions and donations	154
TOTAL ADDITIONS	<u>670</u>
DEDUCTIONS	<u>2,400</u>
CHANGE IN NET POSITION	(1,730)
NET POSITION - BEGINNING OF YEAR	<u>80,595</u>
NET POSITION - END OF YEAR	<u><u>\$ 78,865</u></u>

See notes to financial statements
which are an integral part of this statement.

PINE GROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Pine Grove Area School District (the "District") is governed by the Pine Grove Area School District Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

The financial statements of the Pine Grove Area School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

In June 1999, the Governmental Accounting Standards Board (GASB) approved Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis -for State and Local Governments.

The financial statements include:

1. Management's Discussion and Analysis (MD&A), providing an analysis of the District's overall financial position and results of operations.
2. Financial statements prepared using full-accrual accounting for all of the District's activities.
3. A change in the fund financial statements to focus on major funds.

REPORTING ENTITY

The District does not have any component units nor is the District a component unit of any other primary government.

PINE GROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

BASIS OF PRESENTATION

District-wide statements - The statement of net position and the statement of activities provide information about the financial activities of the overall district, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-Type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each business-type activity of the District and for each function of the District=s governmental activities.

1. Direct Expenses are those that are clearly identifiable with a specific program.
2. Program revenues include 1) charges to students or recipients who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.
3. Taxes and other items not properly included among program revenues are reported as general revenues.

Depreciation expense can be specifically identified by function and is included in the direct expenses of each function. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. The effect of interfund activity has been removed from these statements.

Fund Financial Statements - The fund financial statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category - *governmental, proprietary and fiduciary* - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

PINE GROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

BASIS OF PRESENTATION - continued

Proprietary fund operating revenues, such as charges for services result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities. Enterprise fund operating revenues are related to charges for food in the District's cafeteria. The primary non-operating revenues are federal nutrition program grants and commodities received from the U.S. Department of Agriculture.

The fiduciary funds are presented in the fiduciary fund financial statements by type (agency). Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the District, these funds are not incorporated into the District-wide statements.

The District reports the following major governmental funds:

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

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary and trust funds. The District also uses the capital projects fund to pay initial functional costs, such as textbooks, involved in opening a facility, therefore all expenditures are not recorded as capital outlay.

The District reports the following major proprietary fund types:

Food Service Fund - The Food Service Fund is used to account for all financial transactions related to the food service operation.

Other fund types:

Agency Funds - These funds account for assets held by the District as an agent for various student groups and clubs.

PINE GROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

BASIS OF ACCOUNTING

The district-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term liabilities are reported as other financing sources.

All business-type activities and enterprise funds of the district follow FASB Statements and Interpretations on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

PINE GROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

BUDGETING

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general fund. Project-length financial plans are used for capital projects funds. All unencumbered budget appropriations, except capital projects, lapse at the end of each fiscal year.

At the fund level, actual expenditures cannot exceed budgeted appropriations; however, with proper approval by the school board, budgetary transfers between accounts can be made. The budgeted financial statements represented in this report reflect the final budget authorization, including all transfers.

DEPOSITS AND INVESTMENTS

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

Investments with a maturity of one year or less at the time of purchase are recorded at cost or amortized cost. Those with a maturity of greater than one year are reported at fair value. Changes in the fair value of investments are recorded as investment income.

INVENTORY

Inventories are recorded using the consumption method of accounting and consist of purchased food, supplies, and surplus commodities received from the federal government. Food and supply purchases are recorded at invoice cost, computed on a first-in, first-out method. Surplus commodities are stated at standard costs, as determined by the Department of Agriculture. In the fund based financial statements, commodities received are recorded as deferred revenue until consumed.

PINE GROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

CAPITAL ASSETS

Capital assets, which include land, buildings and improvements, and furniture and equipment, are reported in the government-wide financial statements. The District defines capital assets as assets with an initial, individual cost of more than \$1,500. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Useful Life</u>
Land	Not Depreciated
Land Improvements	20 years
Buildings and Improvements	15-30 years
Furniture and Equipment	5-15 years
Vehicles	3-15 years

COMPENSATED ABSENCES

Compensated absences are those for which employees receive pay. A liability is recorded through the use of estimates, which apply historical data to current factors. The District maintains records of unused absences and applies current and/or contracted compensation rates to the various types of compensated absences. Sick leave is recorded using the termination payment method, which has no current maximum per employee. The District allows only restricted sabbatical leave and therefore, has no recorded liability in advance of the sabbatical.

PINE GROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

In government-wide financial statements as well as proprietary fund financial statements, all accrued liabilities and long-term debt are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

RESTRICTED ASSETS

Restricted assets are cash and cash equivalents whose use is limited by legal requirements such as a bond indenture. Restricted assets are reported only in the District-wide financial statements.

FUND EQUITY

In the fund financial statements, governmental funds report fund balance in accordance with GASB Statement No. 54 (see Note 13).

NET POSITION

Net position represents the difference between assets and liabilities in the District-wide financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets.

PINE GROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

FOOD SERVICE FUND - UNALLOCATED COSTS

The District does not attempt to allocate Building-Wide Costs to the Food Service Fund. Thus, General Fund expenditures (utilities, janitorial services, insurance, etc.) which partially benefit the Food Service Fund are not proportionately recognized within the Food Service Fund. Similarly, the Food Service Fund does not recognize a cost for the building space it occupies (no facilities rental expense).

POST EMPLOYMENT HEALTH CARE BENEFITS - COBRA BENEFITS

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the District makes health care benefits available to eligible employees and eligible dependents. Certain requirements are outlined by the federal government for the coverage. The premium plus 2% administration fee is paid in full by the insured on or before the tenth day of the month for the actual month covered. This program is offered for a duration of 18 months. There is no associated cost to the District under this program, and there are zero participants in the program as of June 30, 2017.

RETIREE BENEFITS

In addition to the pension benefits described in Note 6, the District makes health care benefits available to all eligible employees who retired from the District. The premium is paid in full by the insured who retired prior to June 30, 2012 on or before the tenth day of the month for the actual month covered. The District pays the full cost of retirees who retired as of June 30, 2012 less \$100 contribution by the retiree. There are currently thirty-nine participants in the program as of June 30, 2017.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

PINE GROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 2 - DEPOSITS AND INVESTMENTS:

DEPOSITS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The deposit policy of the school district adheres to state statutes and prudent business practice. Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and include investments with original maturities of three months or less. Cash and cash equivalents consist of demand deposits at various financial institutions, a money market mutual fund investment in Pennsylvania Treasurer's Invest Program for Local Government, a money market fund and certificate of deposit, the Pennsylvania School District Liquid Asset Fund (PSDLAF), and cash on hand of \$475. The market values of deposits are equal to the cost of the deposits.

Under Section 440.1 of the Public School Code of 1949, as amended, the District is permitted to:

Deposit in savings accounts or 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 is pledged by the depository.

At June 30, 2017, the carrying amount of the District's deposits was \$9,519,228. and the bank balance was \$9,856,724. Of the bank balance, \$282,848. was covered by federal depository insurance coverage and \$9,573,876. 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.

PINE GROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 2 - DEPOSITS AND INVESTMENTS - continued

INVESTMENTS

The investment policy of the school district adheres to state statutes and prudent business practices. The investments of the school district consist of certificates of deposit and U.S. Agency Obligations as authorized by the Board. Investments are stated at cost including accrued interest which approximates market value.

The District invests in the Pennsylvania School District Liquid Asset Fund (PSDLAF) and the Pennsylvania Treasurer's Invest Program for Local Government as authorized by the Board. PSDLAF was established to enable school districts to pool funds for investment in instruments authorized by Section 440.1 of the Pennsylvania Public School Code of 1949, as amended. Pennsylvania Treasurer's Invest Program for Local Government insures that it will not place deposits with any single issuing institution if the largest participant's pro rata share of such deposits exceeds \$100,000., unless such deposits are secured by (1) Treasurer, federal agencies (collateralized at 102%) or (2) certificates of deposit (collateralized by 120%).

As of June 30, 2017, the District had the following investments.

PA School District Liquid Asset Fund (PSDLAF)	\$ 822,067
	<hr/>
Total Investments	\$ <u>822,067</u>

Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PA Invest and PSDLAF act like money market mutual funds in that their objective is to maintain a stable net asset of \$1 per share, are rated by a nationally recognized statistical rating organization and are subject to an independent annual audit.

PINE GROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 2 - DEPOSITS AND INVESTMENTS - continued

INVESTMENTS - continued

Interest Rate Risk

The District does not 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. It is the practice of the District to limit its interest rate risk by investing in securities with maturity dates under one year. At June 30, 2017, the District's investments in securities of U.S. agencies had maturity dates of less than one year.

Custodial Credit Risk

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

Credit Risk

Under Section 4440.1 of the Public School Code of 1949, as amended, the District is permitted to invest its monies as follows:

Obligations of (1) 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, (2) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (3) 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.

PINE GROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 2 - DEPOSITS AND INVESTMENTS - continued

INVESTMENTS - continued

Concentration Risk

The District does not have a policy that would limit the amount it may invest in any one issuer. The District's investments are with PA Invest and Pennsylvania School District's Liquid Asset Fund (PSDLAF).

RECONCILIATION OF CASH, CASH EQUIVALENTS, AND INVESTMENTS

The classification of cash, cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between classifications of cash and investments on the combined financial statements and the classifications per GASB Statement No. 3 is as follows:

	<u>Cash & Cash Equivalents</u>	<u>Investments</u>	<u>Total</u>
Cash, Cash Equivalents, and Investments	\$ <u>8,697,161</u>	\$ <u>822,067</u>	\$ <u>9,519,228</u>

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES:

Intergovernmental receivables listed in the General Fund at June 30, 2017, are comprised of the following:

State Share of Social Security	\$ 168,800
State Share of Retirement	675,097
State Share of Transportation	61,792
State Rental Subsidy	150,582
Federal Programs	825,843
Local Programs	393,156
Total Intergovernmental Receivables	\$ <u>2,275,270</u>

PINE GROVE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - continued

FOR THE YEAR ENDED JUNE 30, 2017

NOTE 4 - GENERAL LONG-TERM DEBT:

A summary of general long-term debt is as follows:

	Accrued Compensated Absences	Other Post- Employment Benefits	General Obligation Bond Series of 2012	General Obligation Bond Series of 2015	Total
Balance - July 1, 2016	\$ 323,937	\$ 1,186,607	\$ 8,685,000	\$ 5,520,000	\$ 15,715,544
Additions	0	118,878	0	0	118,878
Reductions - Payments	(4,891)	0	(370,000)	(1,315,000)	(1,689,891)
Reductions - Refinancing	0	0	0	0	0
Balance - June 30, 2017	\$ 319,046	\$ 1,305,485	\$ 8,315,000	\$ 4,205,000	\$ 14,144,531
Due Within One Year			\$ 855,000	\$ 865,000	\$ 1,720,000

A summary of general long-term debt, principal maturities, and interest requirements follows:

Year Ending June 30,	General Obligation Bond Series of 2012	General Obligation Bond Series of 2015	Total
2018	\$ 1,078,160	\$ 949,827	\$ 2,027,987
2019	1,912,510	117,528	2,030,038
2020	1,911,060	121,852	2,032,912
2021	1,913,110	121,027	2,034,137
2022	1,913,070	120,065	2,033,135
2023-2025	307,500	3,219,730	3,527,230
Total	9,035,410	4,650,029	13,685,439
Less: Interest	(720,410)	(445,029)	(1,165,439)
Outstanding Principal	\$ 8,315,000	\$ 4,205,000	\$ 12,520,000

PINE GROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 4 - GENERAL LONG-TERM DEBT - continued

General Obligation Bonds - Series of 2012

On June 14, 2012, the District issued \$9,620,000. of General Obligation Bonds – Series of 2012, which was used to advance refund all of the District's outstanding General Obligation Bonds - Series of 2008 and pay certain costs and expenses related to the issuance of the Bonds. Interest rates on the Bonds vary from .45% to 2.50% and mature in various amounts beginning March 1, 2013 and ending March 1, 2023.

General Obligation Bonds - Series of 2015

On May 20, 2015, the District issued \$6,555,000. of General Obligation Bonds – Series of 2015, which was used to advance refund all of the District's outstanding General Obligation Bonds - Series A of 2010 and General Obligation Bond – Series B of 2010 and pay certain costs and expenses related to the issuance of the Bonds. Interest rates on the Bonds vary from .32% to 2.10% and mature in various amounts beginning September 15, 2015 and ending February 15, 2024.

PINE GROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 4 - GENERAL LONG-TERM DEBT - continued

Compensated Absences

The General Long-Term Debt group of accounts includes liability of \$319,046, which represents the amount of compensated absences computed by using unused sick and vacation days at current compensation rates. If an employee separates from service for reasons other than sickness or retirement, no payout is required. If an employee retires with unused compensated absences, the payout policy is as follows:

Emergency and personal - no payout

Vacation (administrative personnel) - limited accumulation of vacation days

Sickness - payout is based on age and years of service in the District.

Other Post-employment Benefits

General Long-Term Debt includes \$1,305,485. of liabilities, which represent other benefits provided upon termination of employment. The reader should consult the separate footnote on these benefits for more information.

PINE GROVE AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - continued

FOR THE YEAR ENDED JUNE 30, 2017

NOTE 5 - CAPITAL ASSETS:

A summary of capital asset activity during the fiscal year follows:

	<u>Balance</u> <u>June 30, 2016</u>	<u>Net Additions</u> <u>(Deductions)</u>	<u>Balance</u> <u>June 30, 2017</u>
Governmental Activities:			
Capital Assets, Not Being Depreciated			
Land	\$ 64,449	\$ 0	\$ 64,449
Total Capital Assets, Not Being Depreciated	64,449	0	64,449
Capital Assets, Being Depreciated:			
Buildings and Improvements	40,988,676	2,035	40,990,711
Furniture and Equipment	6,266,056	81,462	6,347,518
Vehicles	87,740	0	87,740
Site Improvements	88,109	0	88,109
Total Capital Assets, Being Depreciated	<u>47,430,581</u>	<u>83,497</u>	<u>47,514,078</u>
Accumulated Depreciation For:			
Buildings and Improvements	(15,229,042)	(835,527)	(16,064,569)
Furniture and Equipment	(5,177,724)	(312,622)	(5,490,346)
Vehicles	(74,215)	(8,913)	(83,128)
Site Improvements	(13,599)	(1,925)	(15,524)
Total Accumulated Depreciation	<u>(20,494,580)</u>	<u>(1,158,987)</u>	<u>(21,653,567)</u>
Governmental Activities -			
Capital Assets, Net	<u>\$ 27,000,450</u>	<u>\$ (1,075,490)</u>	<u>\$ 25,924,960</u>
Business-type Activities:			
Furniture/Equipment	\$ 346,242	\$ 0	\$ 346,242
Less: Accumulated Deprecation	<u>(336,689)</u>	<u>(1,198)</u>	<u>(337,887)</u>
Business-type Activities -			
Capital Assets, Net	<u>\$ 9,553</u>	<u>\$ (1,198)</u>	<u>\$ 8,355</u>

PINE GROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 5 - CAPITAL ASSETS – continued

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

Instructional	\$ 781,762
Instructional Student Support	227,325
Student Activities	13,484
Operation	136,416
Total Depreciation Expense	\$ <u>1,158,987</u>

NOTE 6 - INTERFUND OPERATING BALANCES:

Individual fund operating balances for the year ended June 30, 2017 were as follows:

	Due From	Due To
Scholarship Fund	\$ 4,735	\$
Activities Fund	1,042	0
General Fund	282,732	107,801
Cafeteria Fund	135,342	316,050
Total All Funds	\$ <u>423,851</u>	\$ <u>423,851</u>

All balances are current and are payable within one year. Balances exist due to normal operating transfers between individual funds

PINE GROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 7 - TAXES ASSESSED AND DEFERRED REVENUE:

The following is a listing of the taxes assessed along with their respective assessed valuations:

Tax Type	Millage/Rate	Assessed Valuation
Real Estate - Schuylkill County	38.9 mills	\$ 8,389,836
Occupation Tax - Act 511	\$200.00/person	1,154,800
Total Assessed Valuation		\$ 9,544,636

The following is the tax calendar showing levy date, payment periods and delinquent dates for the above listed taxes:

Levy date	July 1
Discount (2%) payment period	July 1 to August 31
Face payment period	September 1 to October 31
Penalty (10%) payment period	November 1 to December 31
Delinquent date	January 1

The School District, in accordance with GAAP, recognized the delinquent and unpaid taxes receivable reduced by an allowance for uncollectible taxes as determined by the administration. A portion of the net amount estimated to be collectible was measurable and available within the 60 days, was recognized as revenue, and the balance deferred in the fund financial statements. All taxes, net of uncollectible amounts, are recognized in the period for which levied in the government-wide financial statements, regardless of when collected.

The balances at June 30, 2017, are as follows:

Tax	Gross Taxes Receivable	Allowance for Uncollectible Taxes	Governmental Funds		
			Net Estimated to be Collectible	Tax Revenue Recognized	Deferred Taxes
Per Capita	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Occupation	0	0	0	0	0
Earned Income	170,044	0	170,044	170,044	0
Realty Transfer	14,106	0	14,106	14,106	0
Occupational Privilege Tax	3,020	0	3,020	3,020	0
Tax	\$ 187,170	\$ 0	\$ 187,170	\$ 187,170	\$ 0

PINE GROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 7 - TAXES ASSESSED AND DEFERRED REVENUE - continued

The District entered an agreement to sell 100% of its delinquent real estate tax claims to Northwest Pennsylvania Incubator Association. The agreement met the criteria for recognition as a sale as the District's continuing involvement with these receivables was effectively terminated. In 2017, the District received \$411,052. of proceeds from the sale (net of expenses of \$46,210).

NOTE 8 - BUDGETARY INFORMATION:

No budget versus actual comparison for the Capital Projects Fund has been displayed in the accompanying financial statements as no budget is required nor was adopted for the fund.

NOTE 9 - OPERATING LEASES:

The District leases nine copiers and two mail machines under operating leases. The District has the option to purchase the copiers for fair market value, determined by the lessor, at the end of the lease, or the option to continue the lease on a month-to-month basis. The estimated future minimum rental payments are as follows:

Year Ending June 30,	Amount
2018	\$ 23,712
2019	4,848
2020	4,848
2021	4,848
Total	\$ 38,256

Rental expense for all operating leases for the year ended June 30, 2017 was \$26,203.

PINE GROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 10 - COMMITMENTS AND CONTINGENCIES:

The collective bargaining agreement between the District and the employees expires as follows:

Teaching Staff	June 30, 2019
Support Staff	June 30, 2018
Act 93 Employees	June 30, 2021

GRANT PROGRAMS

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2012 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

During the normal course of business, the District is subject to numerous disputes and claims. At June 30, 2017, there were no items of pending or threatened litigation which management feels would have a material effect on the District's financial condition.

PINE GROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 10 - COMMITMENTS AND CONTINGENCIES – continued

FUTURE LIABILITY

The District, along with the participating districts of the Schuylkill Vocational Education Center, will be responsible for a portion of a liability due to another sending school district based on an overpayment made by the member district. At the time of this report, the total amount due for all districts is \$193,235. The District will be responsible for approximately 9.328% of 2016-2017 costs and approximately 9.655% of 2017-2018 costs. The remaining portion due will be paid over three years and will be calculated based on the sending school districts' enrollment.

NOTE 11 - REVENUE FROM LOCAL SOURCES:

During the current year, revenues from local sources consisted of the following:

	General Fund	Other Funds	Total
Property Taxes, Current	\$ 7,824,772	\$ 0	\$ 7,824,772
Earned Income Taxes	1,139,783	0	1,139,783
Other Current Taxes	879,466	0	879,466
Delinquent Taxes	531,621	0	531,621
Investment Income	53,399	4,058	57,457
Co-curricular Activities	47,121	0	47,121
Other Revenue from Local Sources	440,379	0	440,379
Total	\$ 10,916,541	\$ 4,058	\$ 10,920,599

NOTE 12 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS:

PLAN DESCRIPTION

The Pine Grove Area School District Retiree Health Care Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the School Board. The Plan provides postemployment healthcare benefits to eligible retirees of the District in accordance with the various labor contracts and personnel policies. At July 1, 2016, 38 retired employees were eligible to participate. Inasmuch as the Plan has no assets, reporting an other employee benefit trust fund in the accompanying financial statements is not required nor was a separate or stand-alone report issued.

PINE GROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 12 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - continued

FUNDING POLICY

The contribution requirements of plan members and the District are established and may be amended by the School Board, subject to applicable labor contracts. Plan members are not required to contribute; however, for the member and the spouse, coverage ceases upon the later of the exhaustion of accumulated sick days at retirement used to obtain health coverage, or Medicare eligibility. If a retiree runs out of unused sick days prior to reaching Medicare eligibility, they may continue on the District plan by paying 100% of premiums.

The District may contribute the *annual required contribution of the employer* (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For 2016, the District made no contributions and instead elected to continue funding on a *pay-as-you-go* basis, which amounted to \$323,907. for 2016. These costs are recognized as an expense when claims or premiums are paid.

ANNUAL OPEB COST AND NET OPEB OBLIGATION

For 2016, the components of the District's annual OPEB (other postemployment benefit) cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan were as follows:

Annual Required Contribution	\$ 616,370
Interest on Net OPEB Obligation - 4.50%	47,275
Adjustment to Annual Required Contribution	<u>(203,677)</u>
Annual OPEB Cost	459,968
Contributions or Payments Made	<u>(323,907)</u>
Increase in Net OPEB Obligation	136,061
Net OPEB Obligation, Beginning of Year	1,050,546
Net OPEB Obligation, End of Year	<u>\$ 1,186,607</u>
 Percentage of Annual OPEB Cost Contributed	 <u>70.42%</u>

PINE GROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 12 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - continued

FUNDED STATUS AND FUNDING PROGRESS

The funded status of the Plan as of July 1, 2016, the date of the most recent actuarial valuation is as follows:

Actuarial Accrued Liability (AAL)	\$ 3,716,463
Actuarial Value of Assets	0
Unfunded AAL (UAAL)	<u>\$ 3,716,463</u>
 Funded Ratio	 <u>0.00%</u>
 Covered Payroll	 <u>\$ 8,010,119</u>
 UAAL as Percentage of Covered Payroll	 <u>46.40%</u>

ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of potential occurrences of certain events in the future. Examples include assumption about future employment, mortality, healthcare costs trends, inflation, etc. Amounts determined regarding the funded status of the plan and the annual required contributions of the District are subject to constant changes and modifications as actual results are compared with past expectations and new estimates and assumptions are formed regarding the future. Projections of retiree benefits for financial reporting purposes are based on current plan activities as it is handled by the District and the benefits are received by the eligible 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 District and plan members. 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.

PINE GROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 12 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS - continued

ACTUARIAL METHODS AND ASSUMPTIONS - continued

In the July 1, 2016, actuarial valuation, the individual entry age normal actuarial cost method was used. There were also merit and seniority salary rate increase assumptions taken into consideration and those are detailed in the actuarial study and are based on age. There was also an inflationary rate assumption factored into the calculation. The UAAL is being amortized as a level percentage of active member payroll over a period of 30 years.

NOTE 13 - GASB STATEMENT NO. 54:

On June 15, 2010, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54 (Fund Balance Reporting and Governmental Fund Type Definitions). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB-54 establishes criteria for classifying fund balances into specifically defined classifications that should be based on hierarchy that reflects the extent to which the government is bound to honor constraints on how those funds can be spent. Established classifications are as follows:

Nonspendable – Amounts that cannot be spent because they are either in a nonspendable form or are legally or contractually required to be maintained intact.

Restricted – Amounts constrained to be used for a specific purpose stipulated by constitution, external resource providers or through enabling legislation.

Committed – Amounts constrained to be used for a specific purpose determined by a formal action of the School District Board of Directors (the district's highest level of decision-making authority).

Assigned – Amounts intended to be used for a specific purpose by the finance committee or an individual authorized by the governing body.

Unassigned – Residual amounts available for any purpose not contained in other classifications.

PINE GROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 13 - GASB STATEMENT NO. 54 – continued

ORDER OF FUND BALANCE SPENDING POLICY

The District's policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year by adjusting entries.

First, nonspendable fund balances are determined. Then, restricted fund balances for the nongeneral funds are classified as restricted fund balance.

It is possible for the nongeneral funds to have negative unassigned fund balance when nonspendable amounts plus the restricted fund balances for specific purpose amounts exceed the positive fund balance for the nongeneral fund.

MINIMUM FUND BALANCE

The District's school board policy states:

- 1.) The school district will strive to maintain an unassigned general fund balance of not less than five percent (5%) and not more than eight percent (8%) of the budgeted expenditures for that fiscal year.
- 2.) The total fund balance, consisting of several portions including committed, assigned and unassigned, may exceed eight percent (8%).
- 3.) If the unassigned portion of the fund balance falls below the threshold of five percent (5%), the board will pursue variations of increasing revenues and decreasing expenditures or a combination of both until five percent (5%) is attained. If the assigned and unassigned portions of the fund balance exceed eight percent (8%) of budgeted expenditures, the Board may utilize a portion of the fund balance by appropriating excess funds for nonrecurring expenditures only.

PINE GROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 13 - GASB STATEMENT NO. 54 – continued

BALANCE SHEET - GOVERNMENTAL FUNDS			
JUNE 30, 2017			
	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
EQUITY			
Nonspendable	\$ 0	\$ 0	\$ 0
Restricted	0	807,790	807,790
Committed	300,000	0	300,000
Assigned	0	0	0
Unassigned	<u>6,438,987</u>	<u>0</u>	<u>6,438,987</u>
TOTAL FUND BALANCE	\$ <u>6,738,987</u>	\$ <u>807,790</u>	\$ <u>7,546,777</u>

NOTE 14 - RELATED ORGANIZATIONS:

Not included in the School's District financial statements are any Parent-Teacher Associations (PTA), Parent-Teacher Organizations (PTO) and athletic and band booster clubs. These agencies provide services to students and employees of the School District, but are separate legal entities having sufficient autonomy in the management of their own affairs to distinguish them as separate from the administrative organization of the School District. The School District does not account for these entities as component units or joint ventures; it does not maintain an ongoing financial interest or have responsibility for these entities.

PINE GROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 15- PENSION:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PENSIONS

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

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. 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 than can be obtained at www.psers.state.pa.us.

PINE GROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 15 – PENSION – continued

BENEFITS PROVIDED

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

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

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

PINE GROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 15 – PENSION – continued

CONTRIBUTIONS

Member Contributions:

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

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

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

Members who joined the System after June 30, 2011, automatically contributed at the Membership Class T-E rate of 7.50% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elected Class T-F membership, contribute at 10.30% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%.

Employer Contributions:

The school district's contractually required contribution rate for fiscal year ended June 30, 2017 was 29.20% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$2,807,242. for the year ended June 30, 2017.

PINE GROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 15 – PENSION - continued

PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

At June 30, 2017, the District reported a liability of \$35,978,000. for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015 to June 30, 2016. 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, 2016, the District proportion was .0726%, which was a increase of .0015 from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$1,635,000. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>
Difference between employer contributions and proportionate share of total contributions	\$ <u>3,662,000</u>

\$3,662,000. reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as an addition 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 pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	
2017	\$ 880,000
2018	880,000
2019	1,278,000
2020	624,000
2021	0
Total Deferred Outflows of Resources	\$ <u>3,662,000</u>

PINE GROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 15 – PENSION - continued

***PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS
OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED
TO PENSIONS - continued***

ACTUARIAL ASSUMPTIONS

Total pension liability as of June 30, 2016 was determined by rolling forward the System's total pension liability as of the June 30, 2015 to June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

Changes in assumptions used of the Total Pension Liability beginning June 30, 2016.

- ☐ The Investment Rate of Return was adjusted from 7.50% to 7.25%
- ☐ The inflation assumption was decreased from 3.0% to 2.75%.
- ☐ Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- ☐ Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. The actual assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the five-year period ending June 30, 2015. The recommended assumption changes based on this experience study were adopted by the Board at its June 10, 2016 Board meeting, and were effective beginning with the June 30, 2016 actuarial valuation.

PINE GROVE AREA SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 15 – PENSION - continued

PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS – continued

ACTUARIAL ASSUMPTIONS – continued

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

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the 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>
Global public equity	22.5%	5.3%
Fixed Income	28.5%	2.1%
Commodities	8.0%	2.5%
Absolute return	10.0%	3.3%
Risk party	10.0%	3.9%
Infrastruaure/MLPs	5.0%	4.8%
Real estate	12.0%	4.0%
Alternative investments	15.0%	6.6%
Cash	3.0%	0.2%
Financing (LIBOR)	-14.0%	0.5%
	<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, 2016.

SUPPLEMENTAL INFORMATION

PINE GROVE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

A. SUMMARY OF AUDIT RESULTS

1. Auditor's report expresses an unqualified opinion on the financial statements of Pine Grove Area School District.
2. One significant deficiency disclosed during the audit of the financial statements is reported in the report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with Government Auditing Standards. This significant deficiency was also considered a material weakness.
3. No instances of noncompliance material to the financial statements of Pine Grove Area School District, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit. However, one (1) immaterial instance of noncompliance was noted and is reported as we believe it warrants attention of those charged with governance.
4. No significant deficiencies conditions relating to the audit of the major federal award programs is reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for Pine Grove Area School District expresses an unqualified opinion.
6. There were no audit findings relative to the major federal programs for the Pine Grove Area School District that are to be reported in accordance with 2 CFR section 200.516(a).
7. The program tested as a major program included:

Program	CFDA #
IDEA Part B Allocation	84.027
IDEA Part B 619 Funds	84.027

8. The threshold for distinguishing types A and B Programs was \$750,000,000.
9. Pine Grove Area School District was determined not to be a low-risk auditee.

PINE GROVE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

SIGNIFICANT DEFICIENCY/MATERIAL WEAKNESS

2017-01 Lack of Oversight and Monitoring of Financial Information

Condition: Consistent management wasn't present at the district to provide proper oversight and to monitor the financial information.

Criteria: The District should have proper financial oversight and approval of all financial information. Appropriate posting of financial activity should be approved by someone with financial authority. Misposting within accounts and access to the financial general ledger should be reviewed on a timely basis.

Cause: There was a lack of top management in the 2016/2017 fiscal year. The District didn't have a Superintendent or a full time Business Manager for part of the year.

Effect: Because the district was lacking top management, there was a lack of oversight and monitoring of financial information.

Recommendation: We immediately recommended that the District evaluate employees' access to the General Ledger. We also recommend the Cafeteria Student Account balance be checked on a weekly or monthly basis to verify correctness of the accounts. Also, we recommend the Payroll Bank Account be reconciled on a monthly basis and tied to the General Ledger.

Views of Responsible Officials and Planned Corrective Actions: The Pine Grove Area School District agrees with the finding. New management is taking corrective action to ensure oversight and proper monitoring of financial information.

PINE GROVE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

B. FINDINGS - FINANCIAL STATEMENTS AUDIT - CONTINUED

VIOLATION OF LAWS AND REGULATIONS

2017-02 Failure to File Single Audit Report by the Due Date

Condition: The Single Audit wasn't filed with Federal Audit Clearinghouse by the due date.

Criteria: Federal Uniform Guidance requires District's that receive over \$750,000 of federal monies to a single audit. The Single Audit filing due date is nine months after year end.

Cause: We noted the District received over \$750,000 of federal monies and did not meet the 3/31/18 filing due date.

Effect: The lack of filing on a timely basis caused the District to not be in compliance the Federal Uniform Guidance Requirements.

Recommendation: We recommend that the District file the Single Audit to the Federal Audit Clearinghouse by the due date.

Views of Responsible Officials and Planned Corrective Actions: The Pine Grove Area School District agrees with the finding and will ensure that future Single Audits are filed by the due date.

2017-03 Failure to File Annual Financial Report by the Due Date

Condition: The District didn't file the annual financial report to the State Department of Education by the due date.

Criteria: The State Department of Education requires Districts to file an annual financial report by 10/31/17.

Cause: We noted the District didn't file the annual financial report until after the due date.

Effect: The lack of filing on a timely basis caused the district to not be in compliance with the Federal Uniform Guidance Requirements. In addition, the Superintendent's license can be suspended and penalties incurred.

Recommendation: We recommend that the District file their annual financial report by the due date.

Views of Responsible Officials and Planned Corrective Actions: The Pine Grove Area School District agrees with the finding and will ensure that the annual financial report is timely filed.

PINE GROVE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2017

C. FINDINGS – MAJOR FEDERAL PROGRAMS

2017-04 Failure to File Quarterly and Annual Reports Timely

Condition: Quarterly and annual reports were not timely filed.

Criteria: Federal Uniform Guidance requires that all Title I Programs file a quarterly and annual report.

Cause: We noted that the District did not file the appropriate quarterly and annual reports.

Effect: The lack of filing on a timely basis caused the District to not be in compliance with the Federal Uniform Guidance Requirements.

Recommendation: We recommend that the District file all quarterly and annual reports timely.

Views of responsible officials and planned corrective action: The Pine Grove Area School District agrees with the finding and will ensure that future quarterly and annual reports be filed timely.

2017-05 Fiscal Requirement – Record Retention

Condition: Federal Program records are to be maintained for a period of 7 years.

Criteria: Federal Uniform Guidance requires that all Federal Programs maintain records for a period of 7 years.

Cause: We noted that the District did not maintain the program records for the period required.

Effect: The lack of record retention caused the District not to be in compliance with the Federal Uniform Guidance requirement.

Recommendation: We recommend that the District maintain all records for the appropriate 7 years.

Views of Responsible Officials and Planned Corrective Actions: The Pine Grove Area School District agrees with the finding and will ensure that all records are maintained for the appropriate 7 years.

PINE GROVE AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2017

C. FINDINGS – MAJOR FEDERAL PROGRAMS – CONTINUED

2017-06 Failure of District to have a Parent Involvement Policy

Condition: Schools receiving Title I funds need a written Parent Involvement Policy /Plan aligned with the District's policy.

Criteria: Federal Uniform Guidance requires Districts to have a Parent Involvement Policy/Plan that aligns with the District's policy.

Cause: We noted that the Parent Involvement Policy exists at the LEA level, but not for the Pine Grove Elementary School.

Effect: The lack of the Policy caused the District not to be in compliance with the Federal Uniform Guidance Requirements.

Recommendation: We recommend that the District implements a Parent Involvement Policy/Plan at the Pine Grove Elementary School level.

Views of Responsible Officials and Planned Corrective Action: The Pine Grove Area School District agrees with the findings and will ensure that a Parent Involvement Policy/Plan be implemented.

PINE GROVE AREA SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor/ Pass Through Grantor/ Program Title	Source Code	Federal CFDA Number	Pass Through Grants/ Number	Program or Award Amount	Grant Period Beginning/Ending Date	Total Received For Year	Accrued Or (Deferred) Revenue July 1, 2016	Revenue Recognized	Expenditures	Accrued Or (Deferred) Revenue June 30, 2017
U.S. DEPARTMENT OF EDUCATION										
Passed Through State Department of Education:										
E.S.E.A Title I - 2015-2016	(I)	84.010	013-16-0338	280,166	07/01/15-09/30/16	0	95,379	0	0	95,379
E.S.E.A Title I - 2016-2017	(I)	84.010	013-17-0338	270,954	07/01/16-09/30/17	73,541	0	270,954	270,954	197,413
E.S.E.A. Title II Improving Teacher Quality - 2015-2016	(I)	84.367	020-16-0338	68,367	07/01/15-09/30/16	0	22,719	0	0	22,719
E.S.E.A. Title II Improving Teacher Quality - 2016-2017	(I)	84.367	020-17-0338	66,966	07/01/16-09/30/17	17,932	0	66,966	66,966	49,034
Passed Through Schuylkill County Intermediate Unit:										
IDEA Part B Allocation	(I)	84.027	62-16-0029	234,742	07/01/15-06/30/16	234,742	234,742	0	0	0
IDEA Part B Allocation	(I)	84.027	62-17-0029	237,029	07/01/16-06/30/17	0	0	237,029	237,029	237,029
IDEA Part B 619 Funds	(I)	84.027	62-16-0029	5,384	07/01/15-06/30/16	5,384	5,384	0	0	0
IDEA Part B 619 Funds	(I)	84.027	62-17-0029	5,344	07/01/16-06/30/17	0	0	5,344	5,344	5,344
TOTAL DEPARTMENT OF EDUCATION				1,168,972		331,599	358,224	580,293	580,293	606,918
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES										
Passed Through State Department of Education:										
Medical Assistance - Access	(I)	93.778	013-11-0338	3,044	07/01/15-06/30/16	1,485	1,485	0	0	0
Medical Assistance - Access	(I)	93.778	013-11-0338	2,788	07/01/16-06/30/17	1,146	0	2,788	2,788	1,642
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				5,832		2,631	1,485	2,788	2,788	1,642
U.S. DEPARTMENT OF AGRICULTURE										
Passed Through State Department of Education:										
National School Lunch - 2015-2016	(I)	10.553	129-54-600-3	67,469	07/01/15-06/30/16	1,435	1,435	0	0	0
National School Lunch - 2016-2017	(I)	10.553	129-54-600-3	58,831	07/01/16-06/30/17	58,318	0	58,831	58,831	513
National School Lunch - 2014-2015	(I)	10.555	129-54-600-3	305,222	07/01/15-06/30/16	5,151	5,151	0	0	0
National School Lunch - 2016-2017	(I)	10.555	129-54-600-3	314,679	07/01/16-06/30/17	313,334	0	314,679	314,679	1,345
National School Lunch - 2015-2016	(S)	N/A	129-54-600-3	27,279	07/01/15-06/30/16	477	477	0	0	0
National School Lunch - 2016-2017	(S)	N/A	129-54-600-3	26,093	07/01/16-06/30/17	25,968	0	26,093	26,093	125
Passed Through State Department of Agriculture:										
Value of USDA Commodities	(I)	10.555	2-07-54-600	47,284	07/01/16-06/30/17 (A)	47,284 (B)	(2,871)	42,883 (C)	42,883 (D)	(7,372)
TOTAL DEPARTMENT OF AGRICULTURE				846,857		451,967	4,092	442,486	442,486	(5,389)
SUB-TOTAL				2,021,661		786,197	363,801	1,025,567	1,025,567	603,171
STATE AWARD EXPENDITURES				53,372		26,445	477	26,093	26,093	125
TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ 1,988,289		\$ 759,752	\$ 363,324	\$ 999,474	\$ 999,474	\$ 603,046

Source Code Legend:

- (D) Indicates direct federal financial assistance funding.
- (I) Indicates indirect federal financial assistance funding.
- (S) Indicates State matching funding.

Other Code Legend:

- (A) Indicates value of USDA commodities received in current year.
- (B) Indicates beginning inventory value of USDA commodities.
- (C) Indicates value of USDA commodities used in current year.
- (D) Indicates ending inventory value of USDA commodities.

See notes to financial statements
which are an integral part of this statement.

PINE GROVE AREA SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:

The accompanying Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

NOTE 2 - COMMODITIES:

The beginning and ending deferred income figures listed represent the beginning and ending commodities inventories in the Cafeteria Fund. These commodities are received through the State from the U.S. Department of Agriculture. The commodities are valued at amounts assigned to the various items by the U.S. Department of Agriculture when the commodities are offered.

PINE GROVE AREA SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2017

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
DISTRICT'S PROPORTION OF THE NET PENSION LIABILITY (ASSET)	0.0726%	0.0741%	0.0706%	0.0689%
DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)	\$ 35,978,000	\$ 32,097,000	\$ 27,944,000	\$ 28,205,000
DISTRICT'S COVERED-EMPLOYEE PAYROLL	\$ 9,404,854	\$ 9,532,929	\$ 9,011,116	\$ 8,841,282
DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) AS A PERCENTAGE OF ITS COVERED-EMPLOYEE PAYROLL	382.55%	336.70%	310.10%	319.01%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	50.14%	54.36%	52.24%	54.49%

Ultimately, this schedule should present information for the last ten years. However, until ten years of information can be compiled, information is presented for as many years as is available.

PINE GROVE AREA SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2017

	June 30, 2016	June 30, 2015	June 30, 2014
CONTRACTUALLY REQUIRED CONTRIBUTION	\$ 2,310,000	\$ 1,913,000	\$ 1,406,000
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	<u>(2,310,000)</u>	<u>(1,913,000)</u>	<u>(1,406,000)</u>
CONTRIBUTION DEFICIENCY (EXCESS)	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
DISTRICT'S COVERED-EMPLOYEE PAYROLL	\$ 9,404,854	\$ 9,532,929	\$ 9,011,116
CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	24.56%	24.56%	20.07%

Ultimately, this schedule should present information for the last ten years. However, until ten years of information can be compiled, information is presented for as many years as is available.