

EAST STROUDSBURG AREA SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2015



Expertise Beyond The Numbers

Certified Public Accountants and Business Consultants

INTRODUCTORY SECTION

EAST STROUDSBURG AREA SCHOOL DISTRICT

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FINANCIAL SECTION

Independent Auditors' Report

To the Board of School Directors
East Stroudsburg Area School District
East Stroudsburg, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the East Stroudsburg Area School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the East Stroudsburg Area School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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

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

To the Board of School Directors
East Stroudsburg Area School District
East Stroudsburg, Pennsylvania

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 East Stroudsburg Area School 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 discussed in Note N to the financial statements, the June 30, 2015, the East Stroudsburg Area School District adopted new accounting guidance, implementing Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. 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 on pages 6 through 12, budgetary comparison information on page 55, schedule of the school district's proportionate share of the net pension liability on page 57, schedule of school district contributions on page 58, and postemployment benefits other than pension funding progress on page 59 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.

To the Board of School Directors
East Stroudsburg Area School District
East Stroudsburg, Pennsylvania

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the East Stroudsburg Area School District's basic financial statements. The schedule of expenditures of federal and certain state 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 is not a required part of the basic financial statements. The schedule of expenditures of federal and certain state 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 and certain state awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2015, on our consideration of the East Stroudsburg Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the East Stroudsburg Area School District's internal control over financial reporting and compliance.

Maillie LLP

Oaks, Pennsylvania
December 1, 2015

EAST STROUDSBURG AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2015

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

USING THIS GENERALLY ACCEPTED ACCOUNTING PRINCIPLES REPORT (GAAP)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the East Stroudsburg Area School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The statement of net position and statement of activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of East Stroudsburg Area School District, the General Fund is by far the most significant fund.

FINANCIAL HIGHLIGHTS

Key government-wide financial highlights for 2015 are as follows:

- In total, net position decreased from \$67,800,234 in 2014 to (\$110,662,276) in 2015.
- General revenues accounted for \$101,422,896 in revenue or 69% of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions accounted for \$45,231,446 or 31% of total revenues of \$146,654,342.
- Total assets and deferred outflows of resources of governmental activities were \$321,198,651, of which \$70,351,444 represents unrestricted cash and investments. Governmental capital assets, net of accumulated depreciation were \$200,900,562.
- The School District had \$147,442,852 in expenses; only \$45,231,446 of these expenses were offset by program specific charges for services, grants, or contributions. General revenues (primarily member district allocation derived from their property taxes) of \$101,422,896 were adequate to provide for these programs.
- Expenses, after program revenue was \$102,211,406 which increased from \$96,745,770 in 2014.
- Federal and state subsidies this year were \$41,389,607, which increased from \$39,065,556 in 2014.
- Considerable debt refinancing activities were experienced in 2014 and 2015.

EAST STROUDSBURG AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2015

OUR SCHOOLS

The District operates: six elementary schools that house students from kindergarten to fifth grade, two intermediate schools with sixth to eighth grades and two high schools with ninth through twelfth grades.

- Bushkill Elementary School
- Resica Elementary School
- Middle Smithfield Elementary School
- Smithfield Elementary School
- J. M. Hill Elementary School
- East Stroudsburg Elementary School
- J.T. Lambert Intermediate School
- Lehman Intermediate School
- East Stroudsburg High School South
- East Stroudsburg High School North

REPORTING THE SCHOOL DISTRICT AS A WHOLE

Statement of Net Position and the Statement of Activities - While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question. . . **“How did we do financially during the year?”** The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. The basis of accounting takes into account all of the current year’s revenue and expenses regardless of when cash is received or paid. These two statements report the School District’s net position and changes in net position. This change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The cause of this change may be the result of many factors, some financial, and some not. Nonfinancial factors include the School District’s property tax base, current property tax laws in Pennsylvania restricting revenue growth, facility condition, required educational programs and other factors. In the Statement of Net Position and the Statement of Activities, the School District reports governmental activities. Governmental activities are the activities where most of the School District programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The School District’s business-like activity is the Food Service Fund.

REPORTING THE SCHOOL DISTRICT’S MOST SIGNIFICANT FUNDS

Fund Financial Statements - The Governmental Funds statements provide a detailed short-term view of the School District’s general government operations and the basic services it provides. Governmental Funds information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational 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. Fund financial reports provide detailed information about the School District’s major funds. The School District uses many funds to account for a multitude of financial transactions. However, these funds financial statements focus on the School District’s most significant funds. Most of the School District’s activities are reported in Governmental Funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future periods. These funds 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 following page lists the School District’s Governmental Funds.

EAST STROUDSBURG AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2015

- **General Fund (Major Fund)** The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the School District for any purpose provided it is expended for transferred according to the general laws of the Commonwealth.
- **Capital Projects Fund (Major Fund)** The Capital Projects Fund accounts are to be used for the acquisition, construction, or improvement of capital facilities.
- **Special Revenue Fund (Major Fund)** The Special Revenue Fund accounts for specific revenue sources, which are legally restricted to expenditures for specific purposes. Prior to the implementation of GASB #54, the District accounted for the student athletics program in this fund.

THE SCHOOL DISTRICT AS A WHOLE

Recall that the Statement of Net Position provides the perspective of the School District as a whole.

Condensed Statements of Net Position
June 30, 2015 and 2014

| | Governmental Activities | | Business-Type Activities | | Totals | |
|----------------------------------|-------------------------|----------------------|--------------------------|-------------------|-------------------------|----------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| ASSETS | | | | | | |
| Current assets | \$ 100,462,846 | \$ 104,191,202 | \$ 857,237 | \$ 1,157,801 | \$ 101,320,083 | \$ 105,349,003 |
| Capital and other assets | 220,735,805 | 203,198,894 | 505,531 | 167,013 | 221,241,336 | 203,365,907 |
| TOTAL ASSETS | 321,198,651 | 307,390,096 | 1,362,768 | 1,324,814 | 322,561,419 | 308,714,910 |
| LIABILITIES | | | | | | |
| Long-term liabilities | 385,396,685 | 218,302,433 | 4,163,706 | 296,525 | 389,560,391 | 218,598,958 |
| Other liabilities | 43,316,981 | 30,760,440 | 346,323 | 17,835 | 43,663,304 | 30,778,275 |
| TOTAL LIABILITIES | 428,713,666 | 249,062,873 | 4,510,029 | 314,360 | 433,223,695 | 249,377,233 |
| NET POSITION | | | | | | |
| Net investment in capital assets | 7,026,725 | (951,359) | 157,531 | 167,013 | 7,184,256 | (784,346) |
| Restricted | 247,386 | 40,994,163 | - | - | 247,386 | 40,994,163 |
| Unrestricted | (114,789,126) | 26,918,203 | (3,304,792) | 672,214 | (118,093,918) | 27,590,417 |
| TOTAL NET POSITION | \$ (107,515,015) | \$ 66,961,007 | \$ (3,147,261) | \$ 839,227 | \$ (110,662,276) | \$ 67,800,234 |

Unrestricted net position, the part of net position that can be used to finance day-to-day activities without constraints established by grants or legal requirements, decreased by \$145,684,335, which was due to the implementation of GASB 68.

EAST STROUDSBURG AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2015

Condensed Statement of Activities
June 30, 2015 and 2014

| | Governmental Activities | | Business-Type Activities | | Totals | |
|---------------------------------------------------------------|-------------------------|-------------------------|--------------------------|-----------------------|-------------------------|-------------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| REVENUES | | | | | | |
| Charges for services | \$ 867,726 | \$ 830,741 | \$ 1,300,161 | \$ 1,363,171 | \$ 2,167,887 | \$ 2,193,912 |
| Operating grants and contributions | 38,659,921 | 36,389,751 | 2,729,686 | 2,675,805 | 41,389,607 | 39,065,556 |
| Capital grants and contributions | 1,673,952 | 1,635,687 | - | - | 1,673,952 | 1,635,687 |
| Property taxes and other taxes levied for general purposes | 97,474,041 | 103,111,151 | - | - | 97,474,041 | 103,111,151 |
| Taxes levied for specific purposes | 3,603,602 | 3,442,125 | - | - | 3,603,602 | 3,442,125 |
| Investment earnings | 90,681 | 85,135 | 10 | 210 | 90,691 | 85,345 |
| Other | 254,562 | 582,704 | - | - | 254,562 | 582,704 |
| TOTAL REVENUES | 142,624,485 | 146,077,294 | 4,029,857 | 4,039,186 | 146,654,342 | 150,116,480 |
| EXPENSES | | | | | | |
| Instruction | 80,568,044 | 76,186,003 | - | - | 80,568,044 | 76,186,003 |
| Support services | 29,318,075 | 23,739,605 | - | - | 29,318,075 | 23,739,605 |
| Facilities acquisition, construction and improvement services | 377,083 | 142,447 | - | - | 377,083 | 142,447 |
| Operation of non-instructional services | 14,674,353 | 16,539,226 | - | - | 14,674,353 | 16,539,226 |
| Debt service | 7,856,272 | 8,756,534 | - | - | 7,856,272 | 8,756,534 |
| Unallocated depreciation | 10,185,680 | 9,903,815 | - | - | 10,185,680 | 9,903,815 |
| Food service | - | - | 4,463,345 | 4,373,295 | 4,463,345 | 4,373,295 |
| TOTAL EXPENSES | 142,979,507 | 135,267,630 | 4,463,345 | 4,373,295 | 147,442,852 | 139,640,925 |
| CHANGE IN NET POSITION | (355,022) | 10,809,664 | (433,488) | (334,109) | (788,510) | 10,475,555 |
| NET POSITION AT BEGINNING OF YEAR, restated | | | | | | |
| Restatement | (107,159,993) | 56,151,343 | (2,713,773) | 1,173,336 | (109,873,766) | 57,324,679 |
| | - | (174,121,000) | - | (3,553,000) | - | (177,674,000) |
| NET POSITION AT END OF YEAR | | | | | | |
| | \$ (107,515,015) | \$ (107,159,993) | \$ (3,147,261) | \$ (2,713,773) | \$ (110,662,276) | \$ (109,873,766) |

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services.

Net Cost of Services

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---------------------------------------------------------------|-------------------------|------------------------|------------------------|------------------------|------------------------|
| GOVERNMENTAL ACTIVITIES | | | | | |
| Instruction | \$ (44,373,782) | \$ (41,847,480) | \$ (41,617,735) | \$ (44,229,363) | \$ (39,120,654) |
| Support services | (29,132,252) | (23,555,101) | (20,936,285) | (23,418,831) | (26,268,508) |
| Facilities acquisition, construction and improvement services | (332,816) | (100,544) | - | - | - |
| Operation of non-instructional services | (11,571,058) | (13,883,664) | (10,224,259) | (9,782,724) | (7,772,834) |
| Debt service | (6,182,320) | (7,120,847) | (9,720,607) | (6,982,428) | (9,213,490) |
| Unallocated depreciation | (10,185,680) | (9,903,815) | (7,985,640) | (6,045,602) | (4,815,085) |
| TOTAL GOVERNMENTAL ACTIVITIES | (101,777,908) | (96,411,451) | (90,484,526) | (90,458,948) | (87,190,571) |
| BUSINESS-TYPE ACTIVITIES | | | | | |
| Food service | (433,498) | (334,319) | (155,480) | 191,107 | 314,028 |
| TOTAL DISTRICT NET COST | \$ (102,211,406) | \$ (96,745,770) | \$ (90,640,006) | \$ (90,267,841) | \$ (86,876,543) |

EAST STROUDSBURG AREA SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2015

Defining the Classification of Expenditure

- Instruction expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.
- Support expenses include activities that facilitate and enhance student instruction.
- Facilities acquisition, construction and improvement expenses include the purchase of land and buildings as well as construction, renovation, and improvements to property and facilities.
- Operation of non-instructional expenses include activities concerned with providing non-instructional services to students, staff, and the community.
- Debt service expenses include interest on long-term debt and fiscal charges involve the transactions associated with the payment of interest and other related charges to debt of the school district.
- Food service expenses involve the preparing, delivering, and servicing of lunches and other meals.

GENERAL FUND BUDGET HIGHLIGHTS

The School District’s budget is prepared according to the Pennsylvania law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

REAL ESTATE TAXES

The dependence upon real estate tax revenue is apparent. For all activities, general revenue support is 69%. The community, as a whole, is the primary support for the East Stroudsburg Area School District.

Property taxes are levied on July 1, on the assessed value listed, as of that date, for all taxable real property located in the District. Assessed values are established by the County Board of Assessments. All taxable real property was assessed at \$639,679,064. The tax rate for the year was \$123.44 mills per \$1,000 of assessed valuation for Pike County and \$180.81 mills per \$1,000 of assessed valuation for Monroe County.

The schedule for real estate taxes levied for each fiscal year is as follows:

| | |
|--------------------------------|---------------------|
| August 1 | Levy Date |
| August 1 - September 30 | 2% Discount Period |
| October 1 - November 30..... | Face Payment Period |
| December 1 - December 31 | 10% Penalty Period |
| January 1 | Lien Date |

EAST STROUDSBURG AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2015

THE SCHOOL DISTRICT'S FUNDS

These funds are accounted for using the modified accrual basis of accounting. All Governmental Funds had total operating revenues of \$144,190,724 decreased from \$144,203,759 and operating expenditures of \$150,556,816 increased from \$146,187,817. Other financing sources and uses were \$3,446,877 and the net change in fund balance for the year was a decrease of \$2,919,215 where last year there was an increase of \$2,571,772.

CAPITAL ASSETS

At the end of the fiscal year, the school district had the following invested in land, construction in progress, buildings and building improvements, furniture and equipment.

| | 2015 | | | 2014 Totals |
|----------------------------------------|----------------------------|-----------------------------|-----------------------|-----------------------|
| | Governmental Activities | Business-Type Activities | Totals | |
| Land | \$ 5,198,539 | \$ - | \$ 5,198,539 | \$ 5,198,539 |
| Construction in progress | 4,558,357 | - | 4,558,357 | 244,844 |
| Site improvements | 11,411,178 | - | 11,411,178 | 11,055,767 |
| Buildings and building improvements | 244,789,014 | - | 244,789,014 | 244,620,526 |
| Furniture and equipment | 31,743,575 | 452,755 | 32,196,330 | 28,447,968 |
| Accumulated depreciation | (96,800,101) | (295,224) | (97,095,325) | (87,805,786) |
| | <u>\$ 200,900,562</u> | <u>\$ 157,531</u> | <u>\$ 201,058,093</u> | <u>\$ 201,761,858</u> |

Depreciation of the Years Capital Asset Activity

- o Overall capital assets decreased by \$703,765. This is due to current year disposals and depreciation offset by the acquisition of new equipment.
- o Depreciation for the year was \$10,203,912.

RESERVED FUND BALANCES

Fund balances have been classified in accordance with GASB Statement No. 54, unassigned fund balance represents funds available for appropriation of \$10,083,324 in total for 2015.

EAST STROUDSBURG AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2015

CURRENT FINANCIAL ISSUES AND CONCERNS

The East Stroudsburg Area School District, like all school districts in Pennsylvania, has faced reductions in state funding that has limited revenues and increases in the employer contribution rates for the Public School Employee's Retirement System (PSERS) that have driven up expenditures. A substantial portion of the East Stroudsburg Area School District is in Monroe County. Recent economic conditions and the lack of a county reassessment of properties in recent years has led to a significant increase in real estate appeals and a lower tax base. The East Stroudsburg Area School District has been able to establish significant fund balance reserves to offset these economic factors in the short term. The District's strong fund balance has also enabled them to undertake significant capital improvements without issuing new debt and avoiding an additional tax burden on the District's taxpayers.

The District's strong fund balance and prudent financial management have enabled it to weather the delay in the Legislatures passage of a state budget and its appropriation of education funding without having to incur short-term borrowing for working capital.

In conclusion, East Stroudsburg Area School District has committed itself to continuing and improving its educational program, while making sure that it is being fiscally responsible. The district will continually monitor and assess its programs, operations, and finances to ensure that it is providing the educational services the community desires within the ability of the community to provide the necessary resources.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the school district's finances and to show the school district's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Mr. Jeffrey Bader, PRSBA, CSRM - Chief Financial Officer, East Stroudsburg Area School District, 50 Vine Street, East Stroudsburg, Pennsylvania, 18301.



GOVERNMENT-WIDE STATEMENTS

EAST STROUDSBURG AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2015

| | Governmental Activities | Business-Type Activities | Totals |
|--------------------------------------------------|----------------------------|-----------------------------|-------------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | \$ 26,237,913 | \$ 407,294 | \$ 26,645,207 |
| Investments | 44,113,531 | - | 44,113,531 |
| Taxes receivable, net | 13,420,395 | - | 13,420,395 |
| Internal balances | (126,709) | 126,709 | - |
| Due from other governments | 2,189,426 | 126,592 | 2,316,018 |
| Due from Trust funds | 1,788 | - | 1,788 |
| Other receivables | 120,357 | - | 120,357 |
| Inventories | - | 196,642 | 196,642 |
| Insurance reserve provision | 13,386,230 | - | 13,386,230 |
| Prepaid expenses | 1,119,915 | - | 1,119,915 |
| Capital assets | | | |
| Land | 5,198,539 | - | 5,198,539 |
| Construction in progress | 4,558,357 | - | 4,558,357 |
| Site improvements | 11,411,178 | - | 11,411,178 |
| Building and building improvements | 244,789,014 | - | 244,789,014 |
| Furniture and equipment | 31,743,575 | 452,755 | 32,196,330 |
| Accumulated depreciation | (96,800,101) | (295,224) | (97,095,325) |
| TOTAL ASSETS | 301,363,408 | 1,014,768 | 302,378,176 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred amount on refunding | 2,799,243 | - | 2,799,243 |
| Deferred outflows of resources, pension activity | 17,036,000 | 348,000 | 17,384,000 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 19,835,243 | 348,000 | 20,183,243 |
| LIABILITIES | | | |
| Accounts payable | 1,900,150 | 79,323 | 1,979,473 |
| Accrued interest on long-term debt | 2,543,484 | - | 2,543,484 |
| Accrued salaries and benefits | 14,819,439 | - | 14,819,439 |
| Other current liabilities | 170,810 | - | 170,810 |
| Unearned revenue | 46,425 | - | 46,425 |
| Long-term liabilities | | | |
| Portion due or payable within one year | | | |
| Bonds payable | 7,864,105 | - | 7,864,105 |
| Notes payable | 1,187,985 | - | 1,187,985 |
| Authority lease obligations | 223,290 | - | 223,290 |
| Capital leases | 1,455,876 | - | 1,455,876 |
| Portion due or payable after one year | | | |
| Bonds payable | 108,129,133 | - | 108,129,133 |
| Notes payable | 76,650,486 | - | 76,650,486 |
| Authority lease obligations | 182,176 | - | 182,176 |
| Capital leases | 1,398,974 | - | 1,398,974 |
| Compensated absences | 4,997,901 | 203,039 | 5,200,940 |
| Net pension liability | 183,356,000 | 3,742,000 | 187,098,000 |
| Net OPEB obligation | 10,679,432 | 218,667 | 10,898,099 |
| TOTAL LIABILITIES | 415,605,666 | 4,243,029 | 419,848,695 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows of resources, pension activity | 13,108,000 | 267,000 | 13,375,000 |
| NET POSITION | | | |
| Net investment in capital assets | 7,026,725 | 157,531 | 7,184,256 |
| Restricted for | | | |
| Special activities | 247,386 | - | 247,386 |
| Unrestricted | (114,789,126) | (3,304,792) | (118,093,918) |
| TOTAL NET POSITION | \$ (107,515,015) | \$ (3,147,261) | \$ (110,662,276) |

See accompanying notes to the basic financial statements.

EAST STROUDSBURG AREA SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

| | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | | |
|---------------------------------------------------------------|-----------------------|----------------------|------------------------------------|---------------------------------------------------|-------------------------|--------------------------|-------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Totals |
| GOVERNMENTAL ACTIVITIES | | | | | | | |
| Instruction | | | | | | | |
| Regular programs | \$ 53,378,074 | \$ 683,091 | \$ 30,025,295 | \$ - | \$ (22,669,688) | \$ - | \$ (22,669,688) |
| Special programs | 21,967,240 | - | 4,862,544 | - | (17,104,696) | - | (17,104,696) |
| Vocational programs | 2,726,102 | - | - | - | (2,726,102) | - | (2,726,102) |
| Other instructional programs | 2,496,628 | - | 623,332 | - | (1,873,296) | - | (1,873,296) |
| Support services | | | | | | | |
| Pupil personnel services | 4,552,116 | - | - | - | (4,552,116) | - | (4,552,116) |
| Instructional staff services | 3,354,357 | - | 31,839 | - | (3,322,518) | - | (3,322,518) |
| Administrative services | 5,720,952 | - | - | - | (5,720,952) | - | (5,720,952) |
| Pupil health services | 1,993,777 | - | 153,984 | - | (1,839,793) | - | (1,839,793) |
| Business services | 1,363,279 | - | - | - | (1,363,279) | - | (1,363,279) |
| Operation and maintenance of plant services | 12,333,594 | - | - | - | (12,333,594) | - | (12,333,594) |
| Facilities acquisition, construction and improvement services | | | | | | | |
| Operation of non-instructional services | 377,083 | 44,267 | - | - | (332,816) | - | (332,816) |
| Student transportation services | 8,708,515 | - | 2,848,531 | - | (5,859,984) | - | (5,859,984) |
| Central and other support services | 3,170,742 | - | - | - | (3,170,742) | - | (3,170,742) |
| Student activities and athletics | 2,577,158 | 140,368 | 114,396 | - | (2,322,394) | - | (2,322,394) |
| Community services | 214,938 | - | - | - | (214,938) | - | (214,938) |
| Scholarships and awards | 3,000 | - | - | - | (3,000) | - | (3,000) |
| Interest on long-term debt | 7,856,272 | - | - | 1,673,952 | (6,182,320) | - | (6,182,320) |
| Unallocated depreciation | 10,185,680 | - | - | - | (10,185,680) | - | (10,185,680) |
| TOTAL GOVERNMENTAL ACTIVITIES | 142,979,507 | 867,726 | 38,659,921 | 1,673,952 | (101,777,908) | - | (101,777,908) |
| BUSINESS-TYPE ACTIVITIES | | | | | | | |
| Food service | 4,463,345 | 1,300,161 | 2,729,686 | - | - | (433,498) | (433,498) |
| TOTAL SCHOOL DISTRICT ACTIVITIES | \$ 147,442,852 | \$ 2,167,887 | \$ 41,389,607 | \$ 1,673,952 | (101,777,908) | (433,498) | (102,211,406) |
| | | | | | | | |
| GENERAL REVENUES | | | | | | | |
| Taxes | | | | | | | |
| Property taxes, levied for general purposes, net | | | | | 97,474,041 | - | 97,474,041 |
| Earned income | | | | | 3,468,841 | - | 3,468,841 |
| Public utility taxes | | | | | 134,761 | - | 134,761 |
| Investment earnings | | | | | 90,691 | 10 | 90,691 |
| Gain on sale of capital assets | | | | | 152,661 | - | 152,661 |
| Miscellaneous income | | | | | 101,901 | - | 101,901 |
| TOTAL GENERAL REVENUES | | | | | 101,422,886 | 10 | 101,422,896 |
| | | | | | | | |
| CHANGE IN NET POSITION | | | | | (355,022) | (433,488) | (788,510) |
| NET POSITION AT BEGINNING OF YEAR, restated | | | | | (107,159,993) | (2,713,773) | (109,873,766) |
| NET POSITION AT END OF YEAR | | | | | \$ (107,515,015) | \$ (3,147,261) | \$ (110,662,276) |

See accompanying notes to the basic financial statements.

GOVERNMENTAL FUNDS STATEMENTS

EAST STROUDSBURG AREA SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

| | <u>General Fund</u> | <u>Capital Projects Fund</u> | <u>Special Revenue Fund</u> | <u>Total Governmental Funds</u> |
|---------------------------------------------------------------------------------------|-----------------------------|----------------------------------|---------------------------------|-----------------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 14,417,175 | \$ 11,608,476 | \$ 212,262 | \$ 26,237,913 |
| Investments | 44,075,179 | - | 38,352 | 44,113,531 |
| Taxes receivable, net | 14,174,380 | - | - | 14,174,380 |
| Due from other funds | 3,323 | - | 309 | 3,632 |
| Due from other governments | 2,189,426 | - | - | 2,189,426 |
| Due from Trust funds | 668 | - | 1,120 | 1,788 |
| Other receivables | 120,357 | - | - | 120,357 |
| Prepaid expenditures | 1,119,915 | - | - | 1,119,915 |
| TOTAL ASSETS | \$ <u>76,100,423</u> | \$ <u>11,608,476</u> | \$ <u>252,043</u> | \$ <u>87,960,942</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | | |
| LIABILITIES | | | | |
| Accounts payable | \$ 1,012,950 | \$ 883,793 | \$ 3,407 | \$ 1,900,150 |
| Due to other funds | 127,018 | 2,794 | 529 | 130,341 |
| Unearned revenue | 46,425 | - | - | 46,425 |
| Accrued salaries and benefits | 14,819,439 | - | - | 14,819,439 |
| Other current liabilities | 170,089 | - | 721 | 170,810 |
| TOTAL LIABILITIES | <u>16,175,921</u> | <u>886,587</u> | <u>4,657</u> | <u>17,067,165</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable revenue, property taxes | 11,231,419 | - | - | 11,231,419 |
| FUND BALANCES | | | | |
| Nonspendable, prepaid expenditures | 1,119,915 | - | - | 1,119,915 |
| Restricted | | | | |
| Student athletics | - | - | 247,386 | 247,386 |
| Committed | | | | |
| Future retirement benefits | 18,545,532 | - | - | 18,545,532 |
| Future healthcare costs | 6,000,000 | - | - | 6,000,000 |
| Assigned | | | | |
| Capital projects | 4,400,000 | 10,721,889 | - | 15,121,889 |
| Student athletics | 21,924 | - | - | 21,924 |
| Future budget expenditures | 8,488,285 | - | - | 8,488,285 |
| Reserve for encumbrances | 34,103 | - | - | 34,103 |
| Unassigned | 10,083,324 | - | - | 10,083,324 |
| TOTAL FUND BALANCES | <u>48,693,083</u> | <u>10,721,889</u> | <u>247,386</u> | <u>59,662,358</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ <u>76,100,423</u> | \$ <u>11,608,476</u> | \$ <u>252,043</u> | \$ <u>87,960,942</u> |

See accompanying notes to the basic financial statements.

EAST STROUDSBURG AREA SCHOOL DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUNDS BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2015

TOTAL GOVERNMENTAL FUNDS BALANCES \$ 59,662,358

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

| | |
|------------------------------------|--------------------|
| Land | 5,198,539 |
| Construction in progress | 4,558,357 |
| Site improvements | 11,411,178 |
| Building and building improvements | 244,789,014 |
| Furniture and equipment | 31,743,575 |
| Accumulated depreciation | (96,800,101) |
| Deferred amount on refunding | 2,799,243 |
| | <u>203,699,805</u> |

Deferred inflows and outflows of resources related to pension activities are not financial resources and therefore not reported in the governmental funds 3,928,000

Provision for insurance reserve recorded as an expenditure in the Governmental Funds and a prepaid expense in the statement of net position. 13,386,230

Property taxes receivable will be collected this year but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds. 10,477,434

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

| | |
|-------------------------------|----------------------|
| Bonds payable | (115,993,238) |
| Accrued interest | (2,543,484) |
| Notes payable | (77,838,471) |
| Authority lease obligations | (405,466) |
| Capital leases | (2,854,850) |
| Compensated absences | (4,997,901) |
| Net pension liability | (183,356,000) |
| Other postemployment benefits | (10,679,432) |
| | <u>(398,668,842)</u> |

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (107,515,015)

See accompanying notes to the basic financial statements.

EAST STROUDSBURG AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015

| | <u>General Fund</u> | <u>Capital Projects Fund</u> | <u>Special Revenue Fund</u> | <u>Total Governmental Funds</u> |
|---------------------------------------------------------------|----------------------|----------------------------------|---------------------------------|-----------------------------------------|
| REVENUES | | | | |
| Local sources | \$ 104,293,653 | \$ 2,100 | \$ 219,414 | \$ 104,515,167 |
| State sources | 36,958,201 | - | - | 36,958,201 |
| Federal sources | <u>2,717,356</u> | <u>-</u> | <u>-</u> | <u>2,717,356</u> |
| TOTAL REVENUES | <u>143,969,210</u> | <u>2,100</u> | <u>219,414</u> | <u>144,190,724</u> |
| EXPENDITURES | | | | |
| Regular programs | 51,506,828 | - | - | 51,506,828 |
| Special programs | 21,147,637 | - | - | 21,147,637 |
| Vocational programs | 2,681,107 | - | - | 2,681,107 |
| Other instructional programs | 2,415,556 | - | - | 2,415,556 |
| Pupil personnel services | 4,356,743 | - | - | 4,356,743 |
| Instructional staff services | 3,194,451 | - | - | 3,194,451 |
| Administrative services | 5,452,047 | - | - | 5,452,047 |
| Pupil health services | 1,894,349 | - | - | 1,894,349 |
| Business services | 1,307,684 | - | - | 1,307,684 |
| Operation and maintenance of plant | 12,328,777 | 7,322 | - | 12,336,099 |
| Facilities acquisition, construction and improvement services | - | 5,464,651 | - | 5,464,651 |
| Student transportation services | 12,093,553 | - | - | 12,093,553 |
| Central and other support services | 4,872,091 | - | - | 4,872,091 |
| Student activities and athletics | 2,273,431 | - | 206,973 | 2,480,404 |
| Community services | 212,858 | - | - | 212,858 |
| Refund of prior year revenues | 111,834 | - | - | 111,834 |
| Debt service | 18,677,775 | - | - | 18,677,775 |
| Bond issuance costs | 351,149 | - | - | 351,149 |
| TOTAL EXPENDITURES | <u>144,877,870</u> | <u>5,471,973</u> | <u>206,973</u> | <u>150,556,816</u> |
| DEFICIENCY OF REVENUES OVER EXPENDITURES | <u>(908,660)</u> | <u>(5,469,873)</u> | <u>12,441</u> | <u>(6,366,092)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Sale of capital assets | 1,336,321 | - | - | 1,336,321 |
| Proceeds from capital leases | 1,759,407 | - | - | 1,759,407 |
| Proceeds from issuance of refunding bonds | 32,795,793 | - | - | 32,795,793 |
| Payment to refunded bond escrow agent | (32,440,515) | - | - | (32,440,515) |
| Payment to sinking fund | (4,129) | - | - | (4,129) |
| Operating transfers in | - | - | - | - |
| Operating transfers out | - | - | - | - |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>3,446,877</u> | <u>-</u> | <u>-</u> | <u>3,446,877</u> |
| NET CHANGE IN FUND BALANCES | 2,538,217 | (5,469,873) | 12,441 | (2,919,215) |
| FUND BALANCES AT BEGINNING OF YEAR | <u>46,154,866</u> | <u>16,191,762</u> | <u>234,945</u> | <u>62,581,573</u> |
| FUND BALANCES AT END OF YEAR | <u>\$ 48,693,083</u> | <u>\$ 10,721,889</u> | <u>\$ 247,386</u> | <u>\$ 59,662,358</u> |

See accompanying notes to the basic financial statements.

EAST STROUDSBURG AREA SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (2,919,215)

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

Capital outlays are reported in Governmental Funds as expenditures and sale of capital assets are reported as revenues. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.

| | |
|----------------------------|---------------------|
| Net capital asset activity | 9,491,397 |
| Depreciation | <u>(10,185,680)</u> |
| | <u>(694,283)</u> |

Because some property taxes will not be collected for several months after the School District's fiscal year ends, they are not considered as "available" revenues in the Governmental Funds. Unavailable tax revenues decreased by this amount.

(1,718,900)

In the statement of activities, certain operating expenses--compensated absences (vacation and sick leave)--and other postemployment benefits are measured by the amounts earned during the year. In the Governmental Funds, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).

(1,651,346)

Some expenses 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:

| | |
|----------------------|--------------------|
| Accrued interest | 297,954 |
| Insurance provision | 2,761,792 |
| Pension plan expense | <u>(5,307,000)</u> |
| | <u>(2,247,254)</u> |

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to Governmental Funds, while the repayment of the principal of long-term debt consumes the current financial resources of Governmental Funds. Neither transaction, however, has any effect on net position. Also, Governmental Funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

| | |
|-------------------------------------------------------------|---------------------|
| Repayment of bond principal | 29,550,104 |
| Issuance of general obligation bonds | <u>(31,231,148)</u> |
| Amortization of bond discounts, premiums and refunding loss | 385,053 |
| Repayment on note principal | 9,872,068 |
| Repayment of authority lease obligations | 217,088 |
| Repayment of capital lease obligations | 1,842,218 |
| Issuance of capital lease obligations | <u>(1,759,407)</u> |
| | <u>8,875,976</u> |

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (355,022)

See accompanying notes to the basic financial statements.

PROPRIETARY FUND STATEMENTS

EAST STROUDSBURG AREA SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2015

| | Enterprise Fund |
|---------------------------------------------------|------------------------------|
| | <u>Food Service Fund</u> |
| ASSETS | |
| CURRENT ASSETS | |
| Cash and cash equivalents | \$ 407,294 |
| Due from other funds | 126,709 |
| Due from other governments | 126,592 |
| Inventories | <u>196,642</u> |
| TOTAL CURRENT ASSETS | 857,237 |
| CAPITAL ASSETS, net | <u>157,531</u> |
| TOTAL ASSETS | <u>1,014,768</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred outflows of resources - pension activity | <u>348,000</u> |
| LIABILITIES | |
| Accounts payable | 79,323 |
| Compensated absences | 203,039 |
| Other postemployment benefits | 218,667 |
| Long-term liabilities | |
| Net pension liability | <u>3,742,000</u> |
| TOTAL LIABILITIES | <u>4,243,029</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred inflows of resources - pension activity | <u>267,000</u> |
| NET POSITION | |
| Net investment in capital assets | 157,531 |
| Unrestricted | <u>(3,304,792)</u> |
| TOTAL NET POSITION | <u>\$ (3,147,261)</u> |

See accompanying notes to the basic financial statements.

EAST STROUDSBURG AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2015

| | Enterprise Fund <u>Food Service Fund</u> |
|---------------------------------------------|----------------------------------------------------|
| OPERATING REVENUES | |
| Food service revenue | \$ <u>1,300,161</u> |
| OPERATING EXPENSES | |
| Personnel | 2,643,086 |
| Operating | 1,752,874 |
| Purchased services | 49,153 |
| Depreciation | 18,232 |
| TOTAL OPERATING EXPENSES | <u>4,463,345</u> |
| OPERATING LOSS | <u>(3,163,184)</u> |
| NONOPERATING REVENUES | |
| Earnings on investments | 10 |
| State sources | 337,341 |
| Federal sources | 2,392,345 |
| TOTAL NONOPERATING REVENUES | <u>2,729,696</u> |
| CHANGE IN NET POSITION | (433,488) |
| NET POSITION AT BEGINNING OF YEAR, restated | <u>(2,713,773)</u> |
| NET POSITION AT END OF YEAR | <u><u>\$ (3,147,261)</u></u> |

See accompanying notes to the basic financial statements.

EAST STROUDSBURG AREA SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

YEAR ENDED JUNE 30, 2015

| | Enterprise Fund |
|----------------------------------------------------------------------------------|------------------------------|
| | <u>Food Service Fund</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash received from users | \$ 1,300,161 |
| Cash payments to employees for services | (2,643,086) |
| Cash payments to suppliers for goods and services | (1,475,959) |
| NET CASH USED BY OPERATING ACTIVITIES | <u>(2,818,884)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| State sources | 337,341 |
| Federal sources | 2,163,098 |
| NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES | <u>2,500,439</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Acquisition of capital assets | <u>(8,750)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest received | <u>10</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (327,185) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | <u>734,479</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 407,294</u> |
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES | |
| Operating loss | \$ (3,163,184) |
| Adjustments to reconcile operating loss to net cash used by operating activities | |
| Depreciation | 18,232 |
| Donated foods | 274,782 |
| Pension expense | 108,000 |
| Increase in | |
| Due from other funds | (20,580) |
| Inventories | (51,576) |
| Increase (decrease) in | |
| Accounts payable | (22,894) |
| Employee benefits payable | <u>38,336</u> |
| NET CASH USED BY OPERATING ACTIVITIES | <u>\$ (2,818,884)</u> |
| SUPPLEMENTAL DISCLOSURES | |
| Noncash activities | |
| Donated foods | \$ 274,782 |

See accompanying notes to the basic financial statements.

FIDUCIARY FUNDS STATEMENTS

EAST STROUDSBURG AREA SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015

| | Private Purpose Trust Funds | | Agency Funds | | Total Fiduciary Funds |
|-----------------------------------------------|-----------------------------|-------------------------------------|-----------------------|--------------|-----------------------------|
| | Expendable Scholarships | Non - Expendable Scholarships | Student Activities | Concessions | |
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 45,659 | \$ 18,552 | \$ 85,409 | \$ 4,015 | \$ 153,635 |
| Investments | 56,128 | 34,559 | - | - | 90,687 |
| TOTAL ASSETS | <u>101,787</u> | <u>53,111</u> | <u>85,409</u> | <u>4,015</u> | <u>244,322</u> |
| LIABILITIES | | | | | |
| Accounts payable | - | - | - | 4,015 | 4,015 |
| Due to school district | - | - | 1,788 | - | 1,788 |
| Due to student groups | - | - | 83,621 | - | 83,621 |
| TOTAL LIABILITIES | <u>-</u> | <u>-</u> | <u>85,409</u> | <u>4,015</u> | <u>89,424</u> |
| NET POSITION | | | | | |
| Held in trust for benefits and other purposes | \$ <u>101,787</u> | \$ <u>53,111</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>154,898</u> |

See accompanying notes to the basic financial statements.

EAST STROUDSBURG AREA SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2015

| | <u>Private Purpose Trust Funds</u> | |
|------------------------------------|------------------------------------|---------------------------------------------|
| | <u>Expendable Scholarships</u> | <u>Non- Expendable Scholarships</u> |
| ADDITIONS | | |
| Gifts and contributions | \$ 12,710 | \$ 0 |
| Investment income | <u>309</u> | <u>492</u> |
| TOTAL ADDITIONS | 13,019 | 492 |
| DEDUCTIONS | | |
| Scholarships awarded and fees paid | <u>15,350</u> | <u>1,450</u> |
| CHANGE IN NET POSITION | (2,331) | (958) |
| NET POSITION AT BEGINNING OF YEAR | <u>104,118</u> | <u>54,069</u> |
| NET POSITION AT END OF YEAR | <u>\$ 101,787</u> | <u>\$ 53,111</u> |

See accompanying notes to the basic financial statements.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the East Stroudsburg Area School District (the "School District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to 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 of the School District's accounting policies are described below.

School District

East Stroudsburg Area School District operates six elementary schools, two intermediate schools and two high schools in Monroe and Pike Counties, Pennsylvania. The School District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provision of the School Laws of Pennsylvania. East Stroudsburg Area School District is a unit established, organized and empowered by the Commonwealth of Pennsylvania for the express purpose of carrying out, on the local level, the Commonwealth's obligation to public education, as established by the constitution of the Commonwealth and by the School Law Code of the same (Article II; Act 150, July 8, 1968). As specified under the School Law Code of the Commonwealth of Pennsylvania, this and all other school districts of the state "shall be and hereby are vested as, bodies corporate, with all necessary powers to carry out the provisions of this act" (Article II, Section 211).

Board of School Directors

The public school system of the Commonwealth shall be administered by a board of school directors, to be elected or appointed, as hereinafter provided. At each election of school directors, each qualified voter shall be entitled to cast one vote for each school director to be elected. The School District is governed by a board of nine School Directors who are residents of the School District and who are elected every two years, on a staggered basis, for a four-year term. The Board of School Directors has the power and duty to establish, equip, furnish and maintain a sufficient number of elementary, secondary and other schools necessary to educate every person, residing in such district, between the ages of 6 and 21 years, who may attend. In order to establish, enlarge, equip, furnish, operate and maintain any schools herein provided, or to pay any school's indebtedness which the School District is required to pay, or to pay any indebtedness that may at any time hereafter be created by the School District, the Board of School Directors is vested with all the necessary authority and power annually to levy and collect the necessary taxes required and granted by the legislature, in addition to the annual state appropriation, and is vested with all necessary power and authority to comply with and carry out any or all of the provisions of the Public School Code of 1949.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Administration

The Superintendent of the Schools shall be the executive office of the Board of School Directors and, in that capacity shall administer the School District in conformity with Board policies and the School Laws of Pennsylvania. The Superintendent shall be directly responsible to, and therefore appointed by, the Board of School Directors. The Superintendent shall be responsible for the overall administration, supervision and operation of the School District.

The District's Business Manager, recommended by the Superintendent and appointed by the Board of School Directors, shall supervise and coordinate all business aspects of the School District. In this capacity, the Business Manager shall be responsible to ensure that all work accomplished by him or by persons under his supervision, is in the best interests of the School District. The Business Manager is directly responsible to the Superintendent.

Reporting Entity

The accompanying basic financial statements comply with the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, in that the financial statements include all organizations, activities and functions for which the School District is financially accountable. Financial accountability is defined as the appointment of a voting majority of a component unit's board and either (1) the School District's ability to impose its will over a component unit, or (2) the possibility that the component unit will provide a financial benefit or impose a financial burden on the School District. In addition, component units can be other organizations for which the nature and significance of their relationship with the School District are such that exclusion would cause the School District's financial statements to be misleading. This report presents the activities of the East Stroudsburg Area School District. The School District is not a component unit of another reporting entity nor does it have any component units.

Joint Ventures

Monroe Career & Technical Institute (MCTI) is a separate entity. It was organized by the four public school districts in Monroe County to provide services in the county. Each of the public school districts appoints three members to serve on the joint operating committee, and each has an ongoing financial responsibility to fund MCTI.

Colonial Intermediate Unit #20 (CIU) is a separate legal entity. It was organized by the constituent school districts in Monroe, Pike and Northampton Counties to provide special education services to the school districts. Each member school district appoints one member to serve on the Board of Directors of the CIU. The School District contracts with the CIU to provide special education services for District students.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation and Accounting

Government-Wide Financial Statements - The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for Fiduciary Funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the Proprietary Fund financial statements but differs from the manner in which Governmental Funds financial statements are prepared. Governmental Funds financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for Governmental Funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School District.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements - Fund financial statements report detailed information about the School District. The focus of Governmental and Proprietary Funds financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column (Other Governmental Funds). Fiduciary Funds are reported by fund type.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments are recorded only when payment is due. The financial statements for Governmental Funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

The Proprietary Fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

Trust Funds are reported using the economic resources measurement focus.

When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental, proprietary and fiduciary.

Governmental Funds

General Fund - The General Fund is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available for any purpose provided it is expended or transferred according to the general laws of Pennsylvania.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition and construction of capital equipment and improvements in accordance with the applicable general obligation bond agreements.

Special Revenue Fund - The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The School District's *Athletic Fund* is accounted for in this fund type.

Proprietary Fund

Enterprise Fund - The Enterprise Fund (Food Service Fund) is used to account for operations (1) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Fiduciary Funds

Private-Purpose Trust Funds - Private-Purpose Trust Funds account for the receipts and disbursements of monies contributed to the School District for scholarships and memorials.

Agency Funds - The Agency Funds account for the receipts and disbursements of monies from student activity organizations. These organizations exist at the explicit approval, subject to revocation, of the School District governing body. This accounting reflects the School District agency relationship with the student activity organizations. Accordingly, receipts and disbursements of the Agency Funds are not included in the revenues and expenditures of the School District. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Cash and Cash Equivalents

The School 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

Investments are valued at fair value.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Short-Term Interfund Receivables/Payables

During the course of operations, transactions may occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the Governmental Funds balance sheet. Short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the statement of net position, except for amounts due between governmental and business-type activities, which, when present, are shown as internal balances.

Inventories

Inventory of purchased food and paper supplies within the Proprietary Fund is carried at cost using the first-in, first-out method of accounting and is subsequently charged to expense when consumed. Inventory of donated foods is valued at fair market value as established by the U.S. Department of Agriculture.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment and construction in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The School District defines a capital asset as an asset with an initial, individual cost equal to or greater than \$1,500 or purchased with debt proceeds and must also have an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Property, plant and equipment of the School District are depreciated using the straight-line method over the following estimated useful lives:

| | <u>Years</u> |
|---------------------------------------------|--------------|
| Buildings and building improvements | 15-50 |
| Furniture, fixtures, equipment and vehicles | 5-15 |

Provision for Insurance Reserve

The School District participates in an insurance pool for employee health. The advance payments held in reserve representing future expenses have been recorded in the accompanying statement of net position as a prepaid expense (asset).

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations

In the government-wide financial statements and the Proprietary Fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or Proprietary Fund statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

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

Compensated Absences

The School District's policies regarding vacation, personal and sick time permit employees to accumulate earned but unused time. The liability for these compensated absences is recorded as long-term debt in the government-wide financial statements. A liability for these amounts is reported in the Governmental Funds only if they have matured, for example, as a result of employee resignations or retirements.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District has only two items that qualify for reporting in this category. They are the deferred charges on refunding, net of accumulated amortization reported in the government-wide statement of net position and the proprietary fund statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition prices. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflow related to pension activity is the result of changes in the School District's proportionate share of the total plan from year to year, the difference between actual employer contributions and the School District's proportionate share of total contributions, and actual contributions subsequent to the measurement date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District has two items that qualify for reporting in this category. The first item, unavailable revenue, is reported only in the Governmental Funds balance sheet. The Governmental Funds report unavailable revenues from property taxes. The second item, deferred inflows related to pension activity, are reported in the government-wide statement of net position and the proprietary fund statement of net position. The deferred inflow related to pension activity is the result of differences between projected and actual investment earnings. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Use of Estimates

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

Fund Balance and GASB Statement No. 54

The School District previously implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on the School District's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- ***Nonspendable*** - Amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints. Fund balance types of this category are prepaid expenses.
- ***Restricted*** - Amounts that can be spent only for specific purposes stipulated by external resource providers or through enabling legislation.
- ***Committed*** - Amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority (the Board of Directors) and do not lapse at year-end. To be reported as committed, amounts cannot be used for any other purpose unless the School District takes the same highest level action to remove or change the constraint.
- ***Assigned*** - Amounts the School District intends to use for a specific purpose. Intent can be expressed by the Board of Directors or by an official or body to which the Board of Directors delegates the authority. The School District has delegated such authority to the Business Manager.
- ***Unassigned*** - Amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Board of School Directors establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. Assigned fund balance is intended to be used by the government for specific purposes but does not meet the criteria to be classified as restricted or committed. The details of the fund balances are included in the Governmental Funds balance sheet (page 15). Restricted funds are used first as appropriate, followed by committed resources and then assigned resources, to the extent that expenditure authority has been budgeted by the Board of School Directors. The School District does reserve the right to first reduce unassigned fund balance to defer the use of these other classified funds. In the event that unassigned fund balance becomes zero, then assigned and committed fund balances are used in that order.

NOTE B - CASH AND INVESTMENTS

Cash

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 to it. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2015, the School District's bank balance of \$27,403,493 was exposed to custodial credit risk as follows:

| | |
|-----------------------------------------------------------------------------------------------------|----------------------|
| FDIC insured | \$ 250,571 |
| Uninsured and collateral held by pledging bank's trust department not in the School District's name | 10,742,046 |
| Uninsured | <u>16,410,876</u> |
| | <u>\$ 27,403,493</u> |

Interest Rate Risk - The School District's investment policy limits investment maturities in accordance with the Commonwealth of Pennsylvania School Code as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investments

As of June 30, 2015, the School District had the following investments and maturities:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Maturities</u> | |
|-------------------------|----------------------|-------------------------|---------------------|
| | | <u>Less Than 1 Year</u> | <u>1 to 5 Years</u> |
| State investment pools | \$ 44,075,179 | \$ 38,997,719 | \$ 5,077,460 |
| Certificates of deposit | <u>129,039</u> | <u>-</u> | <u>129,039</u> |
| | <u>\$ 44,204,218</u> | <u>\$ 38,997,719</u> | <u>\$ 5,206,499</u> |

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE B - CASH AND INVESTMENTS (Continued)

Credit Risk - State law permits the School District to invest funds in the following types of investments:

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

The School District's investment policy does not further limit its investment choices. As of June 30, 2015, the School District's investment in the state investment pools was rated AAAM by Standard & Poor's.

Although not registered with the Securities and Exchange Commission and not subject to formal regulatory oversight, the state investment pool is subject to an independent annual audit. The fair value in the external investment pool is equivalent to the value of the pool shares.

Concentration of Credit Risk - As of June 30, 2015, the District's investments in certificates of deposits did not exceed 5% of the School District's total investments.

NOTE C - TAXES - REAL ESTATE AND OTHER

The School Board is authorized by state law to levy property taxes for School District operations, capital improvements and debt service. Property taxes are based on assessed values of all taxable property within the School District. Taxable real property was assessed at \$639,679,064, combined for Monroe County \$442,071,260, and Pike County for \$197,607,804. The tax rate for the year was \$123.44 mills per \$1,000 of assessed valuation for Pike County and \$180.81 mills per \$1,000 of assessed valuation for Monroe County.

Taxes are levied on August 1 and payable in the following periods:

Discount periodAugust 1 to September 30 - 2% of gross levy
Face periodOctober 1 to November 30
Penalty period December 1 to January 1 - 10% of gross levy
Lien date..... January 1

School District taxes are billed and collected by the local elected tax collector. Property taxes attach as an enforceable lien on property as of August 1.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE D - RECEIVABLES

Receivables at June 30, 2015, consisted of taxes, other revenue and intergovernmental grants and entitlements. The real estate taxes receivable account represents real estate transfer taxes and prior year uncollected tax levies. All receivables are considered fully collectible due to the ability to lien property for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds.

A summary of receivables by fund is as follows:

| | <u>General Fund</u> | <u>Food Service Fund</u> |
|---------------------|-------------------------|------------------------------|
| Real estate taxes | \$ 14,077,483 | \$ - |
| Earned income taxes | 12,586 | - |
| Local service taxes | 507 | - |
| Transfer taxes | 83,804 | - |
| Federal subsidies | 921,803 | 100,322 |
| State subsidies | 1,266,267 | 26,270 |
| Other governments | 1,356 | - |
| Other revenue | 120,357 | - |
| | <u>\$ 16,484,163</u> | <u>\$ 126,592</u> |

NOTE E - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2015, is as follows:

Due to/from Other Funds

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|----------------------|-------------------|
| General Fund | Capital Reserve Fund | \$ 2,794 |
| General Fund | Special Revenue Fund | 529 |
| Special Revenue Fund | General Fund | 309 |
| Food Service Fund | General Fund | <u>126,709</u> |
| | | <u>\$ 130,341</u> |

The amounts between the Food Service Fund and the General Fund are interfund borrowings to pay for operations. The amounts between the General Fund and the Capital Reserve Fund are for interfund borrowings to pay for operations. The amounts between the General Fund and Special Revenue Fund are for fees and other expenses for student athletics.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE E - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Continued)

Interfund Transfers

The School District typically transfers funds from the General Fund to the Capital Projects Fund to pay for improvements and capital acquisitions. There were no interfund transfers for the year ended June 30, 2015.

NOTE F - CAPITAL ASSETS

Capital assets balances and activity for the year ending June 30, 2015, are as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|----------------------------------------------------------|------------------------------|---------------------|-----------------------|---------------------------|
| GOVERNMENTAL ACTIVITIES | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 5,198,539 | \$ - | \$ - | \$ 5,198,539 |
| Construction in progress | 244,844 | 4,313,513 | - | 4,558,357 |
| TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED | <u>5,443,383</u> | <u>4,313,513</u> | <u>-</u> | <u>9,756,896</u> |
| Capital assets being depreciated | | | | |
| Site improvements | 11,055,767 | 355,411 | - | 11,411,178 |
| Buildings and building improvements | 244,620,526 | 168,488 | - | 244,789,014 |
| Furniture and equipment | 28,003,963 | 5,837,645 | (2,098,033) | 31,743,575 |
| TOTAL CAPITAL ASSETS BEING DEPRECIATED | <u>283,680,256</u> | <u>6,361,544</u> | <u>(2,098,033)</u> | <u>287,943,767</u> |
| Accumulated depreciation | | | | |
| Site improvements | (7,164,248) | (475,280) | - | (7,639,528) |
| Buildings and building improvements | (64,232,010) | (6,156,704) | - | (70,388,714) |
| Furniture and equipment | (16,132,536) | (3,553,696) | 914,373 | (18,771,859) |
| TOTAL ACCUMULATED DEPRECIATION | <u>(87,528,794)</u> | <u>(10,185,680)</u> | <u>914,373</u> | <u>(96,800,101)</u> |
| TOTAL CAPITAL ASSETS BEING DEPRECIATED, net | <u>196,151,462</u> | <u>(3,824,136)</u> | <u>(1,183,660)</u> | <u>191,143,666</u> |
| GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net | <u>201,594,845</u> | <u>489,377</u> | <u>(1,183,660)</u> | <u>200,900,562</u> |
| BUSINESS- TYPE ACTIVITIES | | | | |
| Capital assets being depreciated | | | | |
| Machinery and equipment | 444,005 | 8,750 | - | 452,755 |
| Accumulated depreciation | (276,992) | (18,232) | - | (295,224) |
| BUSINESS- TYPE ACTIVITIES CAPITAL ASSETS, net | <u>167,013</u> | <u>(9,482)</u> | <u>-</u> | <u>157,531</u> |
| CAPITAL ASSETS, net | <u>\$ 201,761,858</u> | <u>\$ 479,895</u> | <u>\$ (1,183,660)</u> | <u>\$ 201,058,093</u> |

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE G - LONG-TERM DEBT

Descriptions of debt outstanding as of June 30, 2015, are as follows:

General Obligation Notes - Series 1998

The School District incurred general obligation notes for \$10,000,000 on January 2, 1998. Proceeds of the notes were used for general construction costs and to pay the costs of issuing the notes. The notes mature from June 1, 1998 to June 1, 2018. Interest rates are variable based on market rates.

General Obligation Notes - Series 1999

The School District incurred general obligation notes for \$7,000,000 on April 14, 1999. Proceeds of the notes were used for general construction costs and to pay the costs of issuing the notes. The notes mature from December 1, 2000 to December 1, 2019. Interest rates are variable based on market rates.

General Obligation Notes - Series 2004A

The School District issued \$8,700,000 General Obligation Notes, Series A of 2004, on November 1, 2004. Proceeds of the notes will be used: (1) to refund a portion of the School District's outstanding General Obligation Bonds, Series A of 1998; General Obligation Bonds, Series AA of 1998; General Obligation Bonds, Series of 2000; General Obligation Bonds, Series of 2001; General Obligation Bonds, Series A of 2001; General Obligation Bonds, Series of 2000; and General Obligation Bonds, Series A of 2002; and (2) to pay the costs of issuing the notes. The notes mature from November 15, 2005 to November 15, 2018. Interest rates vary from 2.00% to 4.00%.

Note Payable 2006 Issue - Colonial Academy

The School District incurred \$735,080, which is a portion of the debt issued to finance the Colonial Academy. The School District's obligations mature from June 30, 2006 to June 30, 2030. Interest is payable at 7.71%.

General Obligation Bonds - Series 2007A

The School District issued \$37,500,000 General Obligation Bonds, Series A of 2007, on November 1, 2007. Proceeds of the bonds were used to provide additional funds for designing, acquiring, constructing, equipping and furnishing additions, alterations and renovations to the High School South and other capital improvements to facilities owned and operated by the School District, to capitalize a portion of the interest on the bonds and to pay the costs of issuing the bonds. The bonds mature from September 1, 2009 to September 1, 2027. Interest rate is 7.75%.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE G - LONG-TERM DEBT (Continued)

General Obligation Notes - Series 2007

The School District issued \$81,130,000 General Obligation Notes, Series of 2007, on August 15, 2007. Proceeds of the notes will be used: (1) to currently refund the School District's outstanding General Obligation Bonds, Series A of 1998, outstanding in the aggregate principal amount of \$20,810,000; (2) to advance refund the School District's outstanding General Obligation Bonds, Series of 2003A, outstanding in the aggregate principal amount of \$9,990,000; (3) to currently refund a portion of the School District's outstanding General Obligation Bonds, Series of 2003, outstanding in the aggregate principal amount of \$9,745,000; (4) to advance refund a portion of the School District's outstanding General Obligation Bonds, Series of 2004, outstanding in the aggregate principal amount of \$9,990,000; (5) to advance refund the School District's outstanding General Obligation Bonds, Series of 2007, outstanding in the aggregate principal amount of \$39,000,000; and (6) to pay the costs of issuing the notes. The notes mature from September 1, 2007 to September 1, 2039. Interest rates vary from 3.70% to 5.00%.

General Obligation Bonds - Series 2008

The School District issued \$32,320,000 General Obligation Bonds, Series of 2008, on April 15, 2009. Proceeds of the bonds were used to provide additional funds for designing, acquiring, constructing, equipping and furnishing additions, alterations and renovations to the Middle Smithfield Elementary School, to provide for the acquisition of real estate, and other capital improvements to facilities owned and operated by the School District, to capitalize a portion of the interest on the bonds and to pay the costs of issuing the bonds. The bonds mature from September 1, 2010 to September 1, 2029. Interest rates vary from 4.00% to 5.00%.

General Obligation Notes - Series 2009 and General Obligation Bonds - Series 2009

The School District issued \$12,075,000 General Obligation Notes, Series of 2009, and General Obligation Bonds, Series of 2009, on July 9, 2009. Proceeds of the notes, in the aggregate principal amount of \$8,415,000, will be used: (1) to currently refund a portion of the School District's outstanding General Obligation Bonds, Series of 2005, (2) to currently refund a portion of the School District's outstanding General Obligation Bonds, Series A of 2005, (3) to currently refund a portion of the School District's outstanding General Obligation Bonds, Series of 2006, (4) to advance refund a portion of the School District's outstanding General Obligation Bonds, Series A of 2007, and (5) to pay related costs and expenses, including the costs of issuing the notes. Proceeds of the bonds, in the amount of \$3,660,000 will be used: (1) to currently refund a portion of the School District's outstanding General Obligation Notes, Series of 2007, and (2) to pay related costs and expenses, including the costs of issuing the bonds. The notes mature from May 15, 2023 to May 15, 2030. The bonds mature from May 15, 2011 to May 15, 2023. Interest rates vary from 3.50% to 4.75%.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE G - LONG-TERM DEBT (Continued)

General Obligation Bonds - Series 2009A

The School District issued \$15,015,000 General Obligation Bonds, Series A of 2009, on October 26, 2009. Proceeds of the bonds will be used: (1) to currently refund the School District's outstanding General Obligation Bonds, Series AA of 2001, (2) to currently refund the School District's outstanding General Obligation Bonds, Series of 2003, (3) to currently refund the School District's outstanding General Obligation Bonds, Series of 2004, and (4) to pay related costs and expenses, including the costs of issuing the 2009A bonds. The bonds mature from August 1, 2010 to August 1, 2021. Interest rate is 3.00%.

General Obligation Bonds - Series 2010

The School District issued \$11,345,000 General Obligation Bonds, Series of 2010, on April 19, 2010. Proceeds of the bonds will be used: (1) to currently refund the School District's outstanding General Obligation Bonds, Series A of 2002, (2) to currently refund the School District's outstanding General Obligation Bonds, Series of 2005, and (3) to pay related costs and expenses, including the costs of issuing the 2010 bonds. The bonds mature from December 1, 2010 to December 1, 2013. Interest rates vary from 3.20% to 3.60%.

General Obligation Bonds 2010A Issue - Qualified School Construction Bond

The School District issued \$1,220,000 General Obligation Bonds, Series A of 2010, on October 6, 2010. Proceeds of the bond issue will be used to provide funds for the J.T. Lambert roof replacement. The bonds mature on September 1, 2027. Interest rate is 5.00%.

General Obligation Bonds - Series 2010A

The School District issued \$9,685,000 General Obligation Bonds, Series A of 2010, on August 23, 2010. Proceeds of this bond issue will be used to currently refund the School District's outstanding General Obligation Bonds, Series A of 2005, and to pay related costs and expenses, including the costs of issuing the bonds. The bonds mature from November 5, 2010 to November 15, 2019. Interest rate is 2.36%.

General Obligation Bonds - Series 2011

The School District issued \$6,860,000 General Obligation Bonds, Series of 2011, on June 20, 2011. Proceeds of this bond issue will be used to currently refund the School District's outstanding General Obligation Bonds, Series of 2006, and to pay related costs and expenses, including the costs of issuing the 2011 bonds. The bonds mature from May 15, 2012 to November 15, 2019. Interest rate is 3.01%.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE G - LONG-TERM DEBT (Continued)

General Obligation Bonds - Series 2011A

The School District issued \$2,500,000 General Obligation Bonds, Series A of 2011, on June 20, 2011. Proceeds of this bond issue will be used to provide funds for energy improvements and upgrades to Resica Elementary School and other miscellaneous capital expenditures of the School District and to pay the related costs and expenses, including the costs of issuing the 2011A bonds. The bonds mature from May 15, 2012 to November 15, 2031. Interest rate is 3.01%.

Qualified Zone Academy Bonds, Series 2011

The School District issued \$525,000 Qualified Zone Academy Bonds, Series 2011, on September 20, 2010. Proceeds of this bond issue will be used to provide funds to upgrade technology, electrical system, fire system, surveillance system, sounds system and a backup generator as capital expenditures of the School District at JM Hill Elementary School and to pay related costs and expenses, including the costs of issuing the 2011 bonds. The bonds mature September 1, 2029. Interest rate is 8%.

General Obligation Bonds - Series of 2012

The School District issued \$7,495,000 General Obligation Bonds, Series 2012, on January 3, 2012. Proceeds of this bond issue will be used to provide funds to currently refund General Obligation Bonds, Series 2004A and to pay related costs and expenses, including the costs of issuing the 2012 bonds. The bonds mature in 2019 at various interest rates of the refunded bonds.

General Obligation Bonds - Series A of 2012

The School District issued \$2,500,000 General Obligation Bonds, Series A of 2012, on January 3, 2012. Proceeds of this bond issue will be used to provide funds for capital expenditures of the School District at JM Hill Elementary School and to pay related costs and expenses, including the costs of issuing the 2012 Series A bonds. The bonds mature in 2032 at varying interest rates.

General Obligation Bonds - Series of 2013

On December 19, 2013, the School District issued \$7,900,000 General Obligation Bonds, Series of 2013. Proceeds of this bond issue will be used to partially refund the School District's outstanding General Obligation Bonds, Series A of 2007, and to pay the costs in connection with the issuance of the bonds. The bonds bear an interest rate of 3.11% over the life of the bonds and will fully mature in September 2027. The refunding resulted in an economic gain of \$1,277,640.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE G - LONG-TERM DEBT (Continued)

General Obligation Bonds - Series of 2014

On September 3, 2014, the School District issued \$16,350,000 General Obligation Bonds, Series of 2014. Proceeds of this bond issue will be used to refund the School District's outstanding General Obligation Notes, Series A of 2004, General Obligation Bonds, Series of 2009 and Series A of 2009, and to pay the costs in connection with the issuance of the bonds. The bonds bear an interest rate of 1.92% over the life of the bonds and will fully mature in April 2023. The refunding resulted in an economic gain of \$699,142.

The refunding resulted in a difference between the cash flows required to service the old debt and the cash flows required to service the new debt of \$99,330. This amount is included in deferred outflows of resources in the Statement of Net Position and will be amortized over the left of the new debt.

General Obligation Bonds - Series A of 2014

On September 17, 2014, the School District issued \$8,720,000 General Obligation Bonds, Series A of 2014. Proceeds of this bond issue will be used to partially refund the School District's outstanding General Obligation Notes, Series of 2009, and to pay the costs in connection with the issuance of the bonds. The bonds mature in 2030 at varying interest rates. The refunding resulted in an economic gain of \$1,273,966.

The refunding resulted in a difference between the cash flows required to service the old debt and the cash flows required to service the new debt of \$189,669. This amount is included in deferred outflows of resources in the Statement of Net Position and will be amortized over the left of the new debt.

General Obligation Bonds - Series AA of 2014

On October 16, 2014, the School District issued \$7,640,000 General Obligation Bonds, Series AA of 2014. Proceeds of this bond issue will be used to partially refund the School District's outstanding General Obligation Bonds, Series A of 2007, and to pay the costs in connection with the issuance of the bonds. The bonds mature in 2026 at varying interest rates. The refunding resulted in an economic gain of \$1,705,111.

The refunding resulted in a difference between the cash flows required to service the old debt and the cash flows required to service the new debt of \$1,275,646. This amount is included in deferred outflows of resources in the Statement of Net Position and will be amortized over the left of the new debt.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE G - LONG-TERM DEBT (Continued)

Annual debt service requirements to maturity for long-term debt are as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|---------------------------------|-----------------------|----------------------|-----------------------|
| 2016 | \$ 9,052,090 | \$ 7,907,220 | \$ 16,959,310 |
| 2017 | 9,743,227 | 7,646,580 | 17,389,807 |
| 2018 | 10,321,365 | 7,374,988 | 17,696,353 |
| 2019 | 10,602,264 | 7,059,281 | 17,661,545 |
| 2020 | 10,778,095 | 6,676,799 | 17,454,894 |
| 2021 to 2025 | 61,664,689 | 25,359,517 | 87,024,206 |
| 2026 to 2030 | 76,716,429 | 9,669,034 | 86,385,463 |
| 2031 to 2035 | 535,000 | 25,579 | 560,579 |
| 2036 to 2040 | 25,000 | 2,937 | 27,937 |
| | <u>\$ 189,438,159</u> | <u>\$ 71,721,935</u> | <u>\$ 261,160,094</u> |

Authority Lease

The School District is named as a lessee, along with the Monroe Career & Technical Institute and the three other member school districts, of the Monroe Career & Technical Institute in a lease agreement with the Monroe County Area Vocational-Technical School Authority. The original liability of \$2,261,218 was computed by using the estimated sharing fraction against the outstanding principal on the Guaranteed School Revenue Bonds, Series of 1996 and Series of 2001, issued by the Authority. The sharing fraction fluctuates annually and is computed on a two-factor formula based on the school district's pro rata share of the market value of real estate and the average daily membership of the student body. The school districts are billed annually.

Annual payment requirements to maturity for the lease agreement are as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|---------------------------------|-------------------|------------------|-------------------|
| 2016 | \$ 223,290 | \$ 11,515 | \$ 234,805 |
| 2017 | 182,176 | 4,013 | 186,189 |
| | <u>\$ 405,466</u> | <u>\$ 15,528</u> | <u>\$ 420,994</u> |

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE G - LONG-TERM DEBT (Continued)

Capital Leases

The School District from time to time enters into capital lease arrangements with its vendors to finance equipment purchases through the vendor. Currently, the School District holds several computer purchase leases from Apple, HP and Cisco. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

| | |
|--------------------------|---------------------|
| Computer equipment | \$ 9,041,912 |
| Accumulated depreciation | <u>(5,342,794)</u> |
| | <u>\$ 3,699,118</u> |

The computer equipment acquired under capital leases is included in furniture and equipment in Note F.

The future minimum lease obligations and the net present value of minimum lease payments as of June 30, 2015, are as follows:

| <u>Year Ending June 30,</u> | <u>Amount</u> |
|--------------------------------------------|---------------------|
| 2016 | \$ 1,523,347 |
| 2017 | 988,434 |
| 2018 | 459,840 |
| Amount representing interest | <u>(116,771)</u> |
| PRESENT VALUE OF MINIMUM LEASE PAYMENTS | <u>\$ 2,854,850</u> |

Defeased Debt

The School District has advance-refunded various bond issues by creating separate irrevocable trust funds containing U.S. Government securities or securities collateralized by U.S. Government securities. The securities and earnings thereon are considered sufficient to fully service the bonds until they are called or mature. For financial reporting purposes, the bonds are considered defeased and the liability for those bonds has been removed from the accounts of the School District. As of June 30, 2015, the School District has defeased debt outstanding of \$42,785,000.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE H - CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2015, was as follows:

| | Balance July 1, 2014 | Additions/ Refundings | Reductions/ Maturities | Balance June 30, 2015 | Amount Due Within One Year |
|-------------------------------------------|-------------------------|--------------------------|---------------------------|--------------------------|----------------------------------|
| GENERAL OBLIGATION NOTES | | | | | |
| Series of 1998 | \$ 2,950,000 | \$ - | \$ (680,000) | \$ 2,270,000 | \$ 715,000 |
| Series of 1999 | 2,315,000 | - | (430,000) | 1,885,000 | 445,000 |
| Series A of 2004 | 320,000 | (320,000) | - | - | - |
| Series of 2006 | 520,539 | - | (22,068) | 498,471 | 22,985 |
| Series of 2007 | 73,190,000 | - | (5,000) | 73,185,000 | 5,000 |
| Series of 2009 | 8,415,000 | (8,415,000) | - | - | - |
| TOTAL GENERAL OBLIGATION NOTES | <u>87,710,539</u> | <u>(8,735,000)</u> | <u>(1,137,068)</u> | <u>77,838,471</u> | <u>1,187,985</u> |
| GENERAL OBLIGATION BONDS | | | | | |
| Series A of 2007 | 23,180,000 | (6,280,000) | (1,550,000) | 15,350,000 | 1,600,000 |
| Series of 2008 | 32,300,000 | - | (5,000) | 32,295,000 | 5,000 |
| Series of 2009 | 3,265,000 | (3,265,000) | - | - | - |
| Series A of 2009 | 13,495,000 | (12,600,000) | (895,000) | - | - |
| Series of 2010 | 2,160,000 | - | (2,160,000) | - | - |
| Series of 2010 QSCB | 1,063,126 | - | (75,938) | 987,188 | 75,938 |
| Series A of 2010 | 7,330,000 | - | (1,305,000) | 6,025,000 | 1,395,000 |
| Series of 2011 | 5,190,000 | - | (680,000) | 4,510,000 | 700,000 |
| Series A of 2011 | 2,300,000 | - | (105,000) | 2,195,000 | 105,000 |
| Series D of 2011 QZAB | 466,666 | - | (29,166) | 437,500 | 29,167 |
| Series of 2012 | 7,485,000 | - | (5,000) | 7,480,000 | 1,230,000 |
| Series A of 2012 | 2,305,000 | - | (100,000) | 2,205,000 | 100,000 |
| Series of 2013 | 7,900,000 | - | (230,000) | 7,670,000 | 235,000 |
| Series of 2014 | - | 16,350,000 | - | 16,350,000 | 2,209,000 |
| Series A of 2014 | - | 8,720,000 | (265,000) | 8,455,000 | 135,000 |
| Series AA of 2014 | - | 7,640,000 | - | 7,640,000 | 45,000 |
| TOTAL GENERAL OBLIGATION BONDS | <u>108,439,792</u> | <u>10,565,000</u> | <u>(7,405,104)</u> | <u>111,599,688</u> | <u>7,864,105</u> |
| Deferred amounts | | | | | |
| Issuance discount | (57) | - | 57 | - | - |
| Issuance premium | 5,062,318 | 85,793 | (754,561) | 4,393,550 | - |
| TOTAL DEFERRED AMOUNTS | <u>5,062,261</u> | <u>85,793</u> | <u>(754,504)</u> | <u>4,393,550</u> | <u>-</u> |
| TOTAL GENERAL OBLIGATION BONDS, net | <u>113,502,053</u> | <u>10,650,793</u> | <u>(8,159,608)</u> | <u>115,993,238</u> | <u>7,864,105</u> |
| VO-TECH AUTHORITY LEASE | 622,554 | - | (217,088) | 405,466 | 223,290 |
| CAPITAL LEASES | 2,937,661 | 1,759,407 | (1,842,218) | 2,854,850 | 1,455,876 |
| COMPENSATED ABSENCES | 5,167,426 | 33,514 | - | 5,200,940 | - |
| NET PENSION LIABILITY | 187,325,000 | - | (227,000) | 187,098,000 | - |
| OTHER POSTEMPLOYMENT BENEFITS | 9,241,931 | - | 1,656,168 | 10,898,099 | - |
| | <u>\$ 406,507,164</u> | <u>\$ 3,708,714</u> | <u>\$ (9,926,814)</u> | <u>\$ 400,289,064</u> | <u>\$ 10,731,256</u> |

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE I - DEFERRED INFLOW OF RESOURCES AND UNAVAILABLE AND UNEARNED REVENUE

General Fund

Unavailable revenues represent primarily delinquent taxes not collected within 60 days subsequent to the School District's year-end. It is expected that these receivables will be collected and included in revenues of future fiscal years. In the Governmental Funds financial statements, these receivables are reported as unearned revenue.

At June 30, 2015, deferred inflow of resources consisted of delinquent taxes receivable of \$11,277,844.

NOTE J - PENSION PLAN

Summary of Significant Accounting Policies

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

General Information About the Pension Plan

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

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE J - PENSION PLAN (Continued)

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

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

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

Contributions

Members 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 services rendered on or after January 1, 2002.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE J - PENSION PLAN (Continued)

- 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 the Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions

The School District's contractually required contribution rate for the 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. Contributions to the plan from the School District were \$12,215,000 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 School District reported a liability of \$187,098,000 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 School District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2014, the School District's proportion was 0.4727%, which was an increase of 0.0151% from its proportion measured as of June 30, 2013.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE J - PENSION PLAN (Continued)

For the year ended June 30, 2015, the School District recognized pension expense of \$17,630,000 . At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|------------------------------------------------------------------------------------------|-----------------------------------------------|----------------------------------------------|
| Governmental Activities: | | |
| Net difference between projected and actual investment earnings | \$ - | \$ 13,108,000 |
| Changes in proportions | 4,880,000 | - |
| Difference between employer contributions and proportionate share of total contributions | 185,000 | - |
| Contributions subsequent to the measurement date | <u>11,971,000</u> | <u>-</u> |
| | <u>\$ 17,036,000</u> | <u>\$ 13,108,000</u> |
| Business-type Activities: | | |
| Net difference between projected and actual investment earnings | \$ - | \$ 267,000 |
| Changes in proportions | 100,000 | - |
| Difference between employer contributions and proportionate share of total contributions | 4,000 | - |
| Contributions subsequent to the measurement date | <u>244,000</u> | <u>-</u> |
| | <u>\$ 348,000</u> | <u>\$ 267,000</u> |

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE J - PENSION PLAN (Continued)

\$12,215,000 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the new 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 Ending <u>June 30,</u> | |
|----------------------------------|-----------------------|
| Governmental Activities: | |
| 2016 | \$ (2,057,000) |
| 2017 | (2,057,000) |
| 2018 | (2,057,000) |
| 2019 | (2,057,000) |
| 2020 | <u>187,000</u> |
| | <u>\$ (8,041,000)</u> |
| Business-type Activities: | |
| 2016 | \$ (42,000) |
| 2017 | (42,000) |
| 2018 | (42,000) |
| 2019 | (42,000) |
| 2020 | <u>3,000</u> |
| | <u>\$ (165,000)</u> |

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** - 7.5%, 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 Table (male and female) with age set back three years for both males and females. For disabled annuitants, the RP-2000 Combined Disabled Tables (male and female) with age set back seven years for males and three years for females.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE J - PENSION PLAN (Continued)

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

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|------------------------------|--------------------------|-----------------------------------------------|
| Public markets global equity | 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% |
| Absolute return | 10% | 4.8% |
| Risk parity | 5% | 3.9% |
| MLPs/Infrastructure | 3% | 5.3% |
| Commodities | 6% | 3.3% |
| Financing (LIBOR) | (9%) | 1.1% |
| | <u>100%</u> | |

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2014.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE J - PENSION PLAN (Continued)

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 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 plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the School 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 one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate:

| | 1% Decrease 6.50% | Current Discount Rate 7.50% | 1% Increase 8.50% |
|--------------------------------------------------------------------|-------------------------|--------------------------------------|-------------------------|
| School District's proportionate share of the net pension liability | \$ <u>233,379,000</u> | \$ <u>187,098,000</u> | \$ <u>147,587,000</u> |

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

NOTE K - OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The School District provides medical and dental insurance benefits to eligible retired employees, spouses and dependents through a single-employer defined benefit plan. The benefits, benefits level, employee contribution and employer contribution are administered by the Board and can be amended by the Board through its personnel manual and union contracts. The plan is not accounted for as a trust fund, as an irrevocable trust has not been established to account for the plan. The plan does not issue a stand-alone financial report. The activity of the plan is reported in the School District's General Fund.

Annual OPEB Cost and Net OPEB Obligation

The School District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE K - OTHER POSTEMPLOYMENT BENEFITS (Continued)

The components of the School District's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the School District's net OPEB obligation to the plan are as follows:

| | |
|------------------------------------------------------|----------------------|
| Normal cost | \$ 1,418,227 |
| Amortization of unfunded actuarial accrued liability | 1,415,728 |
| ANNUAL REQUIRED CONTRIBUTION (ARC) | <u>2,833,955</u> |
| Interest on net OPEB obligation | 415,887 |
| Adjustment to ARC | <u>(567,376)</u> |
| ANNUAL OPEB EXPENSE | 2,682,466 |
| Net OPEB contributions during the year | <u>(1,026,298)</u> |
| INCREASE IN NET OPEB OBLIGATION | 1,656,168 |
| Net OPEB obligation at beginning of year | <u>9,241,931</u> |
| NET OPEB OBLIGATION AT END OF YEAR | <u>\$ 10,898,099</u> |

| <u>Year</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|-------------|-----------------------------|---------------------------------------------------------------|--------------------------------|
| 2014 | \$ 2,527,480 | 32.5% | \$ 9,241,931 |
| 2015 | 2,682,466 | 38.3% | 10,898,099 |
| 2016 | 2,655,319 | 35.5% | 12,610,562 |

Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$23,060,651 and the actuarial value of assets was \$0. The covered payroll (annual payroll of active employees covered by the plan) was \$53,772,116, and the ratio of the UAAL to the covered payroll was 42.89%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE K - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Methods and Assumptions

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

In the July 1, 2014 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 6.5% initially, reduced by increments of 0.5% per year to 5.5% in 2016. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2015, was 28 years.

NOTE L - CONTINGENCIES AND COMMITMENTS

Grant Programs

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

Construction Projects

The School District has various construction projects ongoing at June 30, 2015. Outstanding commitments on these projects are approximately \$5,000,000 and completion is expected during fiscal year 2015.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE M - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs. There were no significant reductions in insurance coverages in the 2014-2015 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

The School District is a member of the Employee Benefit Trust of Eastern Pennsylvania (the "Trust") which provides hospitalization, medical, dental and prescription drug benefits to School District employees. The Trust manages a schedule of benefits as determined by its respective members, ensures the Trust is adequately funded, reviews claims and administration and obtains excess catastrophic insurance.

The Trust has appointed NCAS Pennsylvania to provide administrative services. NCAS Pennsylvania is a Pennsylvania corporation with insurance and consulting expertise in administration of health and welfare plans. The Trust has entered into an agreement with the Pennsylvania Trust to provide stop loss insurance beginning at \$130,000 for members of the Trust, thus maintaining the financial security of the Trust.

The latest financial statements of the Trust are available at the School District's business office for the year ended June 30, 2015.

NOTE N - PRIOR PERIOD ADJUSTMENT

The School District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, effective July 1, 2014.

The objective of GASB Statement No. 68 is to improve accounting and financial reporting by state and local governments for pension plans. GASB Statement No. 68 states that local governments have to record their share of the Public School Employees' Retirement System (PSERS) unfunded liability.

For the government-wide governmental activities, the School District has treated their proportionate share of beginning of year net pension liability of \$183,579,000 and beginning of year deferred outflows of resources of \$9,458,000 as having been recognized in the period incurred. The School District has adjusted beginning net position for the governmental activities from \$66,961,007 to (\$107,159,993).

For the proprietary fund food service fund and the government-wide business-type activities, the School District has treated their proportionate share of beginning of year net pension liability of \$3,746,000 and beginning of year deferred outflows of resources of \$193,000 as having been recognized in the period incurred. The School District has adjusted beginning net position for the proprietary fund food service fund and for the business-type activities from \$839,227 to (\$2,713,773).

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE O - SUBSEQUENT EVENTS

On August 26, 2015, the School District issued \$8,640,000 of General Obligation Bonds, Series of 2015. The proceeds from these bonds were used to advance refund the School District's existing General Obligation Bonds, Series A of 2007.

On October 8, 2015, the district issued \$6,130,000 of General Obligation Bonds, Series A of 2015. The proceeds from these bonds were used to refund the School District's existing General Obligation Bonds, Series A of 2010.

The School District is not aware of any additional events or transactions that occurred subsequent to the financial statement date but prior to December 1, 2015, that would require recognition or disclosure in its financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

EAST STROUDSBURG AREA SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2015

| | Budgeted Amounts | | Actual (GAAP Basis) | Variance With Final Budget |
|-----------------------------------------------------|----------------------|----------------------|------------------------|-------------------------------|
| | Original | Final | | Positive (Negative) |
| REVENUES | | | | |
| Local sources | \$ 101,017,442 | \$ 101,017,442 | \$ 104,293,653 | \$ 3,276,211 |
| State sources | 36,275,303 | 36,275,303 | 36,958,201 | 682,898 |
| Federal sources | <u>2,772,736</u> | <u>2,772,736</u> | <u>2,717,356</u> | <u>(55,380)</u> |
| TOTAL REVENUES | <u>140,065,481</u> | <u>140,065,481</u> | <u>143,969,210</u> | <u>3,903,729</u> |
| EXPENDITURES | | | | |
| Regular programs | 55,201,714 | 54,834,351 | 51,506,828 | 3,327,523 |
| Special programs | 21,642,054 | 21,712,421 | 21,147,637 | 564,784 |
| Vocational programs | 2,814,145 | 2,716,825 | 2,681,107 | 35,718 |
| Other instructional programs | 2,584,220 | 2,860,620 | 2,415,556 | 445,064 |
| Pupil personnel services | 4,410,699 | 4,442,125 | 4,356,743 | 85,382 |
| Instructional staff services | 3,054,818 | 3,284,918 | 3,194,451 | 90,467 |
| Administrative services | 5,853,755 | 6,058,491 | 5,452,047 | 606,444 |
| Pupil health services | 1,985,387 | 1,986,862 | 1,894,349 | 92,513 |
| Business services | 1,180,462 | 1,359,297 | 1,307,684 | 51,613 |
| Operation and maintenance of plant | 12,360,796 | 12,895,777 | 12,328,777 | 567,000 |
| Student transportation services | 12,771,604 | 12,457,827 | 12,093,553 | 364,274 |
| Central and other support services | 4,969,405 | 5,039,649 | 4,872,091 | 167,558 |
| Student activities and athletics | 2,496,967 | 2,526,313 | 2,273,431 | 252,882 |
| Community services | 139,478 | 236,878 | 212,858 | 24,020 |
| Refund of prior year revenues | - | - | 111,834 | (111,834) |
| Debt service | 19,660,105 | 19,063,255 | 18,677,775 | 385,480 |
| Bond issuance costs | - | - | 351,149 | (351,149) |
| TOTAL EXPENDITURES | <u>151,125,609</u> | <u>151,475,609</u> | <u>144,877,870</u> | <u>6,597,739</u> |
| DEFICIENCY OF REVENUES OVER EXPENDITURES | <u>(11,060,128)</u> | <u>(11,410,128)</u> | <u>(908,660)</u> | <u>10,501,468</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from sale of capital assets | 1,147,650 | 1,147,650 | 1,336,321 | 188,671 |
| Proceeds from capital leases | 1,774,193 | 1,774,193 | 1,759,407 | (14,786) |
| Proceeds from issuance of refunding bonds | - | - | 32,795,793 | 32,795,793 |
| Payment to refunded bond escrow agent | - | - | (32,440,515) | (32,440,515) |
| Payment to sinking fund | - | - | (4,129) | (4,129) |
| Transfer out | - | - | - | - |
| Budgetary reserve | <u>(350,000)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>2,571,843</u> | <u>2,921,843</u> | <u>3,446,877</u> | <u>525,034</u> |
| NET CHANGE IN FUND BALANCE | <u>(8,488,285)</u> | <u>(8,488,285)</u> | <u>2,538,217</u> | <u>11,026,502</u> |
| FUND BALANCE AT BEGINNING OF YEAR | <u>46,154,866</u> | <u>46,154,866</u> | <u>46,154,866</u> | <u>-</u> |
| FUND BALANCE AT END OF YEAR | <u>\$ 37,666,581</u> | <u>\$ 37,666,581</u> | <u>\$ 48,693,083</u> | <u>\$ 11,026,502</u> |

See accompanying note to the budgetary comparison schedule.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTE TO THE BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2015

NOTE A - BUDGETARY INFORMATION

An operating budget is adopted prior to the beginning of each year for the General Fund on a basis consistent with generally accepted accounting principles. 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 15 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 hearings 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.

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the Pennsylvania Department of Education's 2028 Report when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all 2014-2015 budget transfers.

EAST STROUDSBURG AREA SCHOOL DISTRICT
SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
YEAR ENDED JUNE 30, 2015

| | |
|-------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| School District's proportion of the net pension liability (asset) | <u>0.4727%</u> |
| School District's proportionate share of the net pension liability (asset) | \$ <u>187,098,000</u> |
| School District's covered-employee payroll | \$ <u>60,318,006</u> |
| School District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | <u>310.19%</u> |
| The plan's fiduciary net position as a percentage of the total pension liability | <u>57.24%</u> |

EAST STROUDSBURG AREA SCHOOL DISTRICT
SCHEDULE OF SCHOOL DISTRICT CONTRIBUTIONS
YEAR ENDED JUNE 30, 2015

| | |
|----------------------------------------------------------------------|----------------------|
| Contractually required contribution | \$ 12,215,000 |
| Contributions in relation to the contractually required contribution | <u>12,215,000</u> |
| CONTRIBUTION EXCESS (DEFICIENCY) | <u>\$ -</u> |
| School District's covered-employee payroll | <u>\$ 59,585,366</u> |
| Contributions as a percentage of covered-employee payroll | <u>20.50%</u> |

EAST STROUDSBURG AREA SCHOOL DISTRICT
POSTEMPLOYMENT BENEFITS OTHER THAN
PENSION FUNDING PROGRESS
YEAR ENDED JUNE 30, 2015

SCHEDULE OF FUNDING PROGRESS

| Valuation Date July 1, | (a) Actuarial Value of Assets | (b) Entry Age Actuarial Accrued Liability (AAL) | (c) Unfunded AAL (UAAL) (b)-(a) | (d) Funded Ratio (a)/(b) | (e) Covered Payroll | (f) UAAL as a Percentage of Covered Payroll (c)/(e) |
|---------------------------|----------------------------------------|----------------------------------------------------------------|------------------------------------------|-----------------------------------|---------------------------|--------------------------------------------------------------------|
| 2010 | \$ - | \$ 14,676,869 | \$ 14,676,869 | 0% | \$ 54,169,712 | 27.09% |
| 2012 | - | 20,034,463 | 20,034,463 | 0% | 54,941,894 | 36.46% |
| 2014 | - | 23,060,651 | 23,060,651 | 0% | 53,772,116 | 42.89% |

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

To the Board of School Directors
East Stroudsburg Area School District
East Stroudsburg, 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 East Stroudsburg Area School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the East Stroudsburg Area School District's basic financial statements, and have issued our report thereon dated December 1, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of School Directors
East Stroudsburg Area School District
East Stroudsburg, Pennsylvania

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Maullie LLP". The signature is written in a cursive, flowing style.

Oaks, Pennsylvania
December 1, 2015

***Independent Auditors' Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance in Accordance With OMB Circular A-133***

To the Board of School Directors
East Stroudsburg Area School District
East Stroudsburg, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited the East Stroudsburg Area School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the East Stroudsburg Area School District's major federal programs for the year ended June 30, 2015. East Stroudsburg Area School District's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the East Stroudsburg Area School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 East Stroudsburg Area School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the East Stroudsburg Area School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the East Stroudsburg Area School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

To the Board of School Directors
East Stroudsburg Area School District
East Stroudsburg, Pennsylvania

Report on Internal Control Over Compliance

Management of the East Stroudsburg Area School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the East Stroudsburg Area School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program 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 East Stroudsburg Area School District's internal control over compliance.

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

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

Purpose of this Report

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.



Oaks, Pennsylvania
December 1, 2015

**SUPPLEMENTARY INFORMATION - MAJOR FEDERAL
AWARD PROGRAMS AUDIT**

EAST STROUDSBURG AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

| Pass-Through Grantor/Program Title | Federal CFDA Number | Pass-Through Grantor's Number | Grant Period Beginning/Ending Dates | Program or Award Amount | Total Received for the Year | Accrued or (Deferred) Revenue at July 1, 2014 | Revenue Recognized | Expenditures | Accrued or (Deferred) Revenue at June 30, 2015 |
|----------------------------------------------------------------|---------------------|-------------------------------|---------------------------------------|-------------------------|-----------------------------|-----------------------------------------------|---------------------|---------------------|------------------------------------------------|
| U.S. DEPARTMENT OF EDUCATION | | | | | | | | | |
| Impact Aid | 84.041 | N/A | July 1, 2014 to June 30, 2015 | \$ 507,333 | \$ 507,333 | \$ - | \$ 507,333 | \$ 507,333 | \$ - |
| Passed through the Pennsylvania Department of Education | | | | | | | | | |
| Title I | 84.010 | 013-080129 | July 1, 2013 to September 30, 2014 | 1,310,850 | 607,864 | 379,286 | 228,578 | 228,578 | - |
| Title I | 84.010 | 013-080129 | July 1, 2014 to September 30, 2015 | 1,365,637 | 928,079 | - | 1,038,543 | 1,038,543 | 110,464 |
| Title I, Program Improvement Set Aside 13-14 | 84.010 | 042-130129 | July 1, 2013 to September 30, 2014 | 100,806 | 21,601 | 21,601 | - | - | - |
| Title II, Improving Teacher Quality 13-14 | 84.367 | 020-140129 | July 1, 2013 to September 30, 2014 | 197,742 | 65,843 | 42,049 | 23,794 | 23,794 | - |
| Title II, Improving Teacher Quality 14-15 | 84.367 | 020-140129 | July 1, 2014 to September 30, 2015 | 197,732 | 145,215 | - | 184,265 | 184,265 | 39,050 |
| Title III, Language Instruction 13-14 | 84.365 | 010-140129 | July 1, 2013 to September 30, 2014 | 29,140 | 5,828 | 3,074 | 2,754 | 2,754 | - |
| Title III, Language Instruction 14-15 | 84.365 | 010-140129 | July 1, 2014 to September 30, 2015 | 29,085 | 23,268 | - | 29,085 | 29,085 | 5,817 |
| Keystone to Opportunity | 84.371 | 143-130129 | October 1, 2013 to September 30, 2014 | 241,848 | - | (51,904) | 51,904 | 51,904 | - |
| Keystone to Opportunity | 84.371 | 143-130129 | October 1, 2014 to September 30, 2015 | 228,585 | 209,537 | - | 164,391 | 164,391 | (45,146) |
| Public Welfare Access | 93.778 | N/A | July 1, 2013 to September 30, 2014 | 148,643 | 41,459 | 41,459 | - | - | - |
| Public Welfare Access | 93.778 | N/A | July 1, 2014 to September 30, 2015 | 107,037 | 86,982 | - | 107,037 | 107,037 | 20,055 |
| SUBTOTAL FORWARD | | | | \$ 2,643,009 | \$ 2,337,684 | \$ 435,565 | \$ 2,337,684 | \$ 2,337,684 | \$ 130,240 |

EAST STROUDSBURG AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

| Pass-Through Grantor/Program Title | Federal Grantor/CFDA Number | Pass-Through Grantor's Number | Grant Period Beginning/Ending Dates | Program or Award Amount | Total Received for the Year | Accrued or (Deferred) Revenue at July 1, 2014 | Revenue Recognized | Expenditures | Accrued or (Deferred) Revenue at June 30, 2015 |
|----------------------------------------------------------------|-----------------------------|-------------------------------|-------------------------------------|-------------------------|-----------------------------|-----------------------------------------------|--------------------|--------------|------------------------------------------------|
| U.S. DEPARTMENT OF EDUCATION | | | | | | | | | |
| SUBTOTAL FORWARDED | | | | | | | | | |
| Passed through the Colonial Intermediate Unit | | | | | | | | | |
| Special Education - Grants to the States (I.D.E.A.) | 84.027 | N/A | July 1, 2013 to June 30, 2014 | 1,129,159 | 690,661 | 690,661 | - | - | - |
| Special Education - Grants to the States (I.D.E.A.) | 84.027 | N/A | July 1, 2013 to June 30, 2014 | 6,000 | 6,000 | 6,000 | - | - | - |
| Special Education - Grants to the States (I.D.E.A.) | 84.027 | N/A | July 1, 2014 to June 30, 2015 | 1,133,116 | 697,005 | - | 1,133,116 | 1,133,116 | 436,111 |
| Special Education - Grants to the States (I.D.E.A.) | 84.027 | N/A | July 1, 2014 to June 30, 2015 | 4,000 | 4,000 | - | 4,000 | 4,000 | - |
| Special Education - Grants to the States (I.D.E.A.) | 84.027 | N/A | July 1, 2014 to June 30, 2015 | 7,040 | 7,040 | - | 7,040 | 7,040 | - |
| School Based Behavioral Health | 84.027 | N/A | July 1, 2013 to June 30, 2014 | 1,176 | 1,176 | 1,176 | - | - | - |
| Old Dominion University Research Foundation | 84.411A | N/A | July 1, 2014 to June 30, 2015 | 12,000 | - | - | 10,306 | 10,306 | 10,306 |
| Race to the Top | 84.413A | N/A | July 1, 2012 to June 30, 2013 | 63,934 | 49,975 | 32,434 | 17,541 | 17,541 | - |
| TOTAL U.S. DEPARTMENT OF EDUCATION | | | | | | | | | |
| U.S. DEPARTMENT OF AGRICULTURE | | | | | | | | | |
| Passed through the Pennsylvania Department of Education | | | | | | | | | |
| National School Breakfast Program 14-15 | 10.553 | 365-367 | July 1, 2014 to June 30, 2015 | N/A | 511,734 | 34,035 | 504,261 | 504,261 | 26,562 |
| National School Lunch Program 14-15 | 10.555 | 362 | July 1, 2014 to June 30, 2015 | N/A | 1,648,898 | 109,357 | 1,613,302 | 1,613,302 | 73,761 |
| U.S.D.A. Donated Commodities | 10.555 | N/A | July 1, 2014 to June 30, 2015 | N/A | 337,357 | (85,729) | 274,782 | 274,782 | (148,304) |
| TOTAL U.S. DEPARTMENT OF AGRICULTURE | | | | | | | | | |
| TOTAL FEDERAL AWARDS | | | | | | | | | |
| | | | | \$ 6,596,855 | \$ 4,098,866 | \$ 1,165,836 | \$ 3,509,687 | \$ 3,509,687 | \$ 528,676 |

See accompanying notes to the schedule of expenditures of federal awards.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

NOTE A - ORGANIZATION AND SCOPE

The federal programs as listed in the schedule of expenditures of federal awards are accounted for by the School District in the General Fund for U.S. Department of Education and in the Food Service Fund for U.S. Department of Agriculture programs.

NOTE B - BASIS OF ACCOUNTING

The School District uses the modified accrual method of recording transactions. Revenues are recorded when measurable and available. Expenditures are recorded when incurred.

NOTE C - DONATED FOOD

Donated food has been valued according to market value estimates provided by the U.S.D.A.

EAST STROUDSBURG AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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: **No**

Significant deficiencies identified that are not considered to be material weaknesses: **No**

Noncompliance material to the financial statements noted: **No**

Federal Awards

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

Internal control over major programs:

Material weakness(es) identified: **No**

Significant deficiencies identified that are not considered to be material weaknesses: **No**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of the Circular: **No**

Identification of major programs:

| <u>Program</u> | <u>CFDA</u> |
|----------------|-------------|
| Impact Aid | 84.041 |
| Title I | 84.010 |
| Title II | 84.367 |
| IDEA | 84.027 |

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as a low-risk auditee: **No**

EAST STROUDSBURG AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

EAST STROUDSBURG AREA SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2015

2014-001 - Financial Reporting

Description of Finding: The School District does not have appropriate controls in place to ensure accurate financial reporting on a government-wide basis.

Current Status: The finding has been addressed and is no longer applicable.