

EAST STROUDSBURG AREA SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
Year Ended June 30, 2016



INTRODUCTORY SECTION

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EAST STROUDSBURG AREA SCHOOL DISTRICT
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FINANCIAL SECTION

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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, 2016, 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

For the year ended June 30, 2016, the East Stroudsburg Area School District adopted new accounting guidance, implementing Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application* and No. 79 *Certain External Investment Pools and Pool Participants*. 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 and 56, schedule of the school district's proportionate share of the net pension liability on page 57, schedule of the school district's 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.

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 supplementary information listed in the table of contents and the Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated _____, 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.

Oaks, Pennsylvania

EAST STROUDSBURG AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2016

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, 2016. 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 2016 are as follows:

- In total, net position decreased from (\$110,662,276) in 2015 to (\$111,541,491) in 2016.
- General revenues accounted for \$102,705,880 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 \$46,912,800 or 31% of total revenues of \$149,618,680.
- Total assets and deferred outflows of resources of governmental activities were \$320,489,104, of which \$68,092,863 represents unrestricted cash and investments. Governmental capital assets, net of accumulated depreciation were \$197,558,720.
- The School District had \$150,497,895 in expenses; only \$46,912,800 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 \$102,705,880 were adequate to provide for these programs.
- Expenses, after program revenue was \$103,585,095 which increased from \$102,211,406 in 2015.
- Federal and state subsidies this year were \$44,165,302, which increased from \$41,389,607 in 2015.
- Considerable debt refinancing activities were experienced in 2015 and 2016.

EAST STROUDSBURG AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2016

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, 2016

- **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 Statement No. 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, 2016 and 2015

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
ASSETS						
Current assets	\$ 97,376,370	\$ 100,462,846	\$ 731,032	\$ 857,237	\$ 98,107,402	\$ 101,320,083
Capital and other assets	223,112,734	220,735,805	593,596	505,531	223,706,330	221,241,336
TOTAL ASSETS	320,489,104	321,198,651	1,324,628	1,362,768	321,813,732	322,561,419
LIABILITIES						
Long-term liabilities	397,939,955	385,394,102	4,631,687	4,163,706	402,571,642	389,557,808
Other liabilities	30,710,273	43,319,564	73,308	346,323	30,783,581	43,665,887
TOTAL LIABILITIES	428,650,228	428,713,666	4,704,995	4,510,029	433,355,223	433,223,695
NET POSITION						
Net investment in capital assets	13,780,386	7,026,725	138,596	157,531	13,918,982	7,184,256
Restricted	271,158	247,386	-	-	271,158	247,386
Unrestricted	(122,212,668)	(114,789,126)	(3,518,963)	(3,304,792)	(125,731,631)	(118,093,918)
TOTAL NET POSITION	\$ (108,161,124)	\$ (107,515,015)	\$ (3,380,367)	\$ (3,147,261)	\$ (111,541,491)	\$ (110,662,276)

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 \$7,637,713, which was due to GASB 68.

EAST STROUDSBURG AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2016

Condensed Statement of Activities
June 30, 2016 and 2015

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
REVENUES						
Charges for services	\$ 1,221,505	\$ 867,726	\$ 1,301,845	\$ 1,300,161	\$ 2,523,350	\$ 2,167,887
Operating grants and contributions	41,301,056	38,659,921	2,864,246	2,729,686	44,165,302	41,389,607
Capital grants and contributions	224,148	1,673,952	-	-	224,148	1,673,952
Property taxes and other taxes levied for general purposes	98,450,226	97,474,041	-	-	98,450,226	97,474,041
Taxes levied for specific purposes	3,762,555	3,603,602	-	-	3,762,555	3,603,602
Gain on sale of capital assets	211,542	-	-	-	211,542	-
Investment earnings	151,345	90,681	403	10	151,748	90,691
Other	129,809	254,562	-	-	129,809	254,562
TOTAL REVENUES	145,452,186	142,624,485	4,166,494	4,029,857	149,618,680	146,654,342
EXPENSES						
Instruction	83,208,603	80,568,044	-	-	83,208,603	80,568,044
Support services	30,226,136	29,318,075	-	-	30,226,136	29,318,075
Facilities acquisition, construction and improvement services	12,750	377,083	-	-	12,750	377,083
Operation of non-instructional services	14,840,806	14,674,353	-	-	14,840,806	14,674,353
Debt service	7,736,379	7,856,272	-	-	7,736,379	7,856,272
Unallocated depreciation	10,073,621	10,185,680	-	-	10,073,621	10,185,680
Food service	-	-	4,399,600	4,463,345	4,399,600	4,463,345
TOTAL EXPENSES	146,098,295	142,979,507	4,399,600	4,463,345	150,497,895	147,442,852
CHANGE IN NET POSITION	(646,109)	(355,022)	(233,106)	(433,488)	(879,215)	(788,510)
NET POSITION AT BEGINNING OF YEAR, restated (2015)	(107,515,015)	(107,159,993)	(3,147,261)	(2,713,773)	(110,662,276)	(109,873,766)
NET POSITION AT END OF YEAR	\$ (108,161,124)	\$ (107,515,015)	\$ (3,380,367)	\$ (3,147,261)	\$ (111,541,491)	\$ (110,662,276)

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

Net Cost of Services

	2016	2015	2014	2013	2012
GOVERNMENTAL ACTIVITIES					
Instruction	\$ (44,197,052)	\$ (44,373,782)	\$ (41,847,480)	\$ (41,617,735)	\$ (44,229,363)
Support services	(30,202,129)	(29,132,252)	(23,555,101)	(20,936,285)	(23,418,831)
Facilities acquisition, construction and improvement services	93,437	(332,816)	(100,544)	-	-
Operation of non-instructional services	(11,459,990)	(11,571,058)	(13,883,664)	(10,224,259)	(9,782,724)
Debt service	(7,512,231)	(6,182,320)	(7,120,847)	(9,720,607)	(6,982,428)
Unallocated depreciation	(10,073,621)	(10,185,680)	(9,903,815)	(7,985,640)	(6,045,602)
TOTAL GOVERNMENTAL ACTIVITIES	(103,351,586)	(101,777,908)	(96,411,451)	(90,484,526)	(90,458,948)
BUSINESS-TYPE ACTIVITIES					
Food service	(233,509)	(433,498)	(334,319)	(155,480)	191,107
TOTAL DISTRICT NET COST	\$ (103,585,095)	\$ (102,211,406)	\$ (96,745,770)	\$ (90,640,006)	\$ (90,267,841)

EAST STROUDSBURG AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2016

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 68%. 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 \$609,604,998. The tax rate for the year was \$123.42 mills per \$1,000 of assessed valuation for Pike County and \$179.37 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, 2016

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 \$145,734,295 increased from \$144,190,724 and operating expenditures of \$149,003,778 decreased from \$150,556,816. Other financing sources and uses were \$2,074,437 and the net change in fund balance for the year was a decrease of \$1,195,046 where last year there was a decrease of \$2,919,215.

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.

	2016			2015 Totals
	Governmental Activities	Business-Type Activities	Totals	
Land	\$ 5,198,539	\$ -	\$ 5,198,539	\$ 5,198,539
Construction in progress	12,700	-	12,700	4,558,357
Site improvements	13,507,817	-	13,507,817	11,411,178
Buildings and building improvements	250,402,457	-	250,402,457	244,789,014
Furniture and equipment	35,194,811	452,755	35,647,566	32,196,330
Accumulated depreciation	(106,757,604)	(314,159)	(107,071,763)	(97,095,325)
	<u>\$ 197,558,720</u>	<u>\$ 138,596</u>	<u>\$ 197,697,316</u>	<u>\$ 201,058,093</u>

Depreciation of the Years Capital Asset Activity

- o Overall capital assets decreased by \$3,360,777. This is due to current year disposals and depreciation offset by the acquisition of new equipment.
- o Depreciation for the year was \$10,092,556.

RESERVED FUND BALANCES

Fund balances have been classified in accordance with GASB Statement No. 54, unassigned fund balance represents funds available for appropriation of \$12,392,808 in total for 2016.

EAST STROUDSBURG AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2016

CURRENT FINANCIAL ISSUES AND CONCERNS

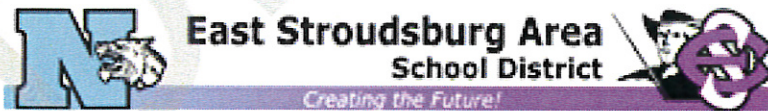
The East Stroudsburg Area School District, like all school districts in Pennsylvania, has faced limited increases in in state funding and increases in the employer contribution rates for the Public School Employee's Retirement System (PSERS) that have driven up expenditures. A substantial portion of 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 Legislature's 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, CSRSM - Chief Financial Officer, East Stroudsburg Area School District, 50 Vine Street, East Stroudsburg, Pennsylvania, 18301.



GOVERNMENT-WIDE STATEMENTS

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EAST STROUDSBURG AREA SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 29,825,546	\$ 319,001	\$ 30,144,547
Investments	38,267,317	-	38,267,317
Taxes receivable, net	12,744,115	-	12,744,115
Internal balances	51,699	(51,699)	-
Due from other governments	2,239,397	310,951	2,550,348
Due from fiduciary funds	2,019	-	2,019
Other receivables	315,765	-	315,765
Inventories	-	152,779	152,779
Insurance reserve provision	13,547,440	-	13,547,440
Prepaid expenses	383,072	-	383,072
Capital assets			
Land	5,198,539	-	5,198,539
Construction in progress	12,700	-	12,700
Site improvements	13,507,817	-	13,507,817
Building and building improvements	250,402,457	-	250,402,457
Furniture and equipment	35,194,811	452,755	35,647,566
Accumulated depreciation	(106,757,604)	(314,159)	(107,071,763)
TOTAL ASSETS	294,935,090	869,628	295,804,718
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on refunding	3,290,014	-	3,290,014
Deferred outflows of resources, pension activity	22,264,000	455,000	22,719,000
TOTAL DEFERRED OUTFLOWS OF RESOURCES	25,554,014	455,000	26,009,014
LIABILITIES			
Accounts payable	1,183,319	44,308	1,227,627
Accrued interest on long-term debt	2,257,420	-	2,257,420
Accrued salaries and benefits	13,940,385	-	13,940,385
Other current liabilities	157,914	-	157,914
Unearned revenue	96,217	-	96,217
Long-term liabilities			
Portion due or payable within one year			
Bonds payable	8,948,104	-	8,948,104
Notes payable	1,244,123	-	1,244,123
Authority lease obligations	230,732	-	230,732
Capital leases	1,222,059	-	1,222,059
Portion due or payable after one year			
Bonds payable	99,146,626	-	99,146,626
Notes payable	75,408,937	-	75,408,937
Capital leases	1,098,499	-	1,098,499
Compensated absences	5,484,851	216,167	5,701,018
Net pension liability	204,434,000	4,172,000	208,606,000
Net OPEB obligation	12,367,042	243,520	12,610,562
TOTAL LIABILITIES	427,220,228	4,675,995	431,896,223
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources, pension activity	1,430,000	29,000	1,459,000
NET POSITION			
Net investment in capital assets	13,780,386	138,596	13,918,982
Restricted for			
Special activities	271,158	-	271,158
Unrestricted	(122,212,668)	(3,518,963)	(125,731,631)
TOTAL NET POSITION	\$ (108,161,124)	\$ (3,380,367)	\$ (111,541,491)

See accompanying notes to the basic financial statements.

EAST STROUDSBURG AREA SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
GOVERNMENTAL ACTIVITIES						
Instruction						
Regular programs	\$ 55,033,298	\$ 978,015	\$ 32,473,964	\$ (21,581,319)	\$ -	\$ (21,581,319)
Special programs	22,883,449	-	4,914,763	(17,968,686)	-	(17,968,686)
Vocational programs	2,511,876	-	-	(2,511,876)	-	(2,511,876)
Other instructional programs	2,779,980	-	644,809	(2,135,171)	-	(2,135,171)
Support services						
Pupil personnel services	4,699,813	-	-	(4,699,813)	-	(4,699,813)
Instructional staff services	2,895,069	-	24,007	(2,871,062)	-	(2,871,062)
Administrative services	6,286,733	-	-	(6,286,733)	-	(6,286,733)
Pupil health services	2,045,567	-	-	(2,045,567)	-	(2,045,567)
Business services	1,126,458	-	-	(1,126,458)	-	(1,126,458)
Operation and maintenance of plant services	13,172,496	-	-	(13,172,496)	-	(13,172,496)
Facilities acquisition, construction and improvement services	12,750	106,187	-	93,437	-	93,437
Operation of non-instructional services						
Student transportation services	8,574,960	-	3,094,820	(5,480,140)	-	(5,480,140)
Central and other support services	3,310,551	-	-	(3,310,551)	-	(3,310,551)
Student activities and athletics	2,702,234	137,303	148,693	(2,416,238)	-	(2,416,238)
Community services	252,061	-	-	(252,061)	-	(252,061)
Scholarships and awards	1,000	-	-	(1,000)	-	(1,000)
Interest on long-term debt	7,736,379	-	-	(7,736,379)	-	(7,736,379)
Unallocated depreciation	10,073,621	-	224,148	(10,073,621)	-	(10,073,621)
TOTAL GOVERNMENTAL ACTIVITIES	146,098,295	1,221,505	41,301,056	(103,351,586)	-	(103,351,586)
BUSINESS-TYPE ACTIVITIES						
Food service	4,399,600	1,301,845	2,864,246	-	(233,509)	(233,509)
TOTAL SCHOOL DISTRICT ACTIVITIES	\$ 150,497,895	\$ 2,523,350	\$ 44,165,302	(103,351,586)	(233,509)	(103,585,095)
		GENERAL REVENUES				
		Taxes				
		Property taxes, levied for general purposes, net		98,450,226		98,450,226
		Earned income		3,640,510		3,640,510
		Public utility taxes		122,045		122,045
		Investment earnings		151,345	403	151,748
		Gain on sale of capital assets		211,542		211,542
		Miscellaneous income		129,809		129,809
		TOTAL GENERAL REVENUES		102,705,477	403	102,705,880
		CHANGE IN NET POSITION				
		NET POSITION AT BEGINNING OF YEAR		(107,515,015)	(233,106)	(879,215)
		NET POSITION AT END OF YEAR		(108,161,124)	(3,147,261)	(110,662,276)
				\$ (108,161,124)	\$ (3,380,367)	\$ (111,541,491)

See accompanying notes to the basic financial statements.

GOVERNMENTAL FUNDS STATEMENTS

DRAFT

EAST STROUDSBURG AREA SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 17,206,763	\$ 12,382,409	\$ 236,374	\$ 29,825,546
Investments	38,228,390	-	38,927	38,267,317
Taxes receivable, net	13,498,100	-	-	13,498,100
Due from other funds	51,699	-	519	52,218
Due from other governments	2,239,397	-	-	2,239,397
Due from fiduciary funds	2,019	-	-	2,019
Other receivables	315,765	-	-	315,765
Prepaid expenditures	383,072	-	-	383,072
TOTAL ASSETS	<u>\$ 71,925,205</u>	<u>\$ 12,382,409</u>	<u>\$ 275,820</u>	<u>\$ 84,583,434</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 1,161,580	\$ 17,876	\$ 3,863	\$ 1,183,319
Due to other funds	519	-	-	519
Unearned revenue	96,217	-	-	96,217
Accrued salaries and benefits	13,940,385	-	-	13,940,385
Other current liabilities	157,115	-	799	157,914
TOTAL LIABILITIES	<u>15,355,816</u>	<u>17,876</u>	<u>4,662</u>	<u>15,378,354</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue, property taxes	10,737,768	-	-	10,737,768
FUND BALANCES				
Nonspendable, prepaid expenditures	383,072	-	-	383,072
Restricted	-	-	271,158	271,158
Committed	24,545,532	-	-	24,545,532
Assigned	8,510,209	12,364,533	-	20,874,742
Unassigned	12,392,808	-	-	12,392,808
TOTAL FUND BALANCES	<u>45,831,621</u>	<u>12,364,533</u>	<u>271,158</u>	<u>58,467,312</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 71,925,205</u>	<u>\$ 12,382,409</u>	<u>\$ 275,820</u>	<u>\$ 84,583,434</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, 2016

TOTAL GOVERNMENTAL FUNDS BALANCES \$ 58,467,312

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	12,700
Site improvements	13,507,817
Building and building improvements	250,402,457
Furniture and equipment	35,194,811
Accumulated depreciation	<u>(106,757,604)</u>
	<u>197,558,720</u>

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

Deferred amount on refunding	<u>3,290,014</u>
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Deferred inflows and outflows of resources related to pension activities are not financial resources and therefore not reported in the governmental funds

20,834,000

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

13,547,440

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.

9,983,783

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	(108,094,730)
Accrued interest	(2,257,420)
Notes payable	(76,653,060)
Authority lease obligations	(230,732)
Capital leases	(2,320,558)
Compensated absences	(5,484,851)
Net pension liability	(204,434,000)
Other postemployment benefits	<u>(12,367,042)</u>
	<u>(411,842,393)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (108,161,124)

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, 2016

	General Fund	Capital Projects Fund	Special Revenue Fund	Total Governmental Funds
REVENUES				
Local sources	\$ 104,179,280	\$ 18,643	\$ 257,878	\$ 104,455,801
State sources	38,582,962	-	-	38,582,962
Federal sources	2,695,532	-	-	2,695,532
TOTAL REVENUES	145,457,774	18,643	257,878	145,734,295
EXPENDITURES				
Regular programs	51,826,104	-	-	51,826,104
Special programs	22,317,854	-	-	22,317,854
Vocational programs	2,662,152	-	-	2,662,152
Other instructional programs	2,746,808	-	-	2,746,808
Pupil personnel services	4,561,266	-	-	4,561,266
Instructional staff services	2,814,538	-	-	2,814,538
Administrative services	6,063,300	-	-	6,063,300
Pupil health services	1,972,631	-	-	1,972,631
Business services	1,133,337	-	-	1,133,337
Operation and maintenance of plant	12,390,826	-	-	12,390,826
Facilities acquisition, construction and improvement services	-	2,775,999	-	2,775,999
Student transportation services	10,112,747	-	-	10,112,747
Central and other support services	4,744,224	-	-	4,744,224
Student activities and athletics	2,410,955	-	234,106	2,645,061
Community services	249,505	-	-	249,505
Refund of prior year revenues	616,476	-	-	616,476
Debt service	18,904,584	-	-	18,904,584
Bond issuance costs	466,366	-	-	466,366
TOTAL EXPENDITURES	145,993,673	2,775,999	234,106	149,003,778
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(535,899)	(2,757,356)	23,772	(3,269,483)
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	218,436	-	-	218,436
Proceeds from capital leases	1,368,844	-	-	1,368,844
Proceeds from issuance of refunding bonds	24,822,940	-	-	24,822,940
Payment to refunded bond escrow agent	(24,314,991)	-	-	(24,314,991)
Payment to sinking fund	(20,792)	-	-	(20,792)
Operating transfers in	-	4,400,000	-	4,400,000
Operating transfers out	(4,400,000)	-	-	(4,400,000)
TOTAL OTHER FINANCING SOURCES (USES)	(2,325,563)	4,400,000	-	2,074,437
NET CHANGE IN FUND BALANCES	(2,861,462)	1,642,644	23,772	(1,195,046)
FUND BALANCES AT BEGINNING OF YEAR	48,693,083	10,721,889	247,386	59,662,358
FUND BALANCES AT END OF YEAR	\$ 45,831,621	\$ 12,364,533	\$ 271,158	\$ 58,467,312

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, 2016

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (1,195,046)

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.

Capital outlays	6,738,673
Depreciation	(10,073,621)
	<u>(3,334,948)</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.

(493,651)

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).

(2,174,560)

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	286,064
Insurance provision	161,210
Loss on sale of fixed assets	(6,894)
Pension plan expense	(4,172,000)
	<u>(3,731,620)</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	30,622,569
Issuance of general obligation bonds	(22,702,157)
Amortization of bond discounts, premiums and refunding loss	468,867
Repayment on note principal	1,185,411
Repayment of authority lease obligations	174,734
Repayment of capital lease obligations	1,903,136
Issuance of capital lease obligations	(1,368,844)
	<u>10,283,716</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (646,109)

See accompanying notes to the basic financial statements.

PROPRIETARY FUND STATEMENTS

DRAFT

EAST STROUDSBURG AREA SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2016

	Enterprise Fund <u>Food Service Fund</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 319,001
Due from other governments	310,951
Inventories	<u>152,779</u>
TOTAL CURRENT ASSETS	782,731
CAPITAL ASSETS, net	<u>138,596</u>
TOTAL ASSETS	<u>921,327</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources - pension activity	<u>455,000</u>
LIABILITIES	
Due to other funds	51,699
Accounts payable	44,308
Compensated absences	216,167
Other postemployment benefits	243,520
Long-term liabilities	
Net pension liability	<u>4,172,000</u>
TOTAL LIABILITIES	<u>4,727,694</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources - pension activity	<u>29,000</u>
NET POSITION	
Net investment in capital assets	138,596
Unrestricted	<u>(3,518,963)</u>
TOTAL NET POSITION	\$ <u>(3,380,367)</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, 2016

	Enterprise Fund <u>Food Service Fund</u>
OPERATING REVENUES	
Food service revenue	\$ <u>1,301,845</u>
OPERATING EXPENSES	
Personnel	2,587,496
Operating	1,754,635
Purchased services	38,534
Depreciation	18,935
TOTAL OPERATING EXPENSES	<u>4,399,600</u>
OPERATING LOSS	<u>(3,097,755)</u>
NONOPERATING REVENUES	
Earnings on investments	403
State sources	368,838
Federal sources	2,495,408
TOTAL NONOPERATING REVENUES	<u>2,864,649</u>
CHANGE IN NET POSITION	(233,106)
NET POSITION AT BEGINNING OF YEAR	<u>(3,147,261)</u>
NET POSITION AT END OF YEAR	\$ <u><u>(3,380,367)</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, 2016

	Enterprise Fund <u>Food Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from users	\$ 1,301,845
Cash payments to employees for services	(2,587,496)
Cash payments to suppliers for goods and services	(1,191,572)
NET CASH USED BY OPERATING ACTIVITIES	<u>(2,477,223)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State sources	368,838
Federal sources	2,019,689
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>2,388,527</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>403</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(88,293)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>407,294</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 319,001</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (3,097,755)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	18,935
Donated foods	291,360
Pension expense	85,000
Decrease in	
Inventories	43,863
Increase (decrease) in	
Due to other funds	178,408
Accounts payable	(35,015)
Employee benefits payable	<u>37,981</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (2,477,223)</u></u>
SUPPLEMENTAL DISCLOSURES	
Noncash activities	
Donated foods	\$ 291,360

See accompanying notes to the basic financial statements.

FIDUCIARY FUNDS STATEMENTS

DRAFT

EAST STROUDSBURG AREA SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016

	Private Purpose Trust Funds		Agency Funds		Total Fiduciary Funds
	Expendable Scholarships	Non - Expendable Scholarships	Student Activities	Concessions	
ASSETS					
Cash and cash equivalents	\$ 32,433	\$ 17,694	\$ 67,445	\$ 5,930	\$ 123,502
Investments	56,128	34,559	-	-	90,687
Due from school district	1,000	-	-	-	1,000
Other receivables	-	-	58	-	58
TOTAL ASSETS	89,561	52,253	67,503	5,930	215,247
LIABILITIES					
Accounts payable	-	-	12	5,930	5,942
Due to school district	-	-	3,019	-	3,019
Due to student groups	-	-	64,472	-	64,472
TOTAL LIABILITIES	-	-	67,503	5,930	73,433
NET POSITION					
Held in trust for benefits and other purposes	\$ 89,561	\$ 52,253	\$ -	\$ -	\$ 141,814

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, 2016

	Private Purpose Trust Funds	
	Expendable Scholarships	Non-Expendable Scholarships
ADDITIONS		
Gifts and contributions	\$ 20,804	\$ -
Investment income	<u>519</u>	<u>543</u>
TOTAL ADDITIONS	21,323	543
DEDUCTIONS		
Scholarships awarded and fees paid	<u>33,549</u>	<u>1,401</u>
CHANGE IN NET POSITION	(12,226)	(858)
NET POSITION AT BEGINNING OF YEAR	<u>101,787</u>	<u>53,111</u>
NET POSITION AT END OF YEAR	<u>\$ 89,561</u>	<u>\$ 52,253</u>

See accompanying notes to the basic financial statements.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2016

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 School 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, 2016

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, 2016

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, 2016

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

The School District has adopted GASB Statements No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 79, *Certain External Investment Pools and Pool Participants*. Under GASB Statement No. 31, investments in marketable securities with readily determinable fair value and all investments in debt securities are reported at their fair values. Under GASB Statement No. 79, investments in qualifying external investment pools are reported at amortized cost basis.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2016

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. The first item is the deferred charges on refunding, net of accumulated amortization reported in the government-wide 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 second item is the deferred outflow related to pension activity reported in the government-wide statement of net position and the proprietary fund statement of net position. 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.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 expected and actual experience, differences between projected and actual investment earnings and the differences between actual employer contributions and the School District's proportionate share of total contributions. 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.

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.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- **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.

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, 2016, the School District's bank balance of \$31,108,668 was exposed to custodial credit risk as follows:

FDIC insured	\$ 500,000
Uninsured and collateral held by pledging bank's trust department not in the School District's name	11,110,194
Uninsured and uncollateralized	<u>19,498,474</u>
	<u>\$ 31,108,668</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.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE B - CASH AND INVESTMENTS (continued)

Investments

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

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Maturities</u>	
		<u>Less Than 1 Year</u>	<u>1 to 5 Years</u>
State investment pools	\$ 38,228,390	\$ 38,210,384	\$ 18,006
Certificates of deposit	129,614	-	129,614
	<u>\$ 38,358,004</u>	<u>\$ 38,210,384</u>	<u>\$ 147,620</u>

A portion of the School District's investments is in the PSDLAF and PLGIT programs, of which are funds similar to mutual funds. GASB Statement No. 3, Paragraph 69, provides that certain types of cash and investments, such as cash investments in a State Treasurer's investment pool or mutual fund, cannot be assigned a credit risk category because the government does not own specific securities. Therefore, the PSDLAF and PLGIT cash investments included in these statements will not be assigned a credit risk category. The carrying amount of these investments at June 30, 2016, is \$38,228,390. These assets maintain a stable net asset value of \$1 per share. PSDLAF is not SEC-registered. All investments are monitored weekly by Standard & Poor's and are subject to an independent audit on an annual basis. As of June 30, 2016, the School District's investment in the state investment pools was rated AAAM by Standard & Poor's.

Investments held with qualifying external state investment pools are valued at amortized cost in accordance with GASB Statement No. 79. There are no withdrawal restrictions on these investments.

Certificates of deposit held by banks of \$129,614 are stated at cost plus interest earned.

Fair Value Measurement

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are those that lack significant observable inputs. The School District did not have any recurring fair value measurements as of June 30, 2016.

Concentration of Credit Risk - As of June 30, 2016, the School District's investments in certificates of deposits did not exceed 5% of the School District's total investments.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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 \$636,630,240, combined for Monroe County \$439,487,110, and Pike County for \$197,143,130. The tax rate for the year was \$123.42 mills per \$1,000 of assessed valuation for Pike County and \$179.37 mills per \$1,000 of assessed valuation for Monroe County.

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

Discount period	August 1 to September 30 - 2% of gross levy
Face period	October 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.

NOTE D - RECEIVABLES

Receivables at June 30, 2016, 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:

	General Fund	Food Service Fund
	<u> </u>	<u> </u>
Real estate taxes	\$ 13,401,203	\$ -
Earned income taxes	12,586	-
Local service taxes	507	-
Transfer taxes	83,804	-
Federal subsidies	554,154	267,836
State subsidies	1,589,440	43,115
Other governments	95,803	-
Other revenue	315,765	-
	<u> </u>	<u> </u>
	<u>\$ 16,053,262</u>	<u>\$ 310,951</u>

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE E - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2016, is as follows:

Due to/from Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Food Service Fund	\$ 51,699
Special Revenue Fund	General Fund	<u>519</u>
		<u>\$ 52,218</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 Special Revenue Fund are for fees and other expenses for student athletics.

Interfund Transfers

The School District typically transfers funds from the General Fund to the Capital Projects Fund to pay for improvements and capital acquisitions.

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Capital Projects Fund	General Fund	<u>\$ 4,400,000</u>

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE F - CAPITAL ASSETS

Capital assets balances and activity for the year ending June 30, 2016, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 5,198,539	\$ -	\$ -	\$ 5,198,539
Construction in progress	4,558,357	2,630,412	(7,176,069)	12,700
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	9,756,896	2,630,412	(7,176,069)	5,211,239
Capital assets being depreciated				
Site improvements	11,411,178	2,096,639	-	13,507,817
Buildings and building improvements	244,789,014	5,613,443	-	250,402,457
Furniture and equipment	31,743,575	3,574,248	(123,012)	35,194,811
TOTAL CAPITAL ASSETS BEING DEPRECIATED	287,943,767	11,284,330	(123,012)	299,105,085
Accumulated depreciation				
Site improvements	(7,639,528)	(524,259)	-	(8,163,787)
Buildings and building improvements	(70,388,714)	(6,266,383)	-	(76,655,097)
Furniture and equipment	(18,771,859)	(3,282,979)	116,118	(21,938,720)
TOTAL ACCUMULATED DEPRECIATION	(96,800,101)	(10,073,621)	116,118	(106,757,604)
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	191,143,666	1,210,709	(6,894)	192,347,481
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net	200,900,562	3,841,121	(7,182,963)	197,558,720
BUSINESS-TYPE ACTIVITIES				
Capital assets being depreciated				
Machinery and equipment	452,755	-	-	452,755
Accumulated depreciation	(295,224)	(18,935)	-	(314,159)
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, net	157,531	(18,935)	-	138,596
CAPITAL ASSETS, net	\$ 201,058,093	\$ 3,822,186	\$ (7,182,963)	\$ 197,697,316

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE G - LONG-TERM DEBT

Descriptions of debt outstanding as of June 30, 2016, 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.

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 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 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, 2016

NOTE G - LONG-TERM DEBT (Continued)

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 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%.

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%.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE G - LONG-TERM DEBT (Continued)

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.

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.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE G - LONG-TERM DEBT (Continued)

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.

General Obligation Bonds - Series of 2015

On August 26, 2015, the School District issued \$8,640,000 General Obligation Bonds, Series of 2015. Proceeds of this bond issue will be used to advance refund a portion of 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 2024 at varying interest rates. The refunding resulted in an economic gain of \$1,141,000.

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 \$1,239,007. 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, 2016

NOTE G - LONG-TERM DEBT (Continued)

General Obligation Bonds - Series A of 2015

On October 8, 2015, the School District issued \$6,163,000 General Obligation Bonds, Series A of 2015. Proceeds of this bond issue will be used to refund the School District's outstanding General Obligation Bonds, Series A of 2010, and to pay the costs in connection with the issuance of the bonds. The bonds mature in 2019 at varying interest rates. The refunding resulted in an economic gain of \$49,654.

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 \$57,248. 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 of 2016

On June 22, 2016, the School District issued \$9,500,000 General Obligation Bonds, Series of 2016. Proceeds of this bond issue will be used to advance refund the School District's outstanding General Obligation Bonds, Series of 2008, 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 \$977,943.

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 \$1,339,306. 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.

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>
2017	\$ 10,442,959	\$ 7,593,046	\$ 18,036,005
2018	10,653,365	7,412,531	18,065,896
2019	10,920,264	7,109,478	18,029,742
2020	11,068,095	6,721,732	17,789,827
2021	11,494,688	6,187,842	17,682,530
2022 to 2026	64,737,654	21,579,763	86,317,417
2027 to 2031	62,631,886	4,733,285	67,365,171
2032 to 2036	195,000	10,909	205,909
2037 to 2040	20,000	1,881	21,881
	<u>\$ 182,163,911</u>	<u>\$ 61,350,467</u>	<u>\$ 243,514,378</u>

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE G - LONG-TERM DEBT (Continued)

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>
2017	\$ <u>230,732</u>	\$ <u>4,013</u>	\$ <u>234,745</u>

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	\$ 10,410,756
Accumulated depreciation	<u>(6,897,458)</u>
	<u>\$ 3,513,298</u>

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

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE G - LONG-TERM DEBT (Continued)

The future minimum lease obligations and the net present value of minimum lease payments as of June 30, 2016, are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 1,268,805
2018	740,211
2019	280,371
2020	99,037
Amount representing interest	<u>(67,866)</u>
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	<u>\$ 2,320,558</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, 2016, the School District has defeased debt outstanding of \$61,975,000.

Debt Payments

Payments on bonds, notes and leases are made by the General Fund. The vested and other employee benefits will be liquidated by the Governmental and Proprietary Funds. The School District currently does not have any bonds, notes or leases in the business-type activities.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE H - CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions/ Refundings	Reductions/ Maturities	Balance June 30, 2016	Amount Due Within One Year
GOVERNMENTAL ACTIVITIES					
GENERAL OBLIGATION NOTES					
Series of 1998	\$ 2,270,000	\$ -	\$ (715,000)	\$ 1,555,000	\$ 755,000
Series of 1999	1,885,000	-	(445,000)	1,440,000	460,000
Series of 2006	498,471	-	(20,411)	478,060	24,123
Series of 2007	73,185,000	-	(5,000)	73,180,000	5,000
TOTAL GENERAL OBLIGATION NOTES	77,838,471	-	(1,185,411)	76,653,060	1,244,123
GENERAL OBLIGATION BONDS					
Series A of 2007	15,350,000	(7,600,000)	(1,600,000)	6,150,000	1,650,000
Series of 2008	32,295,000	(8,590,000)	(5,000)	23,700,000	5,000
Series of 2010 QSCB	987,188	-	(68,437)	918,751	75,937
Series A of 2010	6,025,000	(6,025,000)	-	-	-
Series of 2011	4,510,000	-	(700,000)	3,810,000	720,000
Series A of 2011	2,195,000	-	(105,000)	2,090,000	110,000
Series D of 2011 QZAB	437,500	-	(26,132)	411,368	29,167
Series of 2012	7,480,000	-	(1,230,000)	6,250,000	2,280,000
Series A of 2012	2,205,000	-	(100,000)	2,105,000	105,000
Series of 2013	7,670,000	-	(235,000)	7,435,000	195,000
Series of 2014	16,350,000	-	(2,209,000)	14,141,000	1,639,000
Series A of 2014	8,455,000	-	(135,000)	8,320,000	5,000
Series AA of 2014	7,640,000	-	(45,000)	7,595,000	210,000
Series of 2015	-	8,640,000	(445,000)	8,195,000	205,000
Series A of 2015	-	6,163,000	(1,504,000)	4,659,000	1,524,000
Series of 2016	-	9,500,000	-	9,500,000	195,000
TOTAL GENERAL OBLIGATION BONDS	111,599,688	2,088,000	(8,407,569)	105,280,119	8,948,104
Deferred amounts					
Issuance premium	4,393,550	519,940	(2,098,879)	2,814,611	-
TOTAL DEFERRED AMOUNTS	4,393,550	519,940	(2,098,879)	2,814,611	-
TOTAL GENERAL OBLIGATION BONDS, net	115,993,238	2,607,940	(10,506,448)	108,094,730	8,948,104
VO-TECH AUTHORITY LEASE	405,466	-	(174,734)	230,732	230,732
CAPITAL LEASES	2,854,850	1,368,844	(1,903,136)	2,320,558	1,222,059
COMPENSATED ABSENCES	4,997,901	486,950	-	5,484,851	-
NET PENSION LIABILITY	183,356,000	21,078,000	-	204,434,000	-
OTHER POSTEMPLOYMENT BENEFITS	10,679,432	2,624,700	(937,090)	12,367,042	-
	\$ 396,125,358	\$ 28,166,434	\$ (14,706,819)	\$ 409,584,973	\$ 11,645,018

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE H - CHANGES IN LONG-TERM LIABILITIES (Continued)

	Balance July 1, 2015	Additions/ Refundings	Reductions/ Maturities	Balance June 30, 2016	Amount Due Within One Year
BUSINESS-TYPE ACTIVITIES					
COMPENSATED ABSENCES	\$ 203,039	\$ 13,128	\$ -	\$ 216,167	\$ -
NET PENSION LIABILITY	3,742,000	430,000	-	4,172,000	-
OTHER POSTEMPLOYMENT BENEFITS	218,667	30,619	(5,766)	243,520	-
	<u>\$ 4,163,706</u>	<u>\$ 473,747</u>	<u>\$ (5,766)</u>	<u>\$ 4,631,687</u>	<u>\$ -</u>

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, 2016, deferred inflow of resources consisted of delinquent taxes receivable of \$10,737,768.

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, 2016

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, 2016

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, 2016, was 25.0% 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 \$15,775,000 for the year ended June 30, 2016.

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

At June 30, 2016, the School District reported a liability of \$208,606,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2014 to June 30, 2015. The 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, 2015, the School District's proportion was 0.4816%, which was an increase of 0.0089% from its proportion measured as of June 30, 2014.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE J - PENSION PLAN (Continued)

For the year ended June 30, 2016, the School District recognized pension expense of \$4,257,000. At June 30, 2016, 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		
Difference between expected and actual experience	\$ -	\$ 844,000
Net difference between projected and actual investment earnings	-	414,000
Changes in proportions	6,664,000	-
Difference between employer contributions and proportionate share of total contributions	141,000	172,000
Contributions subsequent to the measurement date	<u>15,459,000</u>	<u>-</u>
	<u>\$ 22,264,000</u>	<u>\$ 1,430,000</u>
BUSINESS-TYPE ACTIVITIES		
Difference between expected and actual experience	\$ -	\$ 17,000
Net difference between projected and actual investment earnings	-	8,000
Changes in proportions	136,000	-
Difference between employer contributions and proportionate share of total contributions	3,000	4,000
Contributions subsequent to the measurement date	<u>316,000</u>	<u>-</u>
	<u>\$ 455,000</u>	<u>\$ 29,000</u>

\$15,775,000 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2017	\$ 783,000	\$ 16,000
2018	783,000	16,000
2019	783,000	16,000
2020	<u>3,026,000</u>	<u>62,000</u>
	<u>\$ 5,375,000</u>	<u>\$ 110,000</u>

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE J - PENSION PLAN (Continued)

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

- **Actuarial Cost Method** - Entry Age Normal - level % 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.

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

The long-term expected rate of return on 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.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE J - PENSION PLAN (Continued)

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	22.5%	4.8%
Private markets (equity)	15.0%	6.6%
Private real estate	12.0%	4.5%
Global fixed income	7.5%	2.4%
U.S. long treasuries	3.0%	1.4%
TIPS	12.0%	1.1%
High yield bonds	6.0%	3.3%
Cash	3.0%	0.7%
Absolute return	10.0%	4.9%
Risk parity	10.0%	3.7%
MLPs/Infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	-14.0%	1.1%
	<u>100.0%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2015.

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the 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.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE J - PENSION PLAN (Continued)

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>257,128,000</u>	\$ <u>208,606,000</u>	\$ <u>167,824,000</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, 2016

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)	2,833,955
Interest on net OPEB obligation	490,414
Adjustment to ARC	(669,050)
ANNUAL OPEB EXPENSE	2,655,319
Net OPEB contributions during the year	(942,856)
INCREASE IN NET OPEB OBLIGATION	1,712,463
Net OPEB obligation at beginning of year	10,898,099
NET OPEB OBLIGATION AT END OF YEAR	\$ 12,610,562

Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
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, 2016

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, 2016, was 27 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.

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 2015-2016 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.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE M - RISK MANAGEMENT (Continued)

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, 2016.

NOTE N - FUND BALANCES

As of June 30, 2016, fund balances are composed of the following:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
Nonspendable				
Prepaid expenses	\$ 383,072	\$ -	\$ -	\$ 383,072
Restricted				
Student activities	-	-	271,158	271,158
Committed				
Future retirement benefits	18,545,532	-	-	18,545,532
Future healthcare costs	6,000,000	-	-	6,000,000
Assigned				
Capital projects	-	12,364,533	-	12,364,533
Student athletics	21,924	-	-	21,924
Future budget expenditures	8,488,285	-	-	8,488,285
Unassigned	12,392,808	-	-	12,392,808
TOTAL FUND BALANCE	\$ 45,831,621	\$ 12,364,533	\$ 271,158	\$ 58,467,312

NOTE O - SUBSEQUENT EVENTS

In September 2016, the School District entered into a Bond Modification Agreement for its General Obligation Debt, Series 2013. The Bond Modification Agreement provides an interest rate amendment to read 3.11% per annum to and including September 22, 2016 and thereafter 1.99% per annum through the final maturity of September 2027. The principal payment schedule was not amended.

In August 2016, the School District issued \$5,765,000 of General Obligation Bonds, Series A of 2016. The proceeds from the bond issuance were used to refund the School District's existing General Obligation Bonds Series of 2011, Series A of 2011 and to pay related costs and expenses, including the costs of issuing the bonds.

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

REQUIRED SUPPLEMENTARY INFORMATION

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EAST STROUDSBURG AREA SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual (GAAP Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 103,280,369	\$ 103,280,369	\$ 104,179,280	\$ 898,911
State sources	37,693,048	37,693,048	38,582,962	889,914
Federal sources	2,801,707	2,801,707	2,695,532	(106,175)
TOTAL REVENUES	143,775,124	143,775,124	145,457,774	1,682,650
EXPENDITURES				
Regular programs	53,604,267	51,858,627	51,826,104	32,523
Special programs	22,932,024	22,396,521	22,317,854	78,667
Vocational programs	2,743,226	2,670,438	2,662,152	8,286
Other instructional programs	2,664,058	2,826,778	2,746,808	79,970
Pupil personnel services	4,534,026	4,684,207	4,561,266	122,941
Instructional staff services	3,053,880	3,142,883	2,814,538	328,345
Administrative services	5,899,194	6,457,530	6,063,300	394,230
Pupil health services	2,041,237	2,041,414	1,972,631	68,783
Business services	1,168,759	1,194,324	1,133,337	60,987
Operation and maintenance of plant	13,032,198	12,629,748	12,390,826	238,922
Student transportation services	10,534,576	10,246,262	10,112,747	133,515
Central and other support services	5,660,131	4,766,588	4,744,224	22,364
Student activities and athletics	2,589,862	2,584,927	2,410,955	173,972
Community services	180,970	250,834	249,505	1,329
Refund of prior year revenues	-	-	616,476	(616,476)
Debt service	19,724,993	22,962,320	18,904,584	4,057,736
Bond issuance costs	-	-	466,366	(466,366)
TOTAL EXPENDITURES	150,363,401	150,713,401	145,993,673	4,719,728
DEFICIENCY OF REVENUES OVER EXPENDITURES	(6,588,277)	(6,938,277)	(535,899)	6,402,378
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	218,436	218,436
Proceeds from capital leases	2,263,377	2,263,377	1,368,844	(894,533)
Proceeds from issuance of refunding bonds	-	-	24,822,940	24,822,940
Payment to refunded bond escrow agent	-	-	(24,314,991)	(24,314,991)
Payment to sinking fund	-	-	(20,792)	(20,792)
Transfer out	-	-	(4,400,000)	(4,400,000)
Budgetary reserve	(350,000)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	1,913,377	2,263,377	(2,325,563)	(4,588,940)
NET CHANGE IN FUND BALANCE	(4,674,900)	(4,674,900)	(2,861,462)	1,813,438
FUND BALANCE AT BEGINNING OF YEAR	48,693,083	48,693,083	48,693,083	-
FUND BALANCE AT END OF YEAR	\$ 44,018,183	\$ 44,018,183	\$ 45,831,621	\$ 1,813,438

See accompanying note to the budgetary comparison schedule.

EAST STROUDSBURG AREA SCHOOL DISTRICT
NOTE TO THE BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2016

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 2015-2016 budget transfers.

EAST STROUDSBURG AREA SCHOOL DISTRICT
SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
LAST TWO FISCAL YEARS

	<u>2016</u>	<u>2015</u>
SCHOOL DISTRICT'S PROPORTION OF THE NET PENSION LIABILITY (ASSET)	<u>0.4816%</u>	<u>0.4727%</u>
SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)	<u>\$ 208,606,000</u>	<u>\$ 187,098,000</u>
SCHOOL DISTRICT'S COVERED-EMPLOYEE PAYROLL	<u>\$ 61,968,592</u>	<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>336.63%</u>	<u>310.19%</u>
THE PLAN'S FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	<u>45.64%</u>	<u>57.24%</u>

EAST STROUDSBURG AREA SCHOOL DISTRICT
SCHEDULE OF THE SCHOOL DISTRICT'S CONTRIBUTIONS
LAST TWO FISCAL YEARS

	<u>2016</u>	<u>2015</u>
CONTRACTUALLY REQUIRED CONTRIBUTION	\$ 15,775,000	\$ 12,215,000
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	<u>15,775,000</u>	<u>12,215,000</u>
CONTRIBUTION (EXCESS) DEFICIENCY	\$ <u>-</u>	\$ <u>-</u>
SCHOOL DISTRICT'S COVERED-EMPLOYEE PAYROLL	\$ <u>63,100,000</u>	\$ <u>59,585,366</u>
CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	<u>25.00%</u>	<u>20.50%</u>

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EAST STROUDSBURG AREA SCHOOL DISTRICT
POSTEMPLOYMENT BENEFITS OTHER THAN
PENSION FUNDING PROGRESS
YEAR ENDED JUNE 30, 2016

SCHEDULE OF FUNDING PROGRESS

Valuation Date	(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)
July 1,						
2010	\$ -	\$ 14,676,869	\$ 14,676,869	0%	\$ 54,168,712	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%

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***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, 2016, 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 _____.

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.

Oaks, Pennsylvania

***Independent Auditors' Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of
Federal Awards in Accordance With the Uniform Guidance***

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) *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, 2016. The 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 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 the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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.

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

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, 2016.

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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.

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

Report on Schedule of Expenditures of Federal Awards Required By the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the East Stroudsburg Area School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the East Stroudsburg Area School District's basic financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (the Uniform Guidance) and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Oaks, Pennsylvania

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

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EAST STROUDSBURG AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

Federal Grantor/ 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, 2015	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at June 30, 2016	Passed Through to Subrecipients
U.S. DEPARTMENT OF EDUCATION										
Impact Aid	84.041	N/A	July 1, 2015 to June 30, 2016	\$ 506,753	\$ 506,753	\$ -	\$ 506,753	\$ 506,753	\$ -	\$ -
Passed through the Pennsylvania Department of Education										
Title I	84.010	013-080129	July 1, 2014 to September 30, 2015	1,365,637	437,558	110,464	327,094	327,094	-	-
Title I	84.010	013-080129	July 1, 2015 to September 30, 2016	1,457,341	974,263	-	929,514	929,514	(44,749)	-
TOTAL TITLE I					1,411,821	110,464	1,256,608	1,256,608	(44,749)	-
Title II, Improving Teacher Quality 14-15	84.367	020-140129	July 1, 2014 to September 30, 2015	197,732	52,517	39,050	13,467	13,467	-	-
Title II, Improving Teacher Quality 15-16	84.367	020-140129	July 1, 2015 to September 30, 2016	197,445	145,005	-	170,045	170,045	25,040	-
TOTAL TITLE II					197,522	39,050	183,512	183,512	25,040	-
Title III, Language Instruction 14-15	84.365	010-140129	July 1, 2014 to September 30, 2015	29,085	5,817	5,817	-	-	-	-
Title III, Language Instruction 15-16	84.365	010-140129	July 1, 2015 to September 30, 2016	32,994	24,196	-	24,007	24,007	(189)	-
TOTAL TITLE III					30,013	5,817	24,007	24,007	(189)	-
Keystone to Opportunity	84.371	143-130129	October 1, 2014 to September 30, 2015	228,585	19,048	(45,146)	64,194	64,194	-	-
Keystone to Opportunity	84.371	143-130129	October 1, 2015 to September 30, 2016	240,014	200,012	-	150,725	150,725	(49,287)	-
TOTAL CFDA 84.371					219,060	(45,146)	214,919	214,919	(49,287)	-
Public Welfare Access	93.778	N/A	July 1, 2014 to September 30, 2015	107,037	20,055	20,055	-	-	-	-
Public Welfare Access	93.778	N/A	July 1, 2015 to September 30, 2016	74,800	50,029	-	95,949	95,949	45,920	-
TOTAL CFDA 93.778					70,084	20,055	95,949	95,949	45,920	-
SUBTOTAL FORWARD					\$ 2,435,253	\$ 130,240	\$ 2,281,748	\$ 2,281,748	\$ (23,265)	\$ -

**EAST STROUDSBURG AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016**

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, 2015	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at June 30, 2016	Passed Through to Subrecipients
U.S. DEPARTMENT OF EDUCATION					\$ 2,435,253	\$ 130,240	\$ 2,281,748	\$ 2,281,748	\$ (23,265)	\$ -
SUBTOTAL FORWARDED										
Passed through the Colonial Intermediate Unit										
Special Education - Grants to the States (I.D.E.A.)	84.027	N/A	July 1, 2014 to June 30, 2015	1,133,116	436,111	436,111	-	-	-	-
Special Education - Grants to the States (I.D.E.A.)	84.027	N/A	July 1, 2015 to June 30, 2016	981,342	870,823	-	981,342	981,342	110,519	-
Special Education - Grants to the States (I.D.E.A.)	84.027	N/A	July 1, 2015 to June 30, 2016	3,807	3,807	-	3,807	3,807	-	-
Special Education - Grants to the States (I.D.E.A.)	84.027	N/A	July 1, 2015 to June 30, 2016	4,500	-	-	4,500	4,500	4,500	-
Special Education - Grants to the States (I.D.E.A.)	84.027	N/A	July 1, 2015 to June 30, 2016	10,000	-	-	10,000	10,000	10,000	-
School Based Behavioral Health	84.027	N/A	July 1, 2015 to June 30, 2016	10,000	-	-	10,000	10,000	10,000	-
TOTAL SPECIAL EDUCATION CLUSTER					1,310,741	436,111	1,009,649	1,009,649	135,019	-
Old Dominion University Research Foundation	84.411A	N/A	July 1, 2015 to June 30, 2016	12,000	-	10,306	1,694	1,694	12,000	-
Race to the Top	84.413A	N/A	July 1, 2014 to June 30, 2015	68,226	2,058	-	4,292	4,292	2,234	-
TOTAL U.S. DEPARTMENT OF EDUCATION					3,748,052	576,657	3,297,383	3,297,383	125,988	-
U.S. DEPARTMENT OF AGRICULTURE										
Passed through the Pennsylvania Department of Education										
National School Breakfast Program 15-16	10.553	365-367	July 1, 2015 to June 30, 2016	N/A	513,348	26,562	559,358	559,358	72,572	-
National School Lunch Program 15-16	10.555	362	July 1, 2015 to June 30, 2016	N/A	1,523,186	73,761	1,644,689	1,644,689	195,264	-
U.S.D.A. Donated Commodities	10.555	N/A	July 1, 2015 to June 30, 2016	N/A	243,577	(148,304)	291,359	291,359	(100,522)	-
TOTAL CHILD NUTRITION CLUSTER					2,280,111	(47,981)	2,495,406	2,495,406	167,314	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE					2,280,111	(47,981)	2,495,406	2,495,406	167,314	-
TOTAL FEDERAL AWARDS					\$ 6,028,163	\$ 528,676	\$ 5,792,789	\$ 5,792,789	\$ 293,302	\$ -

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, 2016

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.

NOTE D - PROGRAM DISCLOSURES

U.S. Department of Education

Funds passed through the Pennsylvania Department of Education under Title I are used primarily to provide education to economically disadvantaged children. Funds received under other grants are used to support instructional programs.

U.S. Department of Agriculture

Funds passed through the Pennsylvania Departments of Education and Agriculture are used to provide nutritional meals to economically disadvantaged children.

NOTE E - INDIRECT COST RATES

The School District has not elected to use the 10% de minimis indirect cost rate as allowed in the Uniform Guidance, Section 414.

EAST STROUDSBURG AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: **Unmodified**

Internal control over financial reporting:

Significant deficiencies identified: **No**

Significant deficiencies identified that are considered to be material weaknesses: **No**

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

Federal Awards

Internal control over major programs:

Significant deficiencies identified: **No**

Significant deficiencies identified that are considered to be material weaknesses: **No**

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

Any audit findings disclosed that are required to be reported in accordance with the Uniform Grant Guidance: **No**

Identification of major programs:

<u>Program</u>	<u>CFDA</u>
Child Nutrition Cluster	10.553, 10.555

The threshold used for distinguishing Types A and B programs was \$750,000.

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

B. FINDINGS - FINANCIAL STATEMENT 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, 2016

None.

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