

SHAMOKIN AREA SCHOOL DISTRICT
Coal Township, Pennsylvania

Financial and Single Audit Reports

For the Year Ended June 30, 2015

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JUNE 30, 2015

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SINGLE AUDIT

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Independent Auditor's Report

Members of the School Board
Shamokin Area School District
Coal Township, 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 Shamokin Area School District (the "District"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District'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 District, as of June 30, 2015, 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.

Emphasis of Matter

As described in Note 15 to the financial statements, during the year ended June 30, 2015, the District adopted new accounting guidance from Governmental Accounting Standards Board Statement No. 68, "Accounting and Financial Reporting for Pensions." Our opinion is not modified with respect to this matter.

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, as listed in the table of contents, 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 District's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is 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 the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other

records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Klacik & Associates, P.C.

Shamokin, Pennsylvania
March 28, 2016

**SHAMOKIN AREA SCHOOL DISTRICT
COAL TOWNSHIP, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
June 30, 2015**

The discussion and analysis of Shamokin Area School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

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

FINANCIAL HIGHLIGHTS

During the fiscal year 2014-2015, the Shamokin Area School District experienced another year of increases in the costs for labor and instruction and decrease in local revenue as compared to recent years. The most significant expenditure was the cost for rental of classrooms at Northwestern Academy which totaled \$1,201,232. This cost is invoiced to the home districts of the students assigned to Northwestern Academy. The district is still collecting on unpaid invoices and has contacted PDE for assistance in receiving payment of outstanding invoices regarding Northwestern Academy. In the budgeting process, the Board of School Directors balanced the budget by utilizing the general fund, fund balance. However, the district's actual expenditures did not exceed the revenues collected for this school year.

USING THE ANNUAL FINANCIAL REPORT (AFR)

This annual report consists of two distinct series of financial statements: district-wide and fund.

The first two statements (district-wide) are government-wide financial statements – the Statement of Net Position and the Statement of Activities. These provide both long-term and short-term information about the District's overall financial status.

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

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

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

**Figure A-1
Required Components of
Shamokin Area School District's
Financial Report**

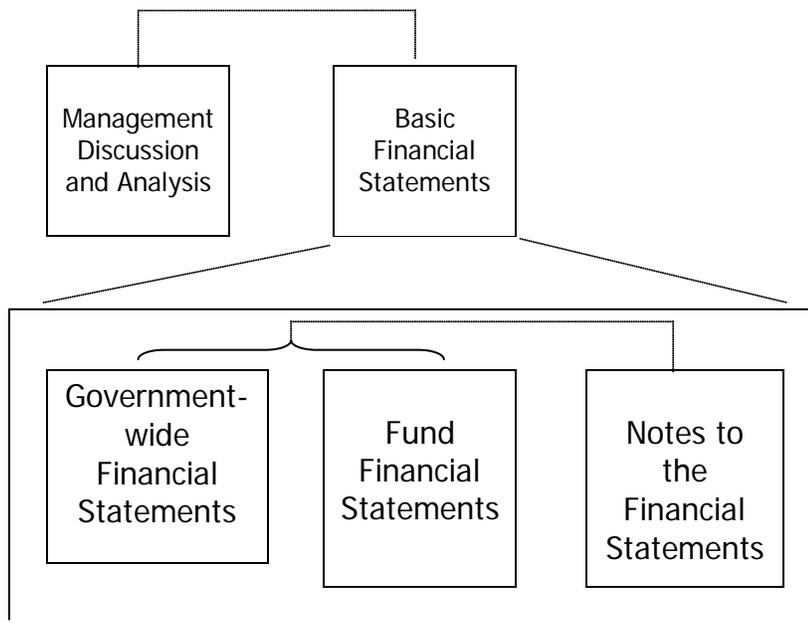


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District they cover and the types of information they contain. The remainder of this overview section of management discussion and analysis explains the structure and contents of each of the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

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

		Fund Statements		
	Government-wide Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as education, administration, and community services	Activities the District operates similar to private business – Food Services	Instances in which the District is the trustee or agent to someone else's resources – Scholarship Funds
Required financial statements	Statement of Net Position (NAGW) Statement of Activities (SOA)	Balance Sheet (NAG) Statement of Revenues, Expenditures, and Changes in Fund Balance (REG)	Statement of Net Position (NAP) Statement of Revenues, Expenses, and Changes in Net Position (REP) Statement of Cash Flows (CFP)	Statement of Fiduciary Net Position (NAF) Statement of Changes in Fiduciary Net Position (CNAF)
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow-outflow information	All revenues and expenses during year, regardless of when cash is	Revenues for which cash is received during or soon after the end of the year;	All revenues and expenses during year, regardless of when cash is	All revenues and expenses during year, regardless of when cash is received or

	received or paid	expenditures when goods or services have been received and payment is due during the year or soon thereafter	received or paid	paid
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OVERVIEW OF FINANCIAL STATEMENTS

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how they have changed. Net position, the difference between the District's assets and liabilities, is one way to measure the District's financial health or position.

Over time, increases or decreases in the District's net position are an indication of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the District, you need to consider additional non-financial factors, such as changes in the District's property tax base and the performance of the students.

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

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

Fund Financial Statements

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

Governmental funds – Most of the District's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary funds – These funds are used to account for the District activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the District charges customers for services it provides – whether to outside customers or to other units in the District – these services are generally reported in proprietary funds. The Food Service Fund is the District's proprietary fund and is the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows.

Fiduciary funds - The District is the trustee, or fiduciary, for some scholarship and agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position. We exclude these activities from the District's other financial statement because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. Due to GASB 68, state and local governments and its entities must recognize their pension liability by reporting the “net pension liability” in their financial statements. “Net pension liability” is the amount by which the total pension liability exceeds the pension plan's net position available for paying benefits. The District's Net Pension Liability was \$42,657,000. Our net position prior to GASB 68 requirement would have been \$20,534,897. However, with GASB 68 the District's combined net position is (\$10,569,106) as of June 30, 2015. (See Table A-3.)

Table A-3
Shamokin Area School District
For Years Ended June 30, 2015 and 2014
Net Position

	Government Activities 2013-2014	Government Activities 2014-2015	Business-Type Activities 2013-2014	Business- Type Activities 2014-2015	Total 2013-2014	Total 2014-2015
Current and other assets	\$17,359,628	\$17,613,065	\$992,261	\$1,116,387	\$18,351,889	\$18,729,452
Capital assets	\$20,743,297	20,293,286	\$183,795	175,138	20,927,092	20,468,424
Deferred Outflows		\$4,352,453				4,352,453
Total Assets	\$38,102,925	\$ 42,258,804	\$1,176,056	\$1,291,525	39,278,981	\$43,550,329
Current and other liabilities	\$4,985,875	4,366,247	157,450	269,081	5,143,325	4,635,328
Long-term liabilities	3,792,424	47,039,107	0	0	3,792,424	46,710,469
Deferred Inflows		2,445,000				2,445,000
Total Liabilities	8,778,299	53,850,354	157,450	269,081	8,935,749	53,790,797
Invested in capital assets Net of related debt	17,059,957	16,348,502	183,795	175,138	17,243,752	16,523,640
Restricted for Capital Projects	2,025,555	2,111,773	0	0	2,025,555	2,111,773
Unrestricted total net position	10,239,114	(30,051,550)	1,018,606	847,306	11,073,925	(29,204,519)
Total Net Position	29,324,626	\$ (11,591,550)	\$1,176,056	\$1,022,444	\$30,343,232	\$(10,569,106)

Most of the District's net position is invested in capital assets (buildings, land, and equipment).

Table A-4

**Shamokin Area School District
Change in Net Position
For Years Ended June 30, 2014 and 2015**

	Governmental Activities 2013-2014	Governmental Activities 2014-2015	Business-Type Activities 2013-2014	Business-Type Activities 2014-2015	Total 2013-2014	Total 2014-2015
REVENUES:						
Program Revenues						
Charges for Services		0	352,537	77,222	352,537	77,222
Operating Grants & Contributions	6,342,613	7,221,739	1,011,045	1,063,110	7,353,658	
General Revenues						
Property Taxes	2,008,573	2,944,407	0	0	2,008,573	2,944,407
Other Taxes	3,332,178	3,187,591	0	0	3,332,178	3,187,591
State Formula Aid	11,864,558	11,864,612	0	0	11,864,558	11,864,612
Investment Earnings	18,932	22,962	1,074	1,180	20,006	24,142
Transfers	(61,905)	(81,810)	67,703	81,810	5,798	0
Loss on fixed assets	0	0	0	0	0	0
Other	3,787,092	3,380,877	1,250	75,040	3,788,342	3,455,917
Total Revenues	27,292,041	28,540,378	1,433,609	1,298,362	28,725,650	29,838,740
EXPENSES:						
Depreciation – unallocated	390,055	442,628	0	0	390,055	442,628
Instruction	17,652,578	27,537,319	0	0	17,652,578	27,537,319
Instructional Student Support	1,282,905	1,218,415	0	0	1,282,905	1,218,415
Administration	2,825,228	2,953,059	0	0	2,825,228	2,953,059
Operation & Maintenance of Facilities	3,853,810	3,886,846	0	0	3,853,810	3,886,846
Pupil Transportation	1,296,329	1,252,712	0	0	1,296,329	1,252,712
Student Activities	453,996	494,713	0	0	453,996	494,713
Community Services	15,015	6,249	0	0	15,015	6,249
Scholarships and Awards	0	0	0	0	0	0
Capital Acquisition	15,241	38,981	0	0	15,241	38,981
Interest on long term debt	215,412	228,964	0	0	215,412	228,964
Food Service	0	0	1,287,912	1,294,524	1,287,912	1,294,524
Total Expenses	28,000,559	38,059,886	1,287,912	1,294,524	29,288,471	39,354,410
INCREASE (DECREASE) IN NET POSITION	(708,518)	(9,519,508)	145,697	3,838	(562,821)	(9,515,670)

The District's specific revenues as indicated above were \$28,540,378 for the year ended June 30, 2015. Taxes and State Formula Aid amounted to \$17,996,610. Another \$7,221,739 came from Operating Grants and Contributions. Food service revenue totaled \$1,298,362 and the remainder came from fees charged for services, investment earnings, and miscellaneous sources. (See Table A-4.)

The total cost of all programs and services was \$38,059,886 for the year ended June 30, 2015. The majority of the District's costs related to educating and servicing students (Instruction, Instructional Student Support, Pupil Transportation, Student Activities), in the amount of \$30,503,159 or 80.15%, Administrative Costs accounted for \$2,953,059 or 7.76%, Operation of the District's Facilities accounted for \$3,886,846 or 10.21%, and Food Service Costs totaled \$1,294,524. (See Table A-4.) In general most of the District's costs are paid for by District taxpayers and taxpayers of the Commonwealth of Pennsylvania.

Table A-5
Shamokin Area School District
Net Cost of Governmental Activities
For Years Ended June 30, 2014 and 2015

	Total Cost of Services 2013-2014	Total Cost of Services 2014-2015	Percentage Change	Net Cost of Services 2013-2014	Net Cost of Services 2014-2015	Percentage Change
Depreciation – unallocated	390,055	442,628	13.48%	(390,056)	(442,628)	13.48%
Instruction	17,652,578	27,537,319	56%	(12,565,412)	(21,668,985)	72.45%
Instructional Student Support	1,282,905	1,218,415	-5.1%	(1,151,484)	(1,100,599)	-4.42%
Administration	2,825,228	2,953,059	4.52%	(2,795,348)	(2,810,383)	0.54%
Operation & Maintenance of Facilities	3,853,810	3,886,846	0.86%	(3,661,413)	(3,692,986)	0.86%
Pupil Transportation	1,296,329	1,252,712	-3.4%	(476,979)	(438,021)	-8.27%
Student Activities	453,996	494,713	8.97%	(371,897)	(410,351)	10.34%
Community Services	15,015	6,249	-58.4%	(14,715)	(6,249)	-57.54%
Interest & Charges on Long-Term Debt	215,402	228,964	6.3%	(215,402)	(228,964)	6.3%
Scholarships/Awards	0	0	0	0	0	0%
Capital acquisition	15,241	38,981	155.76%	(15,241)	(38981)	155.76%
Refund of prior year revenues	0	0	0	0	0	-%
Total Expenses	\$28,000,559	\$38,059,886	35.9%	(21,657,947)	(30,838,147)	42.39%

The results of this year's operations as a whole are reported in the Statement of Activities. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are represented to determine the final amount of the District's activities that are supported by other general revenues. The two largest general revenues are the Basic Education Subsidy provided by the State of Pennsylvania, and the local taxes assessed to community taxpayers. (See Table A-5.)

FINANCIAL ANALYSIS OF DISTRICT FUNDS

As of June 30, 2015, the District's governmental funds reported a combined fund balance of \$10,525,496 an increase of \$317,604 from the prior year amount of \$10,207,892 restated. (See Table A-6.) Although there was an increase overall, there were decreases in the capital funds for the

elementary project, ESCO energy project, other capital projects and the bond/loan payable. The other factors are specific to two funds:

General Fund:

Overall, the District budgeted adequately for all levels of expenditures. Overall, actual expenditures of \$27,040,426 reflect 83.8% of the original budget estimate of \$32,265,169 or 16.2% of the original budget was not expended. Towards the end of the fiscal year the district historically does not maximize each expenditure line item unless it is deemed necessary. In addition, funds were budgeted to resolve past year issues regarding wards of state reimbursement from the state that may be owed to Northwestern. This item is still being discussed with our solicitor and has been budgeted for following year until its resolution. During the 2014-15 school year, one of the school buildings being rented from Northwestern Human Services closed and reduced the cost of rental/lease. In addition, the SAEA and AFSCME agreements that expired on June 20, 2014 were not settled during this school year.

Total actual revenue totaled \$27,945,022 equating to \$1,062,893 less than the original budget estimate of \$29,007,915. This is largely due to unpaid tuition/rental invoices to home districts of students enrolled at Northwestern Academy. Local revenue was approximately \$1,260,011 less than originally projected. Federal revenue was below estimates by \$184,408 due to title one and school based ACCESS medical assistant reimbursement.

The auditor also did a restatement of the general fund balance ending June 30, 2014. The District also transferred \$600,000 from the general fund to the capital fund to assist in the acquisition of a loan for the ESCO energy project at the Middle/High School Building to begin in March, 2015.

Based on the aforementioned, the district general fund realized an increase of \$231,386.

Capital Reserve Fund:

The District established this fund in accordance with Section 1432 of the Pennsylvania Municipal Code and in compliance with the Pennsylvania School Code. It is utilized for unforeseen and various capital expenditures. In 2013-14 the district expended a total of \$581,596 in capital projects, debt service, purchases, and improvements throughout the district. For the 2012-13 fiscal year and thereafter, the QZAB debt service will be paid from the capital reserve account. However, the Federal Government Sequestrian affected the 100% repayment of the interest. The district is receiving about 92% of the interest paid for the Elementary Project Bond Issuance. The District is also in a holding pattern with PDE in receiving PlanCon funds for the Elementary Project.

At the beginning of the fiscal year, the fund balance was \$1,898,000. With all of the capital expenditures and revenue, the ending fund balance totaled \$2,111,760 or a net change in fund balance of \$213,760.

Table A-6
Shamokin Area School District
Change in Fund Balances
For Years Ended June 30, 2013 and 2014

	Fund Balance June 30, 2014	Fund Balance June 30, 2015	Increase (Decrease)
General Fund	\$8,182,337	\$8,413,723	231,386
Capital Reserve Fund	1,898,000	2,111,760	213,760
Non-Major Funds	0	0	0
Other Capital Projects Fund 39	127,555	13	(127,542)
Totals	\$10,207,892	\$10,525,496	317,604

Revenues for the District's governmental funds were \$28,140,392 while total expenses were \$28,304,362 yielding a deficiency of \$163,970. The establishment of fund 39, other capital projects for the QZAB project in the amount of \$4,068,000 contributed to the overall positive change in fund balance in 11-12; however all of the funds are earmarked and have been spent in November, 2014. In June, 2015, the capital fund 39 has been used for the ESCO energy project that is expected to be completed prior to the 2016-17 school year. This loan was in the amount of \$4.5 million to upgrade the HVAC system of the center section of the High School, upgrade exterior lighting, and assist with energy savings in the district.

General Fund Budget

During the fiscal year, the Board of School Directors (The Board) may authorize revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the District. All adjustments are again confirmed at the time the annual audit is accepted, which is after the end of the fiscal year, which is not prohibited by state law.

The District applies for federal, state, and local grants and these grants cannot always be anticipated in the budgeting process.

Budgeted expenditures and other financing uses also increased this same amount to compensate for the additional approved grants. Transfers between specific categories of expenditures/financing uses

occur during the year. The most significant transfers occur from the budget reserve category to specific expenditure areas.

The Budgetary Reserve includes amounts that may be funded by designated fund balance for planned opportunities of expenditures for improvements/enhancements to the District operations. The district fund balance has been used to offset past and forecasted future budget deficits but no longer can sustain such action. These amounts will only be appropriated into expenditure categories if the fiscal results of the prior year end with a positive addition to fund balance, which exceeds the total of these projected expenditures. The Board is using this method of budgeting to control tax increases while also protecting the integrity of the fund balance.

The following provides a summary of General Fund revenues:

**Table A-7
Shamokin Area School District
General Fund Revenues
For Years Ended June 30, 2014 and 2015**

	Revenues 2013-2014	Revenues 2014-2015	Increase (Decrease)	% Change
State Sources	16,927,439	17,231,381	303,942	1.8%
Federal Sources	1,358,683	1,927,245	568,562	41.85%
Total Revenue	\$27,479,496	\$27,945,022	465,526	1.69%

Total General Fund revenue increased by \$231,386 or 2.83%. (See Table A-7.)

The following provides a summary of General Fund expenditures:

**Table A-8
Shamokin Area School District
General Fund Expenditures
For Years Ended June 30, 2014 and 2015**

	Expenditures 2013-2014	Expenditures 2014-2015	Increase (Decrease)	% Change
Instruction	\$17,155,163	\$17,573,572	418,409	2.44%
Support Sevices	8,975,773	8,977,867	2,094	0.02%
Non-instructional services	454,554	488,987	34,433	7.58%
Refunds of prior year revenues	1957	0	(1957)	-100%
Total Expenditures	\$26,587,897	\$27,040,426	452,529	1.70%

Total General Fund expenditures increased by \$452,529 or 1.70% from the previous year. Employees Benefits increased due to increase cost of healthcare and PSERS retirement. Equipment increased due to purchases of computers and technology for classrooms through the Rural and Low Income Grant. During the 2014-15 school year the SAEA and AFSCME contracts remain unsettled. (See Table A-8.)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2015, the District had \$20,468,424 in net capital assets, including land, buildings, furniture and equipment. This is a decrease based on the total of \$20,927,092 in June of 2014 due to depreciation (reference table A-9.)

Table A-9
Shamokin Area School District
Capital Assets
For Years Ended June 30, 2014 and 2015

	Governmental Activities 2013-2014	Government al Activities 2014-2015	Business-Type Activities 2013-2014	Business-Type Activities 2014-2015	Total 2013-2014	Total 2014-2015	% Change
Land	10,362,707	10,362,707	0	0	10,362,707	10,363,707	0.0%
Site Improvements	606,294	\$534,874	\$0	\$0	606,294	\$534,874	-11.78%
Building and Building Improvements (net of acc dep)	3,416,587	7,080,858	0	0	3,416,587	7,080,858	207.3%
Furniture and Equipment (net of acc dep)	2,139,293	1,617,489	183,795	175,138	2,323,088	1,792,627	-22.9%
Debt Issuance	67,340	0			67,340	0	-100%
Construction in Progress	4,151,076	697,358			4,151,076	697,358	-93.2%
Totals	\$20,743,297	\$20,293,286	\$183,795	\$175,138	\$20,927,092	\$20,468,424	-2.2%

Debt Administration

As of June 30, 2011, the District had total outstanding general obligation debt of \$0. During the 2011-12 fiscal year, the district approved a \$4,068,000 bond issue via the Qualified Zone Academy Bond program offered through ARRA for the elementary renovation project. This project is amortized over eighteen years at near zero percent interest.

In June, 2015, the district approved a \$4.5 million loan to complete an Energy ESCO project at the Middle/High School which was in conjunction with a PEDAs grant in the awarded amount of \$500,000.

Other obligations include accrued vacation pay and sick leave for specific employees of the District and other post-employment benefits. More detailed information about our long-term liabilities is included in the financial statements. (See Table A-10.)

The following provides a summary of our Long-Term Liabilities:

Table A-10
Shamokin Area School District
Long-Term Liabilities
For Years Ended June 30, 2014 and 2015

	Year Ending June 30, 2014	Year Ending June 30, 2015	Increase (Decrease)	% Change
General Obligation Bonds	\$3,390,000	\$3,718,784	328,784	3.1%
Current portion of long term debt		226,000		
Accrued interest		77,638		
Compensated Absences and Other Post Employment Benefits	402,424	\$ 334,685	(67,739)	-16.8%
Net pension liability		42,657,000		
Current portion of compensated absences		25,000		
Totals	\$3,792,424	\$47,039,107	43,246,683	1140%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

A major financial issue facing the District again in fiscal year 2013-2014 through 2017-18 is the funding of the district contractual obligations, specifically salaries and benefits for district staff. The Collective Bargaining agreement with the Shamokin Area Educational Association expired on June 30th, 2013 as well as the agreement with AFSCME who represents the support staff employees. All of the teachers participate in the Central Susquehanna Regional Health Care Trust administered through the CSIU. The annual cost per teacher for the PPO program is based on a tier rate of individual and dependent enrollment.

The composite rate was eliminated for the 2014-15 school year. Each employee was assigned to the tier that reflects their eligibility per contract agreement. These tiers and annual cost are Single \$7,848, Husband & wife \$17,256, Parent & child \$10,980, Parent & children \$14,904, or Family \$21,960. The tiers establish a potential liability and difficulty in budgeting as employees move from single to two party or family coverage. It is projected for the 2015-16 school to increase by 5.5% per tier level and for the 2016-17 by 1.5%.

The district approved retirement incentives during 2011-12 that compensates retiring teachers \$10,000 per year into an HRA account for seven years or until age 65. This seven year incentive ends in June, 2018. Although not a financial savings except for year one, for the district, it minimized the amount of furloughs. Support staff employees were given \$500 per year of service as an incentive to retire, however this was a one time only transaction and does not affect any employee in future years.

Our special education, alternative education and most notable, the cyber charter school population appears to be increasing proportionately year after year. As a result, Shamokin Area School District expenses for these programs have increased each school year. The majority of these expenses are out of our control. For fiscal year 2009-10, the district spent \$684,817.20 for cyber charter schools which also was \$451,817.20 over budget. In 2010-11, the cost totaled \$913,283.77 and in 2011-12, the total was \$915,067.69. The 2013-14 budget line item was \$1,200,000 and the cost was \$875,450.23. For the first four months of 2014-15 the enrollment has increased by 50% when compared to 13/14 enrollment year numbers. There have been bills introduced to address the funding inequities, however movement has been limited. The district has researched alternative programs for these students to participate in that would decrease the cost.

The local parochial school, Our Lady of Lourdes High School, has become a pre-kindergarten to twelfth grade facility. Depending on the future success of this initiative, it may cause some parents to enroll their children in the district. Depending on the actual influx of children, this situation may present some challenges, both physically and financially for the district in the future years.

Providing instruction at Northwestern Academy has also seen its challenges. A decision was made to provide special education instruction in 12/13 and with the addition of regular education in 13/14. At that time, enrollment numbers were steady. These enrollment numbers have been declining since 12/13. Recently, three buildings at Northwestern have been closed out of the four. Enrollment has declined drastically and the cost of the rental/lease per student ADM is costly. The district must take a closer look at the programs being offered and this facility and its total cost to the district. Though the district does invoice the home districts of costs, school code does limit what can be charged for regular education tuition. The lease agreement with Northwestern was for the 2012-13 school year and we are still negotiating terms from the 13/14 to present school year. Other items of concern between Shamokin Area School District and Northwestern Human Services are Wards of state tuition reimbursement for years prior to 2008-09, regular education tuition portion of the special education students during 2012-13, and outstanding payments from home school districts of

invoices. The District must examine other avenues in providing the education to the students with regards to meeting school code.

The agreement between the district and the American Federation of State, County, and Municipal Employees expired in June of 2013. Both parties have started negotiations. The present agreement granted annual increases retroactive to July 1, 2009 as follows, .40, .60, .50, and .40 in 2012. The prior two contracts yielded annual hourly increase of: \$.75, \$.80, \$.80, \$.60, \$.60, \$.60, \$.60, \$.60, and \$.60. Without a contract in place since the time period between January and June of 2013, the budget was prepared without any increases included, however either the budgetary reserve would be used or the board would need to reopen the budget to allocate the appropriate funds to cover the cost of the contract. For the 2014-15 and 2015-16 budget, the district is still in negotiations and has prepared the budget without any increases included. Negotiations have been limited in progress and it was difficult to predict how to budget for 2015-16. The agreement was settle and an increase of \$1 for 15/16, \$0.40 in 16/17 and \$0.35 in 17/18 were agreed upon.

The District expects its retirement contribution on behalf of its employees to the Pennsylvania School Employees Retirement System (PSERS) to continue increasing in the future. House Bill 2497 was passed on October 14, 2010. This legislation addressed in part, the anticipated increases in PSERS. Specifically, for 2011-12, the employer contribution rate is 8.65%. For 2012-13 the rate is established at 12.36% which would have been 28.71% without this legislation. The rate for 2013-14 was 16.93%. The 2014-15 is 21.41% and 25.84% for 2015-16. There also were changes to the plan for new employees related to retirement age, multiplier, and the vesting period. Legislation is still addressing these issues. The annual increases present a significant funding issue for the Commonwealth of Pennsylvania as well as local school districts.

The district was approved for a \$500,000 PEDA grant to focus on energy savings by updating/replacing HVAC system at High School. This project began in the summer of 2015 and it is anticipated to be completed in the summer of 2016. The energy savings will be applied to the cost of financing a project. This project was financed at \$4.5 million. It is anticipated over the 20 years that an energy savings of at least \$2million will be seen by the district.

The district is projecting an operating deficit in the range of \$3,000,000; the actual budget figure is \$1,487,048 for 2012-13 however personnel and legal issues have contributed to the estimated increase in the deficit. In 13-14 and 14-15, the district was able to keep their expenses within the revenue collected and not have a high need to use the fund balance to budget. However, as stated above negotiations were in process and salaries were at a freeze. Both contracts have been settled and salary increases will be applied to 2015-16 school year. Act 48 of 2002 prohibited districts from raising taxes if their fund balance exceeded eight percent of their projected expenditures. Thus the district has been unable to raise taxes over the past several years until recently. Unfortunately, this only creates roughly \$69,000 in additional revenue. Prior to Act 48, the last district tax increase was in June of 1992. The combination of not raising local real estate taxes, reduced state funding, maintenance of infrastructure, and increased cyber charter school expenditures has contributed to this current financial dilemma. Significant cuts to programs, staff and supplies will continue to be necessary to balance the budget in future years.

House Bill 39 was signed into law as Act 1 of 2008. This legislation outlined rules for slot money distribution, requiring front-end voter referenda on tax shifting, mandating new school district budget practices, and requiring back end voter referenda on future real estate tax increases above an "index" and on building projects. Among other things, Act 1 is designed to provide homeowner real estate tax reductions in varying amounts. Act 1 in conjunction with the reduced state funding may continue to have many collateral consequences for school districts, including negative education program impacts, possible bond downgrade and related borrowing expense, substantial implementation expense and many diverse required actions.

**Table A-12
Shamokin Area School District
Employer's Retirement Contributions**

Retirement 2009-10	Retirement 2008-2009	Retirement 2007-2008	Retirement 2006-2007	Retirement 2005-2006	Retirement 2004-2005	Retirement 2003-2004	Retirement 2001-2002
4.78%	4.76%	7.13%	6.46%	4.69%	4.23%	3.77%	1.15%

Retirement 2010-11	Retirement 2011-12	Retirement 2012-2013	Retirement 2013-2014	Retirement 2014-2015	Retirement 2015-2016	Retirement 2016-2017	Retirement 2017-2018
5.64%	8.65%	12.36%	16.93%	21.41%	25.84%	26.26%	26.80%

The percentage of the total budget of revenue and expenditure by category for 2014-2015 as compared to 2013-2014 budget estimates is as follows:

BUDGETED REVENUES

	2013-2014	2014-2015
Local	36.32%	34.63%
State	58.71%	58.09%
Federal/Other	5.84%	7.28%

BUDGETED EXPENDITURES

	2013-2014	2014-2015
Instruction	67%	65.35%
Support Services	30%	32.08%
Non-Instruction/Community	2%	1.94%

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, parents, students, and creditors with a general overview of the District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please visit the district website, www.indians.k12.pa.us and click on the link titled "Right to Know" request form or contact Karen Colangelo, Business Manager at Shamokin Area School District, 2000 West State Street, Coal Township PA 17866, (570) 648-5752.

SHAMOKIN AREA SCHOOL DISTRICT
Statement of Net Position
As of June 30, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current Assets:			
Cash and cash equivalents	\$ 3,132,848	\$ 795,122	\$ 3,927,970
Investments	7,328,736	-	7,328,736
Taxes receivable, net	2,302,422	-	2,302,422
Due from other governments	4,841,104	193,154	5,034,258
Inventories	-	24,879	24,879
Other Receivables	7,955	-	7,955
Other Current Assets	-	75,000	75,000
Internal Balances	-	28,232	28,232
Total Current Assets	17,613,065	1,116,387	18,729,452
Capital Assets:			
Land	10,362,707	-	10,362,707
Land and site improvements, net of accumulated depreciation	534,874	-	534,874
Buildings and improvements, net of accumulated depreciation	7,080,858	-	7,080,858
Furniture and equipment, net of accumulated depreciation	1,617,489	175,138	1,792,627
Construction in progress	697,358	-	697,358
Total Capital Assets	20,293,286	175,138	20,468,424
Total Assets	37,906,351	1,291,525	39,197,876
Deferred Outflows of Resources	4,352,453	-	4,352,453
Total Assets and Deferred Outflows of Resources	\$ 42,258,804	\$ 1,291,525	\$ 43,550,329
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION			
Current Liabilities:			
Accounts payable	\$ 2,345,554	\$ 1,500	\$ 2,347,054
Accrued salaries and benefits	1,931,438	-	1,931,438
Deferred revenues	-	5,711	5,711
Other Current Liabilities	89,255	261,870	351,125
Total Current Liabilities	4,366,247	269,081	4,635,328
Long Term Liabilities:			
Due within one year:			
Bonds and notes	226,000	-	226,000
Compensated absences	25,000	-	25,000
Accrued interest	77,638	-	77,638
Due in more than one year:			
Net Pension Liability	42,657,000	-	42,657,000
Compensated absences	259,420	-	259,420
Bonds and notes	3,718,784	-	3,718,784
Other postemployment benefit obligation	75,265	-	75,265
Total Non-Current Liabilities	47,039,107	-	47,039,107
Total Liabilities	51,405,354	269,081	51,674,435
Deferred Inflows of Resources	2,445,000	-	2,445,000
Total Liabilities and Deferred Inflows of Resources	53,850,354	269,081	54,119,435
Net Position:			
Invested in capital assets, net of related debt	16,348,502	175,138	16,523,640
Restricted for capital projects	2,111,773	-	2,111,773
Unrestricted	(30,051,825)	847,306	(29,204,519)
Total Net Position	\$ (11,591,550)	\$ 1,022,444	\$ (10,569,106)

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

SHAMOKIN AREA SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
Unallocated depreciation	\$ 442,628	\$ -	\$ -	\$ (442,628)	\$ -	\$ (442,628)
Instruction	27,537,319	-	5,868,334	(21,668,985)	-	(21,668,985)
Instructional student support	1,218,415	-	117,816	(1,100,599)	-	(1,100,599)
Administrative and financial support services	2,953,059	-	142,676	(2,810,383)	-	(2,810,383)
Operation and maintenance of plant services	3,886,846	-	193,860	(3,692,986)	-	(3,692,986)
Pupil transportation	1,252,712	-	814,691	(438,021)	-	(438,021)
Student activities	494,713	-	84,362	(410,351)	-	(410,351)
Community services	6,249	-	-	(6,249)	-	(6,249)
Capital acquisition	38,981	-	-	(38,981)	-	(38,981)
Interest on long-term debt	228,964	-	-	(228,964)	-	(228,964)
Total Governmental Activities	38,059,886	-	7,221,739	(30,838,147)	-	(30,838,147)
Business-Type Activities:						
Food services	1,294,524	77,222	1,063,110	-	(154,192)	(154,192)
Total Primary Government	\$ 39,354,410	\$ 77,222	\$ 8,284,849	(30,838,147)	(154,192)	(30,992,339)
General Revenues:						
Taxes:						
Property taxes, levied for general purposes, net				2,944,407	-	2,944,407
Public utility, relty, earned income and miscellaneous taxes levied for general purposes, net				3,187,591	-	3,187,591
Grants, subsidies, and contributions not restricted				11,864,612	-	11,864,612
Investment Earnings				22,962	1,180	24,142
Miscellaneous				3,380,877	75,040	3,455,917
Transfers				(81,810)	81,810	-
Total General Revenues				21,318,639	158,030	21,476,669
Change in Net Position				(9,519,508)	3,838	(9,515,670)
Net Position - June 30, 2014, as previously stated				29,324,625	1,018,606	30,343,231
Adjustment to restate beginning net position				(31,396,667)	-	(31,396,667)
Net Position - June 30, 2014, restated				(2,072,042)	1,018,606	(1,053,436)
Net Position - June 30, 2015				\$ (11,591,550)	\$ 1,022,444	\$ (10,569,106)

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

**Shamokin Area School District
Balance Sheet
Governmental Funds
June 30, 2015**

	General Fund	Capital Reserve Fund	Capital Projects Fund	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 1,025,420	\$ 2,107,415	\$ 13	\$ 3,132,848
Investments	6,903,708	-	-	6,903,708
Taxes Receivable	2,302,422	-	-	2,302,422
Due from Other Funds	-	-	-	-
Intergovernmental Receivables	4,841,104	-	-	4,841,104
Other Receivables	-	7,955	-	7,955
TOTAL ASSETS	15,072,654	2,115,370	13	17,188,037
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$ 15,072,654	\$ 2,115,370	\$ 13	\$ 17,188,037
LIABILITIES & DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 2,341,944	\$ 3,610	\$ -	\$ 2,345,554
Due to Other Funds	-	-	-	-
Accrued Salaries and Benefits	1,931,438	-	-	1,931,438
Other Current Liabilities	89,255	-	-	89,255
TOTAL LIABILITIES	4,362,637	3,610	-	4,366,247
DEFERRED INFLOWS OF RESOURCES	2,296,294	-	-	2,296,294
FUND BALANCES				
Restricted Fund Balance	-	2,111,760	13	2,111,773
Assigned Fund Balance	2,000,000	-	-	2,000,000
Unassigned Fund Balance	6,413,723	-	-	6,413,723
TOTAL FUND BALANCES	8,413,723	2,111,760	13	10,525,496
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES & FUND BALANCES	\$ 15,072,654	\$ 2,115,370	\$ 13	\$ 17,188,037

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

**SHAMOKIN AREA SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2015**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 10,525,496

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 in the fund financial statements, but are reported in the government activities of the statement of net position:

Cost of capital assets	49,820,455	
Less: accumulated depreciation	<u>(29,527,169)</u>	20,293,286

Investments held in the OPEB trust are reported on the District-Wide financial statements but not on the government fund statements.	425,028
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Deferred outflows and inflows of resources related to pension are applicable to future periods, and therefore, are not reported in the funds:

Deferred outflows of resources related to pensions	4,352,453
Deferred inflows of resources related to pensions	<u>(2,445,000)</u>

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position. Balances as of June 30, 2015 are:

Net Pension Liability	(42,657,000)	
Other postemployment benefits	(75,265)	
Bonds payable	(3,944,784)	
Compensated absences	<u>(284,420)</u>	(46,961,469)

Governmental funds do not report a liability for accrued interest until due and payable - such liability is accrued on the District-Wide financial statements.	(77,638)
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Delinquent personal and property taxes receivable are not available soon enough to pay for the current period's expenditures and are, therefore, deferred in the funds.	2,296,294
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TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES \$ (11,591,550)

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

Shamokin Area School District
Coal Township, Pennsylvania
Statement of Revenues, Expenditures & Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2015

	General Fund	Capital Reserve Fund	Capital Projects Fund	Total Governmental Funds
REVENUES				
Local Sources:	\$ 8,786,396	\$ 195,356	\$ 14	\$ 8,981,766
State Sources	17,231,381	-	-	17,231,381
Federal Sources	1,927,245	-	-	1,927,245
TOTAL REVENUES	27,945,022	195,356	14	28,140,392
EXPENDITURES				
Instruction	17,573,572	-	-	17,573,572
Support Services	8,977,867	140,288	54,912	9,173,067
Non-Instructional Services	488,987	-	-	488,987
Capital Outlay	-	23,050	627,428	650,478
Debt Service	-	418,258	-	418,258
Refunds of prior year revenues	-	-	-	-
TOTAL EXPENDITURES	27,040,426	581,596	682,340	28,304,362
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	904,596	(386,240)	(682,326)	(163,970)
OTHER FINANCING SOURCES (USES)				
<i>Proceeds from Extended-Term Financing</i>	-	-	554,784	554,784
Interfund Transfers In (Out)	(681,810)	600,000	-	(81,810)
Proceeds from sale of fixed assets	8,600	-	-	8,600
TOTAL OTHER FINANCING SOURCES (USES)	(673,210)	600,000	554,784	481,574
Net Change in Fund Balances	231,386	213,760	(127,542)	317,604
Fund Balance - July 1, 2014, Restated	8,182,337	1,898,000	127,555	10,207,892
Fund Balance - June 30, 2015	<u>\$ 8,413,723</u>	<u>\$ 2,111,760</u>	<u>\$ 13</u>	<u>\$ 10,525,496</u>

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

**SHAMOKIN AREA SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$	317,604
Because some property taxes will not be collected for several months after the District's year end, they are not considered as available revenues in the governmental funds.		456,443
Accrual of other postemployment benefits are recorded in the Statement of Activities but are not recognized in governmental funds.		(6,987)
Governmental funds report debt and capital lease proceeds as an other financing source. The Statement of Activities treats such issuance of debt as a liability.		(554,784)
Governmental funds report district pension contributions as expenditures. However, in the Statement of Activities, the cost of pension related benefits earned net of employee contributions is reported as pension expense.		
District Pension Contributions		2,175,453
Cost of pension benefits earned, net of employee contributions		(11,820,997)
Compensated absences reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.		74,726
Governmental funds report capital outlays as expenditures. In the Statement of Activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense.		753,184
Principal payments on long-term debt are expensed in the governmental fund statements, but reduce long-term debt on the Statement of Net Position.		209,247
Principal payments on long-term debt were reduced by investment income earned on the State Public School Building Authority (SPSBA)'s collective investment of all Principal Sinking Fund deposits. This is recognized in the Statement of Activities but is not recognized in the governmental funds.		16,753
Interest expense is recognized in the governmental fund statements when paid but is accrued in the Statement of Activities.		(9,709)
Increase in investments in the OPEB trust are expensed in the governmental fund statements but are an asset in the Statement of Net Position.		5,414
Depreciation expense is recognized in the Statement of Activities but is not recognized in the governmental funds.		(1,135,855)
CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES	\$	(9,519,508)

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

**Shamokin Area School District
Coal Township, Pennsylvania
Statement of Net Position
Proprietary Fund
June 30, 2015**

	<u>Food Service</u>
ASSETS & DEFERRED OUTFLOWS OF RESOURCES	
<i>Current Assets:</i>	
Cash and Cash Equivalents	\$ 795,122
Due from other funds	28,232
Governmental Receivables	193,154
Other Receivables	75,000
Inventories	<u>24,879</u>
Total Current Assets	<u>1,116,387</u>
<i>Noncurrent Assets:</i>	
Machinery and Equipment, Net	<u>175,138</u>
Total Noncurrent Assets	175,138
Deferred Outflows of Resources	<u>-</u>
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 1,291,525</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES & NET POSITION	
<i>Current Liabilities:</i>	
Accounts Payable	\$ 1,500
Due to Other Funds	-
Unearned Revenues	5,711
Other Current Liabilities	<u>261,870</u>
Total Current Liabilities	<u>269,081</u>
TOTAL LIABILITIES	<u>269,081</u>
Deferred Inflows of Resources	
NET POSITION	
Investment in Capital Assets, net of Related Debt	226,762
Unassigned Fund Balance	<u>795,682</u>
TOTAL NET POSITION	<u><u>\$ 1,022,444</u></u>

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

**Shamokin Area School District
Coal Township, Pennsylvania
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the Year Ended June 30, 2015**

	Food Service
OPERATING REVENUES:	
Food Service Revenue	\$ 77,222
TOTAL OPERATING REVENUES	77,222
OPERATING EXPENSES:	
Salaries	26,881
Employee Benefits	26,696
Purchased Property Service	628
Other Purchased Service	485,748
Supplies	740,485
Depreciation	14,086
TOTAL OPERATING EXPENSES	1,294,524
OPERATING INCOME/(LOSS)	(1,217,302)
NONOPERATING REVENUES (EXPENSES):	
Earnings on Investments	1,180
Refund of Prior Year Expenditures	75,040
State Sources	48,527
Federal Sources	1,014,583
Interfund Transfers	81,810
TOTAL NONOPERATING REVENUES (EXPENSES)	1,221,140
CHANGE IN NET POSITION	3,838
NET POSITION - JULY 1, 2014	1,018,606
NET POSITION - JUNE 30, 2015	\$ 1,022,444

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

SHAMOKIN AREA SCHOOL DISTRICT
Coal Township, Pennsylvania
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2015

	Food Service
<i>Cash Flows from Operating Activities</i>	
Cash Received from Customers and Intergovernments	\$ 2,182
Cash Payments to Employees for Services	(53,578)
Cash Payments to Suppliers for Goods and Services	(1,121,919)
Net Cash (Used for) Operating Activities	(1,173,315)
<i>Cash Flows from Noncapital Financing Activities</i>	
State Sources	78,726
Federal Sources	833,017
Operating Transfers In (Primary Government)	53,578
Refund of Prior Year Expenditures	75,040
Net Cash Provided by Noncapital Financing Activities	1,040,361
<i>Cash Flows from Investing Activities</i>	
Earnings on Investments	1,180
Net Cash Provided by Investing Activities	1,180
Net Increase (Decrease) in Cash and Cash Equivalents	(131,774)
Cash and Cash Equivalents Beginning of Year	926,896
Cash and Cash Equivalents End of Year	\$ 795,122
Operating Income (Loss)	\$ (1,217,302)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:	
Depreciation	14,086
(Increase) Decrease in Accounts Receivable	(75,040)
(Increase) Decrease in Inventories	(8,492)
(Increase) Decrease in Other Current or NonCurrent Assets	(5,429)
Increase (Decrease) in Accounts Payable	118,862
Total Adjustments	43,987
Net Cash (Used for) Operating Activities	\$ (1,173,315)

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

**Shamokin Area School District
Coal Township, Pennsylvania
Statement of Net Position
Fiduciary Funds
June 30, 2015**

	<u>Private Purpose Trust</u>	<u>Activity</u>	<u>Total Fiduciary Funds</u>
ASSETS & DEFERRED OUTFLOWS OF RESOURCES			
ASSETS			
Cash and Cash Equivalents	\$ 54,018	\$ 166,606	\$ 220,624
TOTAL ASSETS	54,018	166,606	220,624
DEFERRED OUTFLOW OF RESOURCES			
	-	-	-
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 54,018</u>	<u>\$ 166,606</u>	<u>\$ 220,624</u>
LIABILITIES			
Other Current Liabilities	\$ -	\$ 166,606	\$ 166,606
TOTAL LIABILITIES	-	166,606	166,606
DEFERRED INFLOW OF RESOURCES			
NET POSITION			
Invested in Capital Assets, Net of Related Debt	-	-	-
Restricted Net Position	-	-	-
Unrestricted Net Position	<u>54,018</u>	<u>-</u>	<u>54,018</u>
TOTAL NET POSITION	<u>\$ 54,018</u>	<u>\$ -</u>	<u>\$ 54,018</u>

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

**Shamokin Area School District
Coal Township, Pennsylvania
Statement of Changes in Net Position
Fiduciary Funds
June 30, 2015**

	<u>Private Purpose Trust</u>
ADDITIONS	
Gifts and Contributions	\$ 3,402
Other Additions	<u>20</u>
TOTAL ADDITIONS	3,422
DEDUCTIONS	
Scholarships awarded	3,875
Activities	<u>48</u>
TOTAL DEDUCTIONS	<u>3,923</u>
CHANGE IN NET POSITION	(501)
NET POSITION - JULY 1, 2014, Restated	<u>54,519</u>
NET POSITION - JUNE 30, 2015	<u><u>\$ 54,018</u></u>

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

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Shamokin Area School District (the District) is governed by the Shamokin 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 Shamokin 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:

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

A. DEFINING THE REPORTING ENTITY

The reporting entity was defined by applying the following criteria which were established by the Governmental Accounting Standards Board Statement Number 14, "The Financial Reporting Entity."

- (A) Financial interdependency
- (B) Selection of governing authority
- (C) Designation of management
- (D) Ability to significantly influence operations
- (E) Accountability for fiscal matters

In defining the reporting entity, all known federal program awards received by the entity have been included and have been subjected to the terms and requirements of the Single Audit Act.

In applying the above criteria, the District does not have any component units nor is the District a component unit of any other primary government.

The accounts of the school district are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Resources are allocated to and accounted for in

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

individual funds based upon the purposes for which they are to be spent.

B. FUND ACCOUNTING

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:

Nonexpendable – 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.

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 non-General funds are classified as restricted fund balance.

It is possible for the non-General 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 non-General fund.

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

FUND ACCOUNTING (Continued)

BALANCE SHEET - GOVERNMENTAL FUNDS				
June 30, 2015				
Fund Balance	General	Capital Reserve	Capital Projects	Total Governmental Funds
Nonspendable	\$ -	\$ -	\$ -	\$ -
Restricted	-	2,111,760	13	2,111,773
Committed	-	-	-	-
Assigned	2,000,000	-	-	2,000,000
Unassigned	6,413,723	-	-	6,413,723
TOTAL FUND BALANCE	\$8,413,723	\$2,111,760	\$13	\$10,525,496

C. BASIS OF PRESENTATION

Government-wide statements (i.e., 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.

- Direct Expenses are those that are clearly identifiable with a specific program.
- 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.
- Taxes and other items not properly included among program revenues are reported as general revenues.

Depreciation expense for building and site improvements is not allocated by function and is included on a separate line of the direct expenses. The effect of interfund activity has been removed from these statements.

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

BASIS OF PRESENTATION- continued

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.

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 Reserve Fund -The Capital Reserve 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.

Capital Projects Fund - The Capital Projects Fund is used to account for the acquisition or construction of major capital facilities, other than those financed by proprietary and trust funds.

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, clubs and scholarships.

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

D. 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.

E. BUDGETS AND BUDGETARY ACCOUNTING

The District follows these procedures in establishing the budgetary data reflected in the financial statements.

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

The Pennsylvania School Code dictates specific procedures relative to adoption of the School District's budget and reporting of its financial statements, specifically:

The School District, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year.

The School District is required to publish notice by advertisement, at least once in two newspapers of general circulation in the municipality in which it is located, and within fifteen days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative office of the School District.

Notice that public hearing will be held on the proposed operating budget must be included in the advertisement; such hearings are required to be scheduled at least ten days prior to when final action on adoption is taken by the Board.

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

BUDGETS AND BUDGETARY ACCOUNTING – continued

Legal budgetary control is maintained at the sub-function/major object level. The Board of School Directors may make transfers of funds appropriated to any particular item of expenditure by legislative action in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without Board approval. Appropriations lapse at the end of the fiscal period.

Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments.

In order to preserve a portion of an appropriation for which an expenditure has been committed by a purchase order, contract or other form of commitment, an encumbrance is recorded. Encumbrances outstanding at year end, if any, are reported in the fund financial statements as reservations of fund balances.

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

F. 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.

G. 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 financial statements, commodities received are recorded as deferred revenue until consumed.

H. 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.

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):
CAPITAL ASSETS – continued

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

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

I. 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.

J. 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.

K. FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a restricted purpose.

L. NET POSITION

Net position represents the difference between assets and liabilities in the District-wide financial statements. Net assets invested in capital assets 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.

M. 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).

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

N. 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.

NOTE 2 - DEPOSITS AND INVESTMENTS:

A. 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. 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.

All deposits at June 30, 2015 are insured by the Federal Deposit Insurance Corporation (FDIC) for amounts up to \$250,000. Deposits over this amount are collateralized by a pool of eligible securities established under Act 72 of the 1971 Session of the Pennsylvania General Assembly for the protection of public depositors. The pledged securities in the pool are safe kept at correspondent banks in accounts specifically segregated for this purpose. Act 72 specifies that it is the bank's responsibility to maintain sufficient assets in the pool to collateralize adequately all public deposits greater than the \$250,000 per type of account per entity which is FDIC insured.

At June 30, 2015, the carrying amount of the District's deposits was \$ 11,228,234 and the bank balance was \$ 10,998,584. Of the bank balance, \$ 2,062,564 was covered by federal depository insurance coverage and \$ 9,165,670 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.

The District has deposits in the Pennsylvania School District Liquid Asset Fund (PSDLAF), the Pennsylvania Treasurer's Invest Program for Local Government, and the Pennsylvania Local Government Investment Trust (PLGIT) as authorized by the Board. PSDLAF was established to

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued):

DEPOSITS – continued

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, 2015, the District had the following deposits (carrying value): Pennsylvania

Local Government Investment Trust (OPEB)	\$ 425,028
Pennsylvania School District Liquid Asset Fund (PSDLAF)	115,900
Pennsylvania Treasurer's Invest Program for Local Governments	<u>6,787,808</u>
Total Deposits	<u>\$7,328,736</u>

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

B. 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.

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.

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:

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued):
INVESTMENTS – continued

Obligations of (1) the United States of America or any of its agencies or instrumentalities backed by the 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.

Concentration Risk - The District does not have a policy that would limit the amount it may invest in any one issuer.

As of June 30, 2015, the District's investment balance by type and maturity were as follows:

Investment Type	Fair Value	Maturities		
		Less than 1 year	1-5 years	6-10 years
PA Treasurer's Invest	\$ 6,787,808	\$ 6,787,808	\$ -	\$ -
PSDLAF	115,900	115,900	-	-
PA OPEB Trust Fund	425,028	425,028	-	-
	<u>\$7,328,736.00</u>	<u>\$7,328,736.00</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES:

Intergovernmental receivables listed in the General Fund at June 30, 2015, are comprised of the following:

Federal Programs	\$	4,110,111
State Programs		87,078
Local Programs		<u>643,915</u>
Total	\$	4,841,104

NOTE 4 – INTERFUND TRANSFERS

	Transfers to Other Funds	Transfers from Other Funds
General Fund	\$ 681,810	\$ -
Capital Reserve Fund	-	600,000
Food Service Fund	-	<u>81,810</u>
	<u>\$ 681,810</u>	<u>\$ 681,810</u>

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 5 - CAPITAL ASSETS:

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

	Balance July 1, 2014	Additions	Deletions	Balance, June 30, 2015
GOVERNMENTAL ACTIVITIES				
Capital assets, not being depreciated				
Construction in Progress	\$ 4,151,076	\$ 627,428	\$ 4,081,146	\$ 697,358
Land	10,362,707	-	-	10,362,707
	<u>14,513,783</u>	<u>627,428</u>	<u>4,081,146</u>	<u>11,060,065</u>
Capital assets, being depreciated				
Buildings and Improvements	21,881,211	4,035,479	-	25,916,690
Site Improvements	2,814,439	-	-	2,814,439
Furniture & Equipment	9,857,838	171,423	-	10,029,261
	<u>34,553,488</u>	<u>4,206,902</u>	<u>-</u>	<u>38,760,390</u>
Less: Accumulated Depreciation				
Buildings and Improvements	18,464,624	371,208	-	18,835,832
Site Improvements	2,208,145	71,420	-	2,279,565
Furniture & Equipment	7,718,545	693,227	-	8,411,772
	<u>28,391,314</u>	<u>1,135,855</u>	<u>-</u>	<u>29,527,169</u>
Total Accumulated Depreciation	<u>28,391,314</u>	<u>1,135,855</u>	<u>-</u>	<u>29,527,169</u>
Governmental activities -				
Capital Assets, net	<u>\$ 20,675,957</u>	<u>\$ 3,698,475</u>	<u>\$ 4,081,146</u>	<u>\$ 20,293,286</u>
BUSINESS TYPE ACTIVITIES				
Furniture/Equipment	\$ 687,364	\$ 5,428	\$ -	\$ 692,792
Less: Accumulated Depreciation	<u>503,569</u>	<u>14,086</u>	<u>-</u>	<u>517,655</u>
Business Type Activities-				
Capital Assets, Net	<u>\$ 183,795</u>	<u>\$ (8,658)</u>	<u>\$ -</u>	<u>\$ 175,137</u>

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

Unallocated Depreciation	\$ 442,628
Instruction	430,410
Instructional Student Support	29,128
Administrative & Financial Support Services	72,670
Operation & Maintenance of Plant Services	92,920
Pupil Transportation	29,948
Student Activities	11,827
Community Services	149
Capital Acquisition	15,931
Interest on Long-Term Debt	<u>10,244</u>
Total Depreciation Expense	<u>\$ 1,135,855</u>

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 - LONG-TERM LIABILITIES:

As of June 30, 2015, the District's long term liabilities consisted of the following:

	<u>Balance, July 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Note Proceeds Not Received</u>	<u>Balance, June 30, 2015</u>	<u>Due Within One Year</u>
Long term debt	\$ 3,616,000	\$ 4,500,000	\$ 226,000	\$ 3,945,216	\$ 3,944,784	\$ 226,000
Compensated Absences	359,146	9,274	84,000	-	284,420	25,000
Annual Required Contributions - OPEB	<u>68,278</u>	<u>395,703</u>	<u>388,716</u>	<u>-</u>	<u>75,265</u>	<u>-</u>
					-	
Total	<u>\$ 4,043,424</u>	<u>\$ 4,904,977</u>	<u>\$ 698,716</u>	<u>\$ 3,945,216</u>	<u>\$ 4,304,469</u>	<u>\$ 251,000</u>

As of June 30, 2015, the District's long-term debt consisted of the following:

Description	Interest Rate	Amount of Original Issue	Balance as of 07/01/14	Additions	Retirements	Proceeds Not Received	Balance as of 06/30/15
General Obligation Note Series A of 2011	5.138%	\$ 4,068,000	\$ 3,616,000	\$ -	\$ 226,000		\$ 3,390,000
General Obligation Note Series of 2015	2.620%	4,500,000	-	4,500,000	-	3,945,216	554,784
			<u>\$ 3,616,000</u>	<u>\$ 4,500,000</u>	<u>\$ 226,000</u>	<u>\$ 3,945,216</u>	<u>\$ 3,944,784</u>

BONDS AND NOTES PAYABLE

SERIES A OF 2011

On November 3, 2011, the District, thru the Pennsylvania State Public School Building Authority (Qualified Zone Academy Bonds (QZAB) – Direct Subsidy Bonds) the District issued a General Obligation Note Series A of 2011 in the amount of \$4,068,000 at a fixed interest rate of 5.138%. The proceeds of the issue are to be used to complete capital renovations and to pay issuance costs. Annual installments, as set forth below, are required to provide for payment of principal and interest through September 2029. Under the QZAB program the District will receive 92.80% reimbursement of interest paid on the Note in the form of a Federal reimbursement.

In 2015, the District issued its \$4,500,000 General Obligation Note Series of 2015, bearing interest at 2.62% per annum, maturing June 1, 2036. The proceeds of the note will be used to finance certain capital projects consisting of among other things, the District's Energy Savings Program and to

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 - LONG-TERM LIABILITIES (Continued):

BONDS AND NOTES PAYABLE - Continued

pay capitalized interest and the and expenses of the financing. As of June 30, 2015, \$3,945,216 of this note was not drawn by the District for use.

An analysis of debt service requirements to maturity on these obligations is as follows:

Years Ending June 30,	Principle	Interest	Total Debt Service
2016	\$ 226,000	\$ 328,879	\$ 554,879
2017	371,290.51	327,587.69	698,878
2018	423,925.70	322,733.96	746,660
2019	429,235.98	317,423.68	746,660
2020	434,406.66	312,252.99	746,660
2021 - 2025	2,260,231.60	1,473,066.68	3,733,298
2026 - 2030	2,141,524.04	1,487,267.28	3,628,791
2031 - 2035	1,301,394.87	256,834.15	1,558,229
2036	301,990.64	9,655.21	311,646
Subtotal	7,890,000	4,835,700	12,725,700
Less Note Proceeds Not Received	3,945,216	-	3,945,216
Total	\$ 3,944,784	\$ 4,835,700	\$ 8,780,484

COMPENSATED ABSENCES

Vacation - District employees who are required to work on a twelve-month schedule are credited with vacation at rates which vary with length of service or job classification. Vacation may be taken or accumulated within certain limits and is paid prior to retirement or termination at the employee's current rate of pay. At June 30, 2015, the estimated liability for compensated absences related to vacation payable was \$41,691.

Sick Leave and Personal Leave - Most District employees are credited with ten sick days and three personal leave days annually. Upon retirement, employees received payment for the unused portion of their sick leave and personal leave based on years of service and on rates specified by contracts or agreements. At June 30, 2015, the estimated liability for compensated absences related to sick and personal leave was \$35,659.

Early Retirement Incentive- The District offers an early retirement incentive to professional employees who retire having at least ten complete years of service with the District and at least thirty complete years as a professional employee in public schools of the Commonwealth of Pennsylvania. At June 30, 2015, the estimated liability for compensated absences related to

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 - LONG-TERM LIABILITIES (Continued):
COMPENSATED ABSENCES – continued

outstanding early retirement incentives was \$82,000.

The total compensated absences at year-end were \$284,421.

OTHER POST EMPLOYMENT BENEFITS

The District also provides other postemployment benefits as more fully discussed in Note 11. Total liability (asset) at June 30, 2015 was \$75,265.

NOTE 7- PENSION PLAN:

Public School Employees' Retirement System Plan

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

Plan description

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

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-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service.

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 7- PENSION PLAN (Continued):

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 the disability benefits.

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

Contributions

Member Contributions:

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

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

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

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

The school district's contractually required contribution rate for fiscal year ended June 30, 2015 was 20.50% 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.

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 7- PENSION PLAN (Continued):

Contributions to the pension plan from the District were \$2,175,453 for the year ended June 30, 2015.

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

At June 30, 2015, the District reported a liability of \$42,657,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, 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, 2013 to June 30, 2014. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it related to the total one- year reported covered payroll. At June 30, 2014, the District's proportion was 0.0864 percent, which was an increase of 0.0066 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of \$9,645,544. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in proportions	\$ 2,177,000	\$ -
Net difference between projected and actual investment earnings	-	2,445,000
Contributions subsequent to the measurement date	2,175,453	-
	\$ 4,352,453	\$ 2,445,000

\$4,352,453 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as reduction of the net pension liability in the year ended June 30, 2015. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2016	\$	(87,000)
2017		(87,000)
2018		(87,000)
2019		79,000
Thereafter		-

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 7- PENSION PLAN (Continued):

Actuarial assumptions

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

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

The actuarial assumptions used in the June 30, 2013 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the Board at its March 11, 2011 Board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

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

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.

Asset Class	Target allocation	Long-Term Expected Real Rate of Return
Public markets global equity	19%	5.0%
Private markets (equity)	21%	6.5%
Private real estate	13%	4.7%
Global fixed income	8%	2.0%
U.S. long treasuries	3%	1.4%
TIPS	12%	1.2%
High yield bonds	6%	1.7%
Cash	3%	0.9%

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 7- PENSION PLAN (Continued):

Asset Class	Target allocation	Long-Term Expected Real Rate of Return
Absolute return	10%	4.8%
Risk parity	5%	3.9%
MLPs/Infrastructure	3%	5.3%
Commodities	6%	3.3%
Financing (LIBOR)	-9%	1.1%
	100%	

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, 2014.

Discount rate

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

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate

The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
District's proportionate share of the net pension liability	\$ 42,657,000	\$ 34,198,000	\$ 26,976,000

Pension plan fiduciary net position

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

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 8 - TAXES ASSESSED AND DEFERRED REVENUE:

The tax on real estate for public school purposes for the year ended June 30, 2015 was 27.950 mills (\$27.95 per \$1,000) of assessed valuation as levied by the board. Assessed valuations of property are determined by Northumberland County, and the elected tax collectors are responsible for the collection. The following is a listing of the taxes assessed:

Tax Type	Millage/Rate
Real Estate - Northumberland County	27.950 mills
Occupation Tax- Act 511	\$200.00/person
Per Capita Tax- Act 511	\$ 5.00/person
Per Capita Tax - Section 679	\$ 5.00/person
Total Assessed Valuation	

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.

NOTE 9 - RISK MANAGEMENT AND LITIGATION:

This District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains coverage from commercial insurance companies to cover these risks of loss.

NOTE 10 - COMMITMENTS AND CONTINGENCIES:

The District participates in federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The District is potentially liable for any expenditure which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of non-compliance which would result in the disallowance of program expenditures.

As of June 30, 2015, the District has completed the capital renovations on the District's Elementary School. During the 2012-2013, the plumbing contractor on the project (Yannuzzi, Inc.) had requested a change order in the amount of \$303,750 for costs they incurred working under a directive to complete such work. The Company maintains that the work completed was not included in the scope of the original contract. The District has received a writ of summons from Yanuzzi, Inc.

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 10 - COMMITMENTS AND CONTINGENCIES (Continued):

The District's design professional has indicated that the change order is not warranted and has no basis under the contract. Consequently, the District has rejected the change order request and no accrual of liability has been made.

During the normal course of business, the District is subject to numerous disputes and claims. At June 30, 2015, there were no items of pending or threatened litigation that management has not accounted for of which they feel would have a material effect on the District's financial condition.

NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS:

PLAN DESCRIPTION

The Shamokin 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, 2014, 38 retired employees were eligible to participate. In as much as the Plan has no assets, reporting another employee benefit trust fund in the accompanying financial statements is not required nor was a separate or stand-alone report issued.

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, the exhaustion of an HCA based on accumulated sick days at retirement, 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 thirteen years. For 2015, the District made no contributions and instead elected to continue funding on a *pay-as-you-go* basis, which amounted to \$388,716 for 2015. These costs are recognized as an expense when claims or premiums are paid.

For 2015, 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:

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued):
FUNDING POLICY – Continued

Annual required contribution	\$ 402,023
Interest on net OPEB obligation	3,073
Adjustment to Annual Required Contribution	<u>(9,393)</u>
Annual OPEB cost	395,703
Contributions made	<u>388,716</u>
Increase in net OPEB obligation	6,987
Net OPEB obligation, beginning of year	<u>68,278</u>
Net OPEB obligation, end of year	<u><u>\$ 75,265</u></u>
Percentage of Annual OPEB Cost Contributed	98.23%

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.

In the July 1, 2014, 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.

Per the actuarial study, the assumed rate ranges from 5.5% in the short-term to 4.2% in the long-term for health care related costs. The UAAL is being amortized as a level percentage of active member payroll over a period of 13 years.

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 11 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued):

FUNDED STATUS AND FUNDING PROGRESS

The funded status of the Plan as of July 1, 2014, the date of the most recent actuarial valuation is as follows:

Actuarial Accrued Liability (AAL)	\$ 2,523,814
Actuarial Value of Assets	<u>(419,614)</u>
Unfunded AAL (UAAL)	\$ 2,943,428
Funded Ratio	16.63%
Covered Payroll	\$10,262,933
UAAL as Percentage of Covered Payroll	20.50%

NOTE 12- RELATED ORGANIZATIONS:

Not included in the School District's 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.

NOTE 13 - PENNSYLVANIA OPEB TRUST PARTICIPATION:

In June 2011, the District contributed \$347,118 to the Pennsylvania OPEB Trust. The Trust was established for Local PA Government units to pool their assets for investment to fund retiree benefits other than pensions within the meaning of the Governmental Accounting Standards Board Statements 43 and 45 (OPEB). The District's participation in the Trust is terminable by resolution of the District, subject to the terms, conditions, and restrictions of the Pennsylvania OPEB Trust Agreement and Participation Agreement. The assets of the trust are invested in a mutual fund in the US Bank. At June 30, 2015, the District's share of the trust is \$419,614.

NOTE 14 - NORTHWESTERN ACADEMY:

Situated within the boundaries of the Shamokin Area School District (SASD) lies a residential facility known as Northwestern Academy (Northwestern) which is owned by Northwestern Human Services, Inc., a private non-profit corporation. Northwestern provides services to adjudicated minors that are placed at Northwestern on a residential basis. Under the PA School Code of 1949 (School Code) Section 1306, Northwestern is an "institution for the care or training of children". As such, the School Code places certain obligations on the District with regard to the education of students placed at the institution. The District and Northwestern believe that it is in the best interest of the students residing at Northwestern to receive their education on the grounds of Northwestern.

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 14 - NORTHWESTERN ACADEMY (Continued):

Under the terms of an agreement dated July 25, 2000 and effective for fiscal years 1999-2001, which although signed by the then District Superintendent was not ratified by the Board of School Directors, Northwestern provided all educational services that the District was required to provide under Section 1306 of the School Code and educated, on the District's behalf, all students who were placed residentially at Northwestern. The District would invoice the home District of the student for tuition of the SASD plus a rental component and, if applicable, a special education component both to be calculated as calculated for other districts while at Northwestern and upon collection of this invoice would pass the payment to Northwestern as payment in full for tuition under this agreement less a 7.00% administration charge by the SASD.

As indicated above, the SASD had invoiced the home Districts for rental payments as permitted under the School Code. As a result of questions raised as to the allowability of these rental charges, this practice was terminated with funds collected for these payments being placed in a separate escrow account. Northwestern sued the District in the Court of Common Pleas in Northumberland County, PA, for the continued collection of and payment of lease payments from home districts to Northwestern and a judgment issued on March 14, 2008 by the court affirmed the Northwestern position. The District had continued to invoice the home districts for the rental component. Many home districts have refused to pay the charge and for those that have paid it the payments had been added to the escrow account

On April 5, 2012, the Court issued a judgment against the District to order the District to dissolve the escrow account and immediately pay these amounts to Northwestern, including accumulated interest. The District complied with the order and, in August 2012, it paid Northwestern all sums held in escrow.

Effective July 1, 2013, the SASD had taken over the special education operation at Northwestern and serviced these students with District personnel and not with Northwestern and Central Susquehanna Intermediate Unit (CSIU) personnel. Consequently, a new contract was drafted and ratified between the SASD and Northwestern for the lease of the facility to provide special education at Northwestern. This one year agreement, effective for August 1, 2013 to July 31, 2013, calls for an annual base rent of \$1,310,434 to be paid by the SASD to Northwestern. The SASD invoiced the home district for the actual special education costs as incurred by SASD computed on a per diem basis along with the regular education SASD per diem tuition rate plus a per diem lease rental charge. Regular education tuition invoiced to the home district includes the regular SASD education per diem tuition rate, plus a per diem lease rental charge.

Effective July 1, 2014, the SASD has "taken over" providing all education services including regular and special education provided at Northwestern. As of the audit date, a contract for the lease rental is being negotiated. In the meantime, the District is paying the monthly lease rental as agreed to in the 2012/2013 lease agreement which calls for an annual base rent of \$1,310,434 to be paid by the SASD to Northwestern. The SASD invoices the home district for the actual special education costs as incurred by SASD computed on a per diem basis along with the regular education SASD per diem tuition rate plus a per diem lease rental charge. Regular education tuition invoiced to the home district includes the regular SASD education per diem tuition rate, plus a per diem lease rental charge. The SASD is servicing the special education and regular education needs of Northwestern with professional staff employed by the SASD and is not utilizing sub-contracted services from neither the Central Susquehanna Intermediate Unit, nor Northwestern Academy.

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 15 - CHANGE IN ACCOUNTING PRINCIPLE:

The Governmental Accounting Standards Board (GASB) issued Statement No. 67, Financial Reporting for Pension Plans- an Amendment of GASB No. 25, effective for the year ended June 30, 2014. The District implemented GASB 67 during the year ended June 30, 2014 with no material effect to the financial statements.

GASB issued GASB 68, Accounting and Financial Reporting for Pension Plans in June 2012 effective for the year ended June 30, 2015. The District has implemented GASB 68, resulting in a reduction of Net Position of approximately \$31.1 million, as detailed below.

Net pension liability	\$	(32,668,000)
Deferred outflows - District's contributions made during fiscal year 2014		1,563,997
Total prior period restatement for GASB 68	\$	(31,104,003)

As of the year ended June 30, 2015, GASB issued Statement No. 72, entitled Fair Value Measurement and Application; Statement No. 73, entitled Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB Statement 68, and Amendments to certain Provisions of GASB Statements 67 and 68; GASB Statement No. 74 entitled, Financial Reporting For Postemployment Benefit Plans Other Than Pension Plans; GASB Statement No. 75 entitled, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions; GASB Statement No. 76 entitled, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. These statements may have a material effect on the District's financial statements once implemented. The District will be analyzing the effects of these pronouncements and plans to adopt them as applicable by their effective date.

NOTE 16 – RESTATEMENT OF FUND BALANCE AND NET POSITION AS OF JUNE 30, 2014

GOVERNMENTAL FUNDS

In order to properly reflect the District's records as of June 30, 2014, the beginning fund balances and net position must be restated as of June 30, 2014 to report the correct Tax Receivable and Deferred Inflows of Resources.

The District has also implemented GASB No. 65 Items Previously Reported as Assets and Liabilities. Implementation of this standard required the expense of costs associated with issuance of debt in the period that the debt was raised. Additionally, implementation required the removal of the previously recorded asset for bond issue costs, which required restatement of beginning balances on the entity wide financial statements as detailed below.

**SHAMOKIN AREA SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 16 – RESTATEMENT OF FUND BALANCE AND NET POSITION AS OF JUNE 30, 2014 (Continued):

GOVERNMENTAL FUNDS – Continued

	General Fund	Capital Reserve	Capital Projects	Total Gov. Funds
Fund Balance as of June 30, 2014	\$ 8,407,661	\$ 1,898,000	\$ 127,555	\$ 10,433,216
Restatement for Tax Receivable/ Deferred Inflows	(225,324)	-	-	(225,324)
Fund Balance as of June 30, 2014 (Restated)	\$ 8,182,337	\$ 1,898,000	\$ 127,555	\$ 10,207,892

	Governmental Funds
Net Position as of June 30, 2014	\$ 29,324,625
Restatement for Tax Receivable/ Deferred Inflows	(225,324)
Restatement for Debt Issuance Costs	(67,340)
Restatement for Net Pension Liability	(31,104,003)
Net Position as of June 30, 2014 (Restated)	\$ (2,072,042)

FIDUCIARY FUND

The District maintains six (6) scholarship accounts in the Fiduciary Funds. In the fiscal year ended June 30, 2014, the financial statements only reflected five (5) scholarship accounts. In order to properly report the year's activity and ending position, the beginning balance must be restated to include all six (6) scholarships. The effect of this adjustment was to increase beginning assets and fund balance by \$115.

	Fiduciary (Trusts)
Net Position as of June 30, 2014	\$ 54,404
Restatement for Missed Account	115
Net Position as of June 30, 2014 (Restated)	\$ 54,519

**SHAMOKIN AREA SCHOOL DISTRICT
JUNE 30, 2015**

**Required
Supplementary
Information**

SHAMOKIN AREA SCHOOL DISTRICT
Required Supplementary Information
June 30, 2015

Schedule of the District's Proportionate Share of the Net Pension Liability - Last 10 Years

	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.0864%	0.0798%
District's proportionate share of the net pension liability	\$34,198,000	\$32,668,000
District's covered-employee payroll	\$11,021,963	\$10,236,504
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	310.27%	319.13%
Plan fiduciary net position as a percentage of the total pension liability	57.2%	54.4%

Amounts were determined as of the cost-sharing plan's June 30, 2014 fiscal year.

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complete, available information is presented.

Schedule of the District Contributions - Last 10 Years

	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 2,175,453	\$ 1,563,997
Contributions in relation to the contractually required contribution	<u>(2,175,453)</u>	<u>(1,563,997)</u>
Contribution deficiency (excess)	\$ -	\$ -
District's covered-employee payroll	11,021,963	\$10,236,504
Contributions as a percentage of covered-employee payroll	19.74%	15.28%

Amounts are based on actual contributions during the fiscal year.

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complete, available information is presented.

SHAMOKIN AREA SCHOOL DISTRICT
Required Supplementary Information
June 30, 2015

Schedule of Funding Progress for Postemployment Benefits Other Than Pensions
2008, 2010, 2012, 2014

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Total Unfunded Actuarial Liability (asset) (c)	Funded Ratio (a)/(b)	Annual Covered Payroll (d)	Ratio of Unfunded Liability to Annual Covered Payroll ((b-a)/d)
7/1/2014	\$ 419,614	\$ 2,523,814	\$ 2,104,200	16.63%	\$ 10,262,933	20.50%
7/1/2012	355,667	2,519,282	2,163,615	14.12%	9,565,244	22.62%
7/1/2010	-	4,097,272	4,097,272	0.00%	9,886,079	41.44%
7/1/2008	-	4,626,941	4,626,941	0.00%	9,216,379	50.20%

The School District adopted GASB 45 on a prospective basis in 2008, therefore only four years are presented in the above schedule.

Schedule of Employer Contributions for Postemployment Benefits Other Than Pensions
2011, 2012, 2013, 2014, 2015

Years Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	\$ 395,703	98.23%	\$ 75,265
2014	519,064	79.65%	68,278
2013	509,644	112.42%	(37,361)
2012	735,285	96.75%	25,913
2011	734,710	100.73%	2,032

Shamokin Area School District
Coal Township, Pennsylvania
Statement of Revenues, Expenditures & Change in Fund Balances
Budget and Actual
General Fund
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local Revenues	\$ 10,046,407	\$ 10,046,407	\$ 8,786,396	\$ (1,260,011)
State Program Revenues	16,849,855	16,849,855	17,231,381	381,526
Federal Program Revenues	2,111,653	2,111,653	1,927,245	(184,408)
TOTAL REVENUES	29,007,915	29,007,915	27,945,022	(1,062,893)
EXPENDITURES				
<i>Instruction:</i>				
Regular Programs	13,595,159	13,595,159	10,874,471	2,720,688
Special Programs	4,622,826	4,622,826	4,042,367	580,459
Vocational Programs	1,580,173	1,580,173	1,065,754	514,419
Other Instructional Programs	1,238,642	1,238,642	1,401,511	(162,869)
Nonpublic School Programs	-	-	-	-
Community/Junior College Programs	-	-	-	-
Pre-Kindergarten Programs	189,605	189,605	189,469	136
<i>Support Services:</i>				
Pupil Personnel Services	752,317	752,317	644,448	107,869
Instructional Staff Services	642,760	642,760	544,839	97,921
Administrative Services	1,627,782	1,627,782	1,497,586	130,196
Pupil Health	325,885	325,885	366,464	(40,579)
Business Services	779,522	779,522	651,014	128,508
Operation & Maint. of Plant Services	4,437,277	4,437,277	3,666,064	771,213
Student Transportation Services	1,474,710	1,474,710	1,222,765	251,945
Central and Other Support Services	368,449	368,449	384,687	(16,238)
Other Support Services	-	-	-	-
<i>Operation of Noninstructional Services:</i>				
Food Services	-	-	-	-
Student Activities	580,328	580,328	482,886	97,442
Community Services	48,134	48,134	5,830	42,304
Scholarships and Awards	1,600	1,600	271	1,329
Acquisition, Constr., & Improvements	-	-	-	-
Debt Service	-	-	-	-
Refund of Prior year's revenue	-	-	-	-
TOTAL EXPENDITURES	32,265,169	32,265,169	27,040,426	5,224,743
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,257,254)	(3,257,254)	904,596	4,161,850
OTHER FINANCING SOURCES (USES)				
Interfund Transfers (Out)	-	-	(681,810)	681,810
Budgetary Reserve	200,000	200,000	-	200,000
Proceeds from Sale of Fixed Assets	-	-	8,600	(8,600)
TOTAL OTHER FINANCING SOURCES (USES)	200,000	200,000	(673,210)	(873,210)
Net Change in Fund Balances	(3,057,254)	(3,057,254)	231,386	3,288,640
Fund Balance - July 1, 2014	-	-	8,182,337	-
Fund Balance - June 30, 2015	\$ -	\$ -	\$ 8,413,723	\$ -

**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**

Independent Auditor's Report

Members of the School Board
Shamokin Area School District
Coal Township, Pennsylvania

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Shamokin Area School District (the "District") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 28, 2016.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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 deficiency 2015-001, described in the accompanying Schedule of Findings & Questioned Costs, to be a material weakness.

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. We consider the deficiency 2015-002, described in the accompanying Schedule of Findings & Questioned Costs, to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

Purpose of this Report

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

Klacik & Associates, P.C.

Shamokin, Pennsylvania
March 28, 2016

**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON
COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the School Board
Shamokin Area School District
Coal Township, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Shamokin Area School District's (the "District") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2015. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 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 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 District's compliance.

Unmodified Opinion on Each Major Federal Program

In our opinion, the 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 identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance with the compliance requirements referred to above that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2015-002. Our opinion on each major federal program is not modified with respect to these matters.

The District's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal

control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-002 that we consider to be a significant deficiency.

The District's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Klacik & Associates, P.C.

Shamokin, Pennsylvania
March 28, 2016

SHAMOKIN AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

GRANT/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH GRANTOR'S NUMBER	GRANT PERIOD BEGINNING/ ENDING DATES	TOTAL RECEIVED	ACCRUED OR (DEFERRED) REVENUE AT 6/30/14	REVENUE RECOGNIZED	FEDERAL EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT 6/30/15
U.S. DEPARTMENT OF EDUCATION								
PEP Carol White Grant	84.215F	N/A	07/01/14 - 06/30/15	\$ 515,098	\$ -	\$ 279,135	\$ 279,135	\$ (235,963)
PEP Carol White Grant	84.215F	N/A	07/01/13 - 06/30/14	-	-	363,129	363,129	363,129
Passed through Pennsylvania Department of Education:								
ESEA Title I Grants to Local Educational Agencies	84.010	013-150380	7/1/14-9/30/15	717,173	-	844,074	844,074	126,902
ESEA Title I Grants to Local Educational Agencies	84.010	013-140380	7/1/13-9/30/14	112,175	112,175	-	-	-
ESEA Title I Grants to Local Educational Agencies	84.010	013-130380	7/1/12-9/30/13					-
ESEA Title I - Delinquent	84.010	107-150380	7/1/14-9/30/15	268,540	-	223,453	223,453	(45,088)
ESEA Title I - Delinquent	84.010	107-140380	7/1/13-9/30/14		(2,397)	2,397	2,397	-
Rural and Low Income Schools	84.358	007-150380	7/1/14-9/30/15	35,907	-	19,133	19,133	(16,774)
Rural and Low Income Schools	84.358	007-140380	7/1/13-9/30/14		(22,142)	22,142	22,142	-
Rural and Low Income Schools	84.358	007-130380	7/1/12-9/30/13		(16,463)	16,463	16,463	-
ESEA Title II Improving Teacher Quality	84.367	020-150380	7/1/14-9/30/15	76,235	-	63,477	63,477	(12,758)
ESEA Title II Improving Teacher Quality	84.367	020-140380	7/1/13-9/30/14	14,101	14,101			-
Passed through Central Susquehanna Intermediate Unit:								
Special Education - Grants to States (IDEA, Part B)	84.027	N/A	07/01/14-06/30/15	122,388	-	358,086	358,086	235,698
Special Education - Grants to States (IDEA, Part B)	84.027	N/A	07/01/13-06/30/14	312,974	312,974			-
Special Education - Grants to States (IDEA, Preschool)	84.173	N/A	07/01/14-06/30/15	4,261	-	10,733	10,733	6,472
Race to the Top - ARRA	84.413	B413A120004	7/1/14-9/30/15	2,000	-	8,192	8,192	6,192
TOTAL U.S. DEPARTMENT OF EDUCATION				<u>2,180,852</u>	<u>398,248</u>	<u>2,210,414</u>	<u>2,210,414</u>	<u>427,810</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES								
Passed through Pennsylvania Department of Human Services:								
Medical Assistance Program (ACCESS Title XIX) Administration Reimbursement	93.778	N/A	07/01/14-06/30/15	6,512	-	22,232	22,232	15,720
Medical Assistance Program (ACCESS Title XIX) Administration Reimbursement	93.778	N/A	07/01/13-06/30/14	14,055	14,055			-
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				<u>20,567</u>	<u>14,055</u>	<u>22,232</u>	<u>22,232</u>	<u>15,720</u>

See notes to Schedule of Expenditures of Federal Awards
which are an integral part of this statement.

SHAMOKIN AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

GRANT/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH GRANTOR'S NUMBER	GRANT PERIOD BEGINNING/ ENDING DATES	TOTAL RECEIVED	ACCRUED OR (DEFERRED) REVENUE AT 6/30/14	REVENUE RECOGNIZED	FEDERAL EXPENDITURES	ACCRUED OR (DEFERRED) REVENUE AT 6/30/15
U.S. DEPARTMENT OF AGRICULTURE								
Passed through Pennsylvania Department of Education:								
School Breakfast Program (SBP)	10.553	116-49-650-3	07/01/14-06/30/15	149,319	-	177,304	177,304	27,985
School Breakfast Program (SBP)	10.553	116-49-650-3	07/01/13-06/30/14	3,646	3,646	-	-	-
National School Lunch Program (NSLP)	10.555	116-49-650-3	07/01/14-06/30/15	574,944	-	683,411	683,411	108,467
National School Lunch Program (NSLP)	10.555	116-49-650-3	07/01/13-06/30/14	12,882	12,882	-	-	-
Fresh Fruit and Vegetables Program	10.582	116-49-650-3	07/01/14-06/30/15	46,331	-	58,273	58,273	11,942
Fresh Fruit and Vegetables Program	10.582	116-49-650-3	07/01/13-06/30/14	13,434	13,434	-	-	-
Passed through Pennsylvania Department of Agriculture:								
Value of USDA Commodities	10.555	2-02-49-650	07/01/13-06/30/14	69,473	(1,871)	65,633	65,633	(5,711)
				(A.)	(B.)		(C.)	(D.)
TOTAL U.S. DEPARTMENT OF AGRICULTURE				870,028	28,091	984,621	984,621	142,684
TOTAL FEDERAL AWARDS				\$ 3,071,447	\$ 440,394	\$ 3,217,267	\$ 3,217,267	\$ 586,214

Code Legend

- (A.) Total amount of commodities received
- (B.) Beginning inventory at July 1, 2014
- (C.) Total amount of commodities used
- (D.) Ending inventory at June 30, 2015

See notes to Schedule of Expenditures of Federal Awards
which are an integral part of this statement.

SHAMOKIN AREA SCHOOL DISTRICT
Coal Township, Pennsylvania
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

1. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards has been presented on the accrual basis of accounting. Expenditures are recorded, accordingly, when incurred rather than when paid.

The expenditures of Federal awards under the American Recovery and Reinvestment Act of 2009 (ARRA) are separately identified on the accompanying Schedule of Expenditures of Federal Awards.

The Shamokin Area School District (the District) has received noncash assistance during the year ended June 30, 2015 which is included in the Schedule of Expenditures of Federal Awards.

2. CATEGORIZATION OF EXPENDITURES

The accompanying Schedule of Expenditures of Federal Awards reflects Federal expenditures for all programs which were active during the year. The categorization of expenditures included in the accompanying Schedule of Expenditures of Federal Awards is based on the Catalog of Federal Domestic Assistance (CFDA). Changes in the categorization of expenditures occur based on revisions to the CFDA, which are issued in June and December of each year. The accompanying Schedule of Expenditures of Federal Awards reflects CFDA changes issued through June 2015.

3. IDENTIFICATION OF MAJOR PROGRAMS

As shown on the accompanying *Schedule of Findings and Questioned Costs*, the dollar threshold used to determine major programs was three hundred thousand dollars (\$300,000). The District had the following major programs which were audited:

84.010	Title I Grants to Local Education Agencies
84.125	Fund for the Improvement of Education

SHAMOKIN AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: UNMODIFIED

Internal control over financial reporting:

 Material weakness(es) identified? X yes no

 Significant deficiency(ies)? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

 Material weakness(es) identified? yes X no

 Significant deficiency(ies)? X yes none reported

Type of auditors' report issued on compliance for major programs: UNMODIFIED

Any audit findings disclosed that are required to be reported in accordance with Section (510(a) of OMB Circular A-133? X yes no

SHAMOKIN AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I Grants to Local Education Agencies
84.125	Fund for the Improvement of Education

Dollar threshold used to distinguish
between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

yes no

SHAMOKIN AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

FINDING NO.

FINDING/NONCOMPLIANCE

2015-001

INTERNAL CONTROL OVER ADJUSTING ENTRIES AND REQUIRED DISCLOSURES TO THE FINANCIAL STATEMENTS – MATERIAL WEAKNESS

Criteria: During the current year, adjusting journal entries, entity wide adjustments and footnote disclosures were proposed by the auditors and accepted by the District to properly reflect the financial statements in accordance with generally accepted accounting principles.

AU-C Section 265 entitled Communicating Internal Control Related Matters in an Audit, issued by the American Institute of Certified Public Accountants (AICPA) considers the need for significant adjusting journal entries and assistance when preparing the financial statements to be indicative of an internal control deficiency. Without assistance, the potential exists of the District's financial statements not conforming to GAAP.

Condition: The District did not perform year end adjusting entries prior to the audit engagement, nor did they make the required adjusting entry from the construction in progress account to the depreciated capital assets report without guidance from the auditor.

Cause: Lack of year end closing controls for entity wide adjustments.

Effect: Greater opportunity for error in financial statement presentation.

Questioned Costs: Unknown

Recommendation: Although auditors may continue to provide such assistance in the future, the District should continue to review and accept both proposed adjusting journal entries and footnote disclosures, along with the entity wide adjustments. Year-end closing procedures should be adopted by the District to ensure all activity and entries are recorded prior to the audit engagement.

SHAMOKIN AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

FINDING NO.

FINDING/NONCOMPLIANCE

2015-001

INTERNAL CONTROL OVER ADJUSTING ENTRIES AND REQUIRED DISCLOSURES TO THE FINANCIAL STATEMENTS – MATERIAL WEAKNESS

Management Response:

The Shamokin Area School District will implement year-end closing procedures to ensure all activity and entries are recorded prior to the audit engagement with continued guidance from the auditors.

SHAMOKIN AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

FINDING NO.

FINDING/NONCOMPLIANCE

2015-002 **COMPLIANCE AND INTERNAL CONTROL OVER PROCUREMENT, SUSPENSION, & DEBARMENT – CONTRACTED INDIVIDUAL’S ELIGIBILITY TO PARTICIPATE IN FEDERAL ASSISTANCE PROGRAMS OR ACTIVITIES WAS NOT DETERMINED PRIOR TO ENTERING INTO THE CONTRACT - SIGNIFICANT DEFICIENCY**

Criteria: In accordance with 2 CFR 200.213, non-federal entities are subject to the non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689, 2 CFR part 180. These regulations restrict awards, subawards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs or activities.

As non-Federal entities are prohibited from contracting with or making subawards to parties that are suspended or debarred, they must verify the parties’ eligible to participate and receive Federal funding.

Condition: The District did not verify a contractor’s eligibility to participate in this Federal program through the use of the Federal or State suspended and debarred listings.

Cause: Lack of understanding of Federal suspension and debarment requirements.

Effect: Greater opportunity for error in disbursing Federal funds to parties ineligible to participate in such programs.

Questioned Costs: Unknown

Recommendation: We recommend the District perform verification checks for all contractors and subrecipients prior to the initial disbursement.

Management

Response: The Shamokin Area School District agrees with the finding. In the upcoming fiscal years, they will perform verification checks for all contractors and subrecipients prior to the initial disbursement.

SHAMOKIN AREA SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

FINDING NO.

FINDING/NONCOMPLIANCE

2014-001

COMPLIANCE AND INTERNAL CONTROL OVER ALLOWABLE COSTS/COST PRINCIPLES – SEMI –ANNUAL CERTIFICATIONS NOT OBTAINED FOR ALL EMPLOYEES WORKING SOLELY ON A SINGLE COST OBJECTIVE– SIGNIFICANT DEFICIENCY

Condition: The District did not collect signed semi-annual certifications from two employees charged solely to a single Federal cost objective. The District used their class schedules as documentation for their sole cost objective.

Recommendation: We recommend the District collect semi-annual certifications from all employees working solely in activities that support a single cost objective, to ensure all expenditures are properly charged to a specific grant program and funding stream.

Resolution: The District has required all employees associated with a single cost objective to sign semi-annual certifications regardless of their additional supporting documentation of class schedules. Finding resolved.