

PALMYRA AREA SCHOOL DISTRICT

FINANCIAL REPORT

JUNE 30, 2017

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1 - 3
Management's Discussion and Analysis	4 - 21
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	22
Statement of Activities	23
Fund Financial Statements:	
Balance Sheet - Governmental Funds	24
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	25
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	26
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	27
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	28
Statement of Net Position - Proprietary Fund - Food Service	29
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund - Food Service	30
Statement of Cash Flows - Proprietary Fund - Food Service	31
Statement of Fiduciary Net Position	32
Statement of Changes in Fiduciary Net Position - Consolidated Scholarship Trust Fund	33
Notes to Financial Statements	34 - 64

CONTENTS (Continued)

REQUIRED SUPPLEMENTARY INFORMATION	
Required Supplementary Information - Post-Employment Benefits Plan	65
Required Supplementary Information - Schedule of District's Proportionate Share of the Net Pension Liability	66
Required Supplementary Information - Schedule of District's Contributions	67

SUPPLEMENTARY INFORMATION	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	68 - 69
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance; as Required by the Uniform Guidance	70 - 71
Schedule of Findings and Questioned Costs	72 - 73
Schedule of Expenditures of Federal Awards	74 - 75
Notes to Schedule of Expenditures of Federal Awards	76
Summary Schedule of Prior Year's Audit Findings	77

INDEPENDENT AUDITOR'S REPORT

Board of School Directors
Palmyra Area School District
Palmyra, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the Palmyra Area School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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 Palmyra Area School District, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 21, and the required supplementary information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2017, on our consideration of the Palmyra 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 Palmyra Area School District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Boyer & Ritten". The signature is written in black ink and is centered on the page.

Camp Hill, Pennsylvania
December 4, 2017

**PALMYRA AREA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2017**

This discussion and analysis of Palmyra Area School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. We encourage readers to consider the information presented here in conjunction with the additional information furnished in the basic financial statements and notes to the financial statements.

Financial Highlights

- The liabilities of Palmyra Area School District exceeded its assets at the close of the most recent fiscal year by \$26.4 million (*net position*). The government's total net position decreased by \$56,857. Implementation of GASB No. 68 in 2014-15 requires the District to recognize the obligation and deferred inflows and outflows resulting from the proportionate share of the PSERS net pension liability. 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. This is described in more detail in Footnote 8 of the financial statements. GASB 68 has had a significant impact on School Districts across the state. If the pension liability were not recorded under GASB 68, the Palmyra Area School District would have a positive net \pm position of \$32.5 million as of June 30, 2017.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$4,140,759 or 8.89 percent of the total general fund expenditures including transfers out for debt service. Unassigned fund balance is the term for unreserved, undesignated fund balance under Governmental Accounting Standards Board (GASB) Statement No. 54. The adoption of this statement on fund-balance classifications is explained further in the section on Governmental Funds. The policy of the Board of Directors and management is to maintain an unassigned fund balance of 4-8% of budgeted general fund expenditures. Act 48 of 2003 places limits on unassigned fund balance. A school district may not approve an increase in real property taxes unless it has adopted a budget that includes an estimated ending unassigned fund balance of less than or equal to 8% of its total budgeted expenditures (for total budgets of \$19 million or more). Long-range projections predict a reduction in unassigned fund balance to within the targeted range.
- Total revenues for the School District's General Fund exceeded expenditures by \$1,257,815. The 2016-17 budget reflected expenditures in excess of revenues in the amount of \$493,453, indicating a planned reduction in unreserved fund balance to balance the budget.
- The actual revenues were approximately \$1,136,000 higher than budgeted. Earned income taxes and real estate transfer taxes were higher than anticipated by \$409,000 and 231,000, respectively. State subsidies were higher than budgeted by \$356,000 due predominantly to final basic education and special education subsidies finalized after budget adoption. The District has continued a practice of budgeting conservatively for state and federal subsidies due to uncertainty and delays in the adoption of state budgets.
- The actual expenditures were approximately \$615,000 lower than budgeted due to favorable variances in medical insurance expenses and unspent budgetary reserve funds. The District changed to a self-insured plan effective July 1, 2016 which resulted in savings from the budget which was based on the COBRA equivalent rate for premiums.
- On May 11, 2017, the School District approved a revised 2016-17 general fund budget to reflect one-time revenues from a settlement of prior year earned income taxes and an expenditure for a transfer to the Capital Projects Fund in the amount of \$466,665 for one-time capital projects, instructional supplies and equipment.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the basic financial statements of Palmyra Area School District. The School District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the School District's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the School District's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Palmyra Area School District is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the School District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Palmyra Area School District include most of the School District's basic services, such as regular and special education, administration, and transportation. Property taxes and formula based state aid finance most of these activities. The Food Service Fund is the sole business-type activity for Palmyra Area School District.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Palmyra Area School District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the School District can be divided into three categories; governmental funds, proprietary funds and fiduciary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances provide reconciliations to facilitate this comparison between *governmental funds* and *governmental activities*.

Proprietary funds. Palmyra Area School District maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. Palmyra Area School District uses an enterprise fund to account for its Food Service Fund. *Internal service funds* (the other type of proprietary fund) are used to report activities that provide supplies and services for the government's other programs and activities. The School District currently does not have any internal service funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Food Service Fund, which is considered to be a major fund of the School District.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the operations of Palmyra Area School District. The accounting used for fiduciary funds is much like that used for proprietary funds.

Palmyra Area School District maintains two fiduciary funds, a Consolidated Scholarship Trust Fund and a Student Activities Fund.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*.

Government-wide Financial Analysis

Net Position. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Palmyra Area School District, liabilities exceeded assets by \$26,374,355, at the close of the most recent fiscal year. The government's total net position decreased by \$56,857. Implementation of GASB No. 68 in 2014-15 required the District to recognize the obligation and deferred inflows and outflows resulting from the proportionate share of the PSERS net pension liability. 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. This is described in more detail in Note 8 of the financial statements.

By far the largest portion of the School District's assets reflects its investment in capital assets (e.g. land, buildings, furniture and equipment, construction in progress). Palmyra Area School District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. The largest portion of the School District's liabilities is its long-term debt for general obligation bonds used to finance building improvements and other capital projects. The second largest liability is the net pension liability recorded with the implementation of GASB No. 68 and more fully described in Note 8 in the financial statements. It should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The Capital Projects Funds Balance is restricted to pay for capital improvements.

An additional portion of the School District's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position may be used to meet the government's ongoing obligations.

The Net Position as of June 30, 2016 and June 30, 2017, for Palmyra Area School District is summarized below in Table 1. At the end of the current fiscal year, the School District reports negative balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business type activities due to the Net Pension Liability. Current assets increased due to an increase in Cash and Investments due to proceeds of \$13.8 million from the Series of 2017 General Obligation Bonds issued for Phase I of the Middle School renovations. Capital assets increased due to the related Construction in Progress less depreciation on existing fixed assets. Deferred Outflows less Deferred Inflows increased as a result of recording deferred amounts on the pension liability. Current liabilities and long-term debt for bonds payable outstanding increased due to the bonds payable for the Series of 2017.

Table 1
Palmyra Area School District
Net Position
(in thousands of dollars)
June 30, 2016 and 2017

	Governmental Activities		Business-Type Activities		Total School District		Percentage Change 2015-16
	2016	2017	2016	2017	2016	2017	
Current and other assets	\$ 17,346	\$ 30,770	\$ 216	\$ 424	\$ 17,562	\$ 31,194	77.6%
Capital assets	75,348	78,722	51	44	75,399	78,766	4.5%
Total assets	\$ 92,694	\$ 109,492	\$ 267	\$ 468	\$ 92,961	\$ 109,960	18.3%
Deferred outflows of resources	\$ 6,864	\$ 15,563	\$ 156	\$ 372	\$ 7,020	\$ 15,935	127.0%
Current and other liabilities	\$ 5,148	\$ 9,804	\$ 54	\$ 211	\$ 5,202	\$ 10,015	92.5%
Long-term liabilities	119,477	140,070	1,278	1,569	120,755	141,639	17.3%
Total liabilities	\$ 124,625	\$ 149,874	\$ 1,332	\$ 1,780	\$ 125,957	\$ 151,654	20.4%
Deferred inflows of resources	\$ 375	\$ 601	\$ 8	\$ 14	\$ 383	\$ 615	60.6%
Net Position							
Net investment in							
capital assets	\$ 24,297	\$ 26,284	\$ 51	\$ 44	\$ 24,348	\$ 26,328	8.1%
Unrestricted	(49,740)	(51,704)	(967)	(998)	(50,707)	(52,702)	3.9%
Total net position	\$ (25,443)	\$ (25,420)	\$ (916)	\$ (954)	\$ (26,359)	\$ (26,374)	0.1%

Changes in Net Position. Comparative results of two years' operations as a whole are reported in the Statement of Activities in the basic financial statements. Table 2 takes the information from that Statement and rearranges it slightly so you can see total revenues for the year. The two largest general revenues are the formula based state aid received from the Commonwealth of Pennsylvania and the local taxes assessed to property owners. Total revenues increased by 5.1% due to a real estate tax increase of 2.96%, growth in state subsidies and other local taxes, and the one-time revenues from the settlement of prior year earned income taxes. Total expenditures increased by 8.1% from 2015-16 due to contractual salary increases, positions added to address enrollment growth, mandatory retirement contributions, and transfers to the Capital Projects Fund.

Table 2
Palmyra Area School District
Changes in Net Position
(in thousands of dollars)
June 30, 2016 and 2017

	Governmental Activities		Business-Type Activity		Total School District		Percentage Change 2015-16
	2016	2017	2016	2017	2016	2017	
Revenues							
Program revenues							
Charges for services	\$ 278	\$ 272	\$ 886	\$ 862	\$ 1,164	\$ 1,134	-2.6%
Operating grants and contributions	7,992	8,752	632	642	8,624	9,394	8.9%
Capital grants and contributions	95	85	-	-	95	85	-10.5%
General revenues							
Property taxes	26,107	27,248	-	-	26,107	27,248	4.4%
Formula-based state aid	6,460	6,688	-	-	6,460	6,688	3.5%
Other	4,252	4,540	1	5	4,253	4,545	6.9%
Total revenues	45,184	47,585	1,519	1,509	46,703	49,094	5.1%
Expenses							
Instruction	28,053	30,321	-	-	28,053	30,321	8.1%
Instructional student support	3,801	4,706	1,519	1,589	5,320	6,295	18.3%
Admin. and financial support	4,417	4,665	-	-	4,417	4,665	5.6%
Operations and maint. of plant svcs.	3,417	3,603	-	-	3,417	3,603	5.4%
Pupil transportation	1,347	1,405	-	-	1,347	1,405	4.3%
Interest on long-term debt	1,848	1,687	-	-	1,848	1,687	-8.7%
Other	1,051	1,175	-	-	1,051	1,175	11.8%
Total expenses	43,934	47,562	1,519	1,589	45,453	49,151	8.1%
Change in net position	\$ 1,250	\$ 23	\$ -	\$ (80)	\$ 1,250	\$ (57)	

Financial Analysis of the Government's Funds

As noted earlier, Palmyra Area School District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental funds. The focus of the School District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the School District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the School District's governmental funds reported combined ending fund balances of \$20,414,890, an increase of \$9,230,228 in comparison with the prior year. Approximately 20% of this total amount (\$4,140,759) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is either *restricted, committed or assigned* based on the applicable spending constraints under GASB Statement No. 54.

The District changed its presentation of governmental funds and fund balance classifications to adopt GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective July 1, 2010. The Statement enhances the usefulness of fund balance information by providing clearer fund-balance classifications and clarifies the existing governmental-fund type definitions. The Statement establishes fund-balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources. The fund types and fund balance classifications being used by the District are described in Note 1 to the Financial Statements.

The restricted fund balance of \$13,618,386 in the Capital Projects Funds is designated for capital improvement projects, including Middle School renovations, an addition to address enrollment growth, and a guaranteed energy savings project at Forge Road Elementary School. This increased by \$13.8 million for the amount of loan proceeds for the first of two anticipated general obligation bonds to complete these projects. A committed fund balance has been board approved and recorded in the amount of \$1,485,000 to provide for future increases in mandated retirement contributions. An assigned fund balance in the amount of \$252,390 is the remainder of a rate stabilization fund established to phase in the impact of tax appeals following the countywide reassessment completed in 2014. As of June 30, 2017, an assigned fund balance was recorded in the amount of \$800,000 as a reserve for medical insurance claims. Beginning July 1, 2016, the District entered into an agreement for self-insurance of its medical benefits. A reserve fund is necessary to provide stabilization for the anticipated fluctuation in claims expense (See Footnote 12). This reserve was increased by \$440,000 from savings in medical insurance expenditures during the 2016-17 fiscal year.

The General Fund is the chief operating fund of the Palmyra Area School District and provides 100% of the unassigned fund balance. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 8.89% of total General Fund expenditures, including transfers out for debt service.

Proprietary funds. The School District's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. As of the end of the current fiscal year, the negative net position of the proprietary fund - Food Service was (\$954,462) a decrease of \$37,732. The implementation of GASB No. 68 in 2014-15 has also significantly impacted the proprietary fund. The decrease in net position is caused by the GASB No. 68 pension expense of \$81,000 offset by a prior period adjustment of \$42,185. A retroactive adjustment was made to Net Position to record a reduction in utilities expense related to a change in indirect cost calculation in the food service fund (See Footnote 14). The change in net position from current year operations is an increase of \$1,083. The net position of the Food Service fund would be a positive \$228,538, without the liability for its share of the PSERS pension liability. The Management continually reviews the operations of the Food Service Fund and the user charges (lunch prices) to ensure that there are adequate cash reserves to meet operating needs and that the Food Service Fund is a break even operation.

Beginning with the 2017-18 school year, the District outsourced its cafeteria employees to Nutrition, Inc. as a means to save labor expenses and sustain break even operations. This will also significantly reduce the pension liability for the Food Service Fund as of June 30, 2018.

General Fund Budgetary Highlights

During the fiscal year, the Board of School Directors authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the School District. All adjustments are again confirmed at the time the annual audit is accepted.

Departmental differences between the revised, budgeted revenues and expenses and the final financial statements can be briefly summarized as follows:

- The actual revenues were approximately \$1,136,000 higher than budgeted. Earned income taxes and real estate transfer taxes were higher than anticipated by \$409,000 and 231,000, respectively. State subsidies were higher than budgeted by \$356,000 due predominantly to final basic education and special education subsidies finalized after budget adoption. The District has continued a practice of budgeting conservatively for state and federal subsidies due to uncertainty and delays in the adoption of state budgets.
- The actual expenditures were approximately \$615,000 lower than budgeted due to favorable variances in medical insurance expenses and unspent budgetary reserve funds. The District changed to a self-insured plan effective July 1, 2016, which resulted in savings from the budget which was based on the COBRA equivalent rate for premiums.
- On May 11, 2017, the School District approved a revised 2016-17 general fund budget to reflect one time revenues from a settlement of prior year earned income taxes and an expenditure for a transfer to the Capital Projects Fund in the amount of \$466,665 for one time capital projects, instructional supplies and equipment.

The revised General Fund budget planned for a decrease in fund balance of \$493,453. Due to the favorable revenue and expenditure variances, the General Fund unassigned fund balance increased by \$814,834. Maintenance of a healthy fund balance is especially important during periods of enrollment growth and for bond ratings in anticipation of future borrowing for renovations projects.

The committed fund balance for future retirement contributions remains unchanged at \$1,485,000. As of June 30, 2017, the assigned fund balance for tax appeals is \$252,390 for outstanding appeals following the countywide reassessment. As of June 30, 2017, an assigned fund balance was recorded in the amount of \$800,000 as a reserve for medical insurance claims. Beginning July 1, 2016, the District entered into an agreement for self-insurance of its medical benefits. A reserve fund is necessary to provide stabilization for the anticipated fluctuation in claims expense (See Footnote 12). The reserve represents approximately two months of claims, stop loss insurance, and administrative expenses.

The policy of the Board of Directors and management is to maintain an unassigned fund balance of 4-8% of budgeted General Fund expenditures. As of June 30, 2016, the unassigned fund balance was \$4,140,759, or 8.89% of General Fund expenditures. Long range projections predict a reduction in unassigned fund balance to be within the targeted range.

Capital Asset and Debt Administration

Capital assets. The School District's investment in capital assets for its governmental and business-type activities as of June 30, 2017 and 2016, is summarized in Table 3 below. The District's total capital assets, net of depreciation, increased by 4.5% from 2016 due to Construction in Progress for the Middle School renovations project.

The District entered into a Guaranteed Energy Savings Agreement with Reynolds Building Solutions for Phase I of a Middle School renovations project including infrastructure improvements and a new roof for \$9.8 million with completion in August of 2017. Phase II will begin in November of 2017 and will include a 12-classroom addition and an expansion of the cafeteria to address existing enrollment growth. The total contract for Phase II is \$6.7 million and completion is anticipated for the start of the 2018-19 school year.

Significant savings were realized by using a hybrid construction approach combining guaranteed energy savings agreements and a traditional bid project for the addition. The District attributes the savings to a compacted design-build schedule and a scope for existing renovations that retained fixtures that were well maintained, rather than replacing everything.

On September 30, 2009, the School District purchased 21 acres of land on Lingle Avenue in North and South Londonderry Townships for the construction of a fourth elementary school and kindergarten center at an estimated total cost of \$24 million. Lingle Avenue Elementary School was occupied for the start of the 2011-12 school year. The School District received LEED (Leadership in Energy and Environmental Design) silver certification from the U.S. Green Building Council for the project, which was estimated to increase state reimbursement by \$420,000.

Renovations to the Palmyra High School in the amount of \$33 million were completed in 2007. The project included the addition of a two-story classroom wing resulting in 60 new or renovated classrooms, a net addition of 20 classrooms to address enrollment growth. Other key features are new site circulation, expanded parking, a renovated auditorium, a new and enlarged media center, a new kitchen and cafeteria for seating 400 students, upgraded Administration areas, more secure entryways, new electrical, plumbing, and HVAC systems, and a new and enlarged maintenance building.

Renovations to the Pine Street Elementary School in the amount of \$12.1 million were completed in 2004. The project included the addition of five regular classrooms to accommodate growth, three additional special education classrooms and offices for the Special Education Administrative staff, a separate full-size gymnasium, and a new media center.

The District is in the planning stages for renovations to Forge Road and Northside Elementary Schools, the other two of the District's four elementary schools. Both schools have had recent roofing projects completed. The HVAC system at Northside was replaced in 2012 as part of a guaranteed energy savings project. Forge Road is in need of infrastructure upgrades and a redesign of traffic patterns for student drop-off and pick-up. The District has applied for transportation grants to fund a portion of these renovations, estimated at a total cost of \$7.7 million.

Through long-term planning, Palmyra Area School District has demonstrated its commitment to maintaining functional educational facilities that meet the needs of today's students, while also considering what is affordable for the community.

Table 3
Palmyra Area School District
Capital Assets - Net of Depreciation
(in thousands of dollars)
June 30, 2016 and 2017

	Governmental Activities		Business-Type Activities		Total School District		Percentage Change 2015-16
	2016	2017	2016	2017	2016	2017	
Land and improvements	\$ 7,004	\$ 7,029	\$ -	\$ -	\$ 7,004	\$ 7,029	0.4%
Buildings and building improvements	65,001	62,725	-	-	65,001	62,725	-3.5%
Furniture and equipment	3,231	2,816	51	44	3,282	2,860	-12.9%
Construction-in-progress	111	6,152	-	-	111	6,152	5442.3%
Total capital assets - net of depreciation	\$ 75,347	\$ 78,722	\$ 51	\$ 44	\$ 75,398	\$ 78,766	4.5%

Long-Term Debt. At the end of the current fiscal year, Palmyra Area School District had total bonds payable outstanding of \$66,452,897. The total debt increased by \$9.2 million due the issuance of new debt less principal repayments made during the fiscal year. During 2016-17, the District issued General Obligation Note - Series of 2017, in an aggregate principal amount of \$12,370,000, at a premium. The proceeds of \$13.8 million will be used for Phase I of the Middle School renovations project.

Academic Program & Student Achievement

The Palmyra Area School District performed quite well academically during the 2016-17 school year. The District's School Performance Profiles, which incorporate student achievement on PSSAs and Keystone Exams, student growth via the PVAAS System, and other components such as graduation and attendance rates were released in October 2017 by the Pennsylvania Department of Education. Palmyra Area High School maintained an SPP score in the high 90s at 97.20. This marks the fifth consecutive year where the high school SPP was above 90. Only 5% of the more than 2,000 high schools in the Commonwealth earned an SPP over a 90.

Forge Road Elementary - 77.30
Lingle Avenue Elementary - 95.90
Northside Elementary - 82.70
Pine Street Elementary - 88.90
Palmyra Area Middle School - 71.70
Palmyra Area High School - 97.50

In the 2014-2015 school year, Pennsylvania fully implemented PSSA testing based upon the PA-Core Standards and continued the new PSSA's during the 2016-2017 school year. The previous Reading and Writing assessments were combined into one assessment; the English/Language Arts PSSA.

The PSSA proficient/advanced performances in the area of **English/Language Arts** were as follows:

Forge Road Elementary - 79.2%
Lingle Avenue Elementary – 85.0%
Northside Elementary - 71.8%
Pine Street Elementary – 82.7%
Palmyra Area Middle School – 74.6%

The PSSA proficient/advanced performances in the area of **Math** were as follows:

Forge Road Elementary – 68.2%
Lingle Avenue Elementary – 76.7%
Northside Elementary – 59.7%
Pine Street Elementary – 65.7%
Palmyra Area Middle School - 50.0%

These levels of performance are lower than the district has grown accustomed to and are due to the changes in the PSSA assessment alignment to the PA Core Standards.

The PSSA proficient/advanced performances in the area of **Science** were as follows:

Forge Road Elementary – 89.9%
Lingle Avenue Elementary – 91.3%
Northside Elementary – 91.3%
Pine Street Elementary – 95.7%
Palmyra Area Middle School – 64.0%

On Keystone Exams, our students performed as follows:

Algebra

High School – 86.14%

Literature

High School – 89.14%

Biology

High School – 86.47%

The District's graduation rate was 94.84% and the attendance rates at all of the District's schools were above 94%.

The District's administrative team and Board worked to develop a set of guiding principles during the 2011-12 school year. The principles have framed the decisions of the District in the years since then, in order to provide a positive and productive learning experience for students while maintaining a fiscally responsible environment. These principles are as follows:

The Palmyra Area School District...

1. ... will always support core academic subjects (Reading, Writing, Math, Science, Social Studies) as District priorities.
2. ... will provide evidence-based interventions in the areas of literacy and math for targeted students at every grade level, realizing that a strong K-2 literacy foundation is imperative.
3. ... will adhere to all federal and state mandates.
4. ... will allocate resources to those non-core academic electives that meet the needs of the largest number of students while maintaining a balance of offerings.
5. ... will create learning environments that better prepare students with 21st century skills (inquiry, research, collaboration, presentation, reflection, innovation) by:
 - a. integrating them across the students' Palmyra experience
 - b. utilizing technology resources as tools for teaching and learning.
6. ... realize that to improve teaching and learning and meet our goals as a District, it is vital that we will maintain high-quality:
 - a. cohesive, strong leadership
 - b. professional development related to our district vision.
7. ... recognize the need to:
 - a. examine other cost efficiency measures
 - b. rely on data to inform our decisions
 - c. research efficient, collaborative solutions with other educational entities, local programs, and area organizations before any student programs are cut.
8. ... will offer co-curricular activities for all students in a (more) efficient and cost-effective manner.
9. ... will create and maintain physical learning environments (facilities) that are safe and cost effective with attention to the environmental impact.

Based on these guiding principles and the current performance of our schools, the following are areas of emphasis for the upcoming school years:

- . Educator Effectiveness (including teacher and principal evaluation)
- . Keystone Exams (preparation of students)
- . Data-Driven Decision Making (utilizing tools such as Data Blender, Study Island, etc.)
- . Focus on Literacy Instruction (through a balanced literacy approach at the elementary level and Literacy Design Collaborative at the secondary level)
- . 21st Century Learning Skills (including the integration of technology)

Economic Factors

The Standard and Poor's Rating Services has assigned the Palmyra Area School District a AA-underlying rating. Standard and Poor's cited that the AA- rating reflects the District's "stable and affluent residential tax base, the District's primary revenue source; maintenance of consistently strong general fund balance; good financial management practices; and moderate debt profile, with a rapid rate of amortization." Additional security for bonds is provided by the Commonwealth of Pennsylvania Act 150 School District Intercept Program. The Act provides for undistributed state aid to be diverted to bond holders in the event of default.

Under the Local Government Unit Debt Act, the School District's outstanding debt may not exceed 225% of the borrowing base. The borrowing base is defined as the average three years of total revenues as defined in the Act. The net debt of the Local Government Unit after the Series of 2017 issue was \$68,985,000. This leaves \$25,328,243 of available borrowing capacity out of the District's total debt limit of \$94,313,243. In the 2017-18 budget, the School District continues to make provisions for debt service for the Middle School renovations project and other capital projects at an estimated cost of \$25.5 million.

The School District's overall, debt burden is considered moderate by Standard and Poor's. This has resulted from carefully planned construction projects needed to keep up with growing enrollments. More data is provided on this topic in the Enrollment Trends section below. In tandem, Palmyra Area School District has demonstrated its commitment to controlling spending. In comparison to the 2015-16 per pupil costs in the Lancaster-Lebanon Intermediate Unit, Palmyra's cost-per-student of \$12,743 is the lowest among 22 school districts and significantly lower than the average of \$15,418. This comparison was prepared using the expenditures from the 2015-16 Annual Financial Report (AFR) submitted to the Department of Education.

In the last five years, the assessed value of real estate has grown by an average of 1.1% annually. This is a result of steady residential growth in the School District.

The Lebanon County Tax Assessment Office conducted a county-wide reassessment and adjusted assessed property values for the 2013-14 fiscal year. An assigned fund balance of \$252,390 as of June 30, 2017 was recorded to maintain a rate stabilization fund for anticipated tax appeals.

Act 1

Special Session Act 1 of 2006, the "Taxpayer Relief Act", approved by state legislators and signed into law by Governor Rendell on June 27, 2006, created a state-wide, property tax reduction program. Act 1 enacted sweeping changes to the way school taxes are imposed and how annual school budgets are adopted.

As required by Act 1, the Palmyra Area School District placed a question on the Spring of 2007 primary-election ballot asking voters if they wanted to increase the School District Earned Income Tax (EIT) for the purpose of generating revenues that would be used to reduce property tax rates for those who own eligible, homestead or farmstead property. This tax shift was overwhelmingly rejected by the voters.

Under Act 1, school districts have a new cap on any increase in the millage rate for property taxes. School districts must obtain voter approval, known as a back-end referendum, for millage rate increases that exceed the Act 1 Index. The indices for the Palmyra Area School District for its 2017-18 and 2018-19 budgets are 3.2% and 3.0%, respectively. Act 1, as recently revised by Act 25 of 2011, contains three exceptions to the back-end referendum for extraordinary costs or circumstances that are beyond the School District's control. The District was eligible for two of these exceptions for the 2017-18 General Fund Budget for increases in retirement contributions and special education costs. The District approved the maximum tax increase allowed of 6.32%, using the available exceptions, to provide for debt service, new positions and other budgetary increases driven by enrollment growth.

To accommodate the exception process and the potential for back-end referendum, an accelerated, budget timetable is required by Act 1. The earlier budget schedule increases the complexity of school districts' budgets since there is less actual data on which to base next year's costs, and state revenues have not been announced in the Governor's Budget.

In 2016-17, as part of Act 1 tax relief, the School District was awarded \$345,022 from gaming revenues to be used to reduce real estate taxes. Approved homestead and farmstead owners received a real estate tax reduction in the amount of \$53.

2017-18 Budget and Tax Rates

A two-year comparison of the General Fund Budget is provided in Table 4 below. The 2017-18 Budget reflects an increase in the real estate tax from 13.92 to 14.80 mills, an increase of 6.32%.

The 2017-18 Budget is balanced using \$17,000 of unassigned fund balance. Management projects that at the end of the 2017-18 fiscal year, the unassigned fund balance will be \$4 million or 8.0% of General Fund budgeted expenditures.

Highlights of the 2017-18 General Fund Budget are as follows:

Revenues

- Natural real estate tax growth was comparable to five-year trend at slightly over 1%. Earned income taxes and real estate transfer taxes remain steady.
- State basic education subsidies were increased by \$127,000 based on a review of prior year trends. State subsidies are typically not finalized by the legislature in time for the adoption of the District budget.
- The state retirement subsidy was increased by \$396,000 in conjunction with the budget increase in retirement expenditures of \$825,000. The state contribution is 50%.
- Federal revenues were flat.

Expenditures

- Total expenditures increased by 5.6%.
- Total salaries were increased by 4.9% to provide for contractual increases in collective bargaining agreements and to fund 7 teaching positions, 1 Assistant Elementary Principal and 3 Special Education aides to address growth.
- An increase of \$336,000 in medical insurance reflects the annual trend in healthcare increases.
- An additional \$825,000 for retirement contributions based on a legislatively capped rate of 32.57%.
- Budgeted increase of approximately \$178,000 for debt service payments to finance the Middle School renovations and addition. Annual budgetary increases of \$178,000 for debt service are projected for the next four years.
- Special Education expenditures were increased by \$100,000 for tuition for new students.
- Cyber charter tuition expenditures were increased by \$100,000.

Table 4
Palmyra Area School District
General Fund Budget Summary
(in thousands of dollars)

	Approved Budget 2016-17	Approved Budget 2017-18	% Change
Revenues			
Local	\$ 32,353	\$ 34,557	6.81%
State	13,304	14,219	6.88%
Federal	1,053	1,052	-0.09%
Total revenues	\$ 46,710	\$ 49,828	6.68%
Expenditures			
Instructional	\$ 26,330	\$ 28,012	6.39%
Support services	12,759	13,768	7.91%
Operation of noninstructional services	1,025	1,045	1.95%
Building improvements	11	11	0.00%
Operating transfers out and debt service	6,879	6,809	-1.02%
Budgetary reserve	200	200	0.00%
Total expenditures	\$ 47,204	\$ 49,845	5.59%
Budgeted Use of Fund Balance	\$ 494	\$ 17	

Labor Relations

The “professional staff” of Palmyra Area School District is represented by the Palmyra Area Education Association, an affiliation of the Pennsylvania State Teachers Association (PSEA). This group, which represents approximately 249 of the School District’s 397 staff, has the responsibility of bargaining for these employees. This past year was the third year of a four-year agreement ending on August 31, 2018. Teacher salary increases averaged 2.5% in 2014-15; 2.0% in 2015-16 and 2016-17 and 2.75% in 2017-18. The District entered into an "Early Bird" contract extending the Agreement through August 31, 2021 with average salary increases of 3.0%, 3.0%, and 3.25%.

The “support staff” of Palmyra Area School District is represented by the Bakery, Confectionery, Tobacco Workers, and Grain Millers Union Local 464. This group represents approximately 117 clerical employees, custodial employees, maintenance employees, instructional and non-instructional assistants. This past year was the second year of a four-year contract ending on June 30, 2019 with average annual increases of 3.0%. Beginning with the 2017-18 school year, the District outsourced its cafeteria employees to Nutrition, Inc., thus reducing the number of District employees by 33.

Enrollment Trends

Palmyra Area School District enrollment levels have been steadily climbing since 2002-03. Enrollment flattened from 2007-08 through 2011-12, likely due to the economy. 2012-13 and ongoing enrollment figures indicate signs of accelerated growth, averaging 2% annually over the past five years. 2017-18 enrollment remains flat.

Year	Total Enrollment	Projected Enrollment
2001-2002	2,682	
2002-2003	2,774	
2003-2004	2,901	
2004-2005	2,955	
2005-2006	3,057	
2006-2007	3,142	
2007-2008	3,214	
2008-2009	3,173	
2009-2010	3,245	
2010-2011	3,248	
2011-2012	3,263	
2012-2013	3,344	
2013-2014	3,367	
2014-2015	3,437	
2015-2016	3,515	
2016-2017	3,593	
2017-2018	3,601	3,652
2018-2019		3,696
2019-2020		3,736
2020-2021		3,771
2021-2022		3,801

The School District has routinely commissioned the Pennsylvania Economy League (PEL) to prepare an extensive study of demographics and community growth patterns in order to project enrollments with the most recent update completed in November of 2016. Based on live births, PEL predicts that total enrollment in the District will increase by 5.8% by 2021-22 to a total enrollment of 3,801. To date, the projected enrollments have proven to be a reliable planning tool.

Addressing the projected enrollment growth has been one of the most significant challenges facing Palmyra Area School District. As noted throughout this discussion and analysis, the District has a renovations project in progress at the Middle School which will result in an additional 12 classrooms to address overcrowding.

The District is in the planning stages of projects at two of the elementary schools with needs that include replacement of mechanical systems and improving safety. Plans are in place for bond issues totaling \$25.5 million to finance these projects.

Request for Information

This financial report is designed to provide a general overview of the finances of Palmyra Area School District for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Darcy Brenner-Smith, Director of Business Affairs, 1125 Park Drive, Palmyra, Pennsylvania, 17078.

PALMYRA AREA SCHOOL DISTRICT

**STATEMENT OF NET POSITION
June 30, 2017**

	Governmental Activities	Business-Type Activity	Total
Assets			
Cash and cash equivalents	\$ 1,477,213	\$ 298,108	\$ 1,775,321
Investments	24,448,030	-	24,448,030
Receivables	4,745,640	15,499	4,761,139
Prepaid expenses - other	98,608	84,352	182,960
Inventories	-	26,191	26,191
Capital assets			
Land and construction-in-progress (note 6)	13,180,864	-	13,180,864
Other capital assets, net of depreciation (note 6)	65,541,349	43,756	65,585,105
Total capital assets	<u>78,722,213</u>	<u>43,756</u>	<u>78,765,969</u>
Total assets	<u><u>\$ 109,491,704</u></u>	<u><u>\$ 467,906</u></u>	<u><u>\$ 109,959,610</u></u>
Deferred Outflows of Resources			
Deferred amounts on pension liability	\$ 15,167,000	\$ 372,000	\$ 15,539,000
Deferred amounts on refunding debt	395,922	-	395,922
Total deferred outflows of resources	<u><u>\$ 15,562,922</u></u>	<u><u>\$ 372,000</u></u>	<u><u>\$ 15,934,922</u></u>
Liabilities			
Internal balances	\$ (155,041)	\$ 155,041	\$ -
Accounts payable and accrued expenses	9,932,495	23,170	9,955,665
Unearned revenues	25,964	33,157	59,121
Long-term liabilities			
Due within one year (note 7)	4,785,000	-	4,785,000
Due in more than 1 year (note 7)	135,285,101	1,569,000	136,854,101
Total long-term liabilities	<u>140,070,101</u>	<u>1,569,000</u>	<u>141,639,101</u>
Total liabilities	<u><u>\$ 149,873,519</u></u>	<u><u>\$ 1,780,368</u></u>	<u><u>\$ 151,653,887</u></u>
Deferred Inflows of Resources			
Deferred amounts on pension liability	\$ 601,000	\$ 14,000	\$ 615,000
Net Position			
Net investment in capital assets	\$ 26,283,624	\$ 43,756	\$ 26,327,380
Unrestricted	(51,703,517)	(998,218)	(52,701,735)
Total net position	<u><u>\$ (25,419,893)</u></u>	<u><u>\$ (954,462)</u></u>	<u><u>\$ (26,374,355)</u></u>

See Notes to Financial Statements.

PALMYRA AREA SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
Year Ended June 30, 2017**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activity	Total
Governmental Activities:							
Instruction	\$ 30,321,104	\$ 135,673	\$ 6,517,764	\$ -	\$ (23,667,667)	\$ -	\$ (23,667,667)
Instructional student support	4,705,519	-	546,542	-	(4,158,977)	-	(4,158,977)
Administration and financial support	4,665,416	-	442,296	-	(4,223,120)	-	(4,223,120)
Operation and maintenance of plant services	3,602,886	32,585	220,312	84,508	(3,265,481)	-	(3,265,481)
Pupil transportation	1,405,385	-	722,621	-	(682,764)	-	(682,764)
Student activities	1,172,612	103,895	104,342	-	(964,375)	-	(964,375)
Community services	2,500	-	-	-	(2,500)	-	(2,500)
Interest on long-term debt	1,686,597	-	198,416	-	(1,488,181)	-	(1,488,181)
Total governmental activities	47,562,019	272,153	8,752,293	84,508	(38,453,065)	-	(38,453,065)
Business-type activity:							
Food Service	1,589,093	862,295	641,844	-	-	(84,954)	(84,954)
Total School District	\$ 49,151,112	\$ 1,134,448	\$ 9,394,137	\$ 84,508	\$ (38,453,065)	\$ (84,954)	\$ (38,538,019)
General Revenues:							
Property taxes, levied for general purposes, net					\$ 27,248,162	\$ -	\$ 27,248,162
Public Utility Realty, Transfer, Earned Income, and Per Capita for General Purposes, Net					4,130,399	-	4,130,399
Grants, subsidies, and contributions not restricted					6,687,590	-	6,687,590
Investment earnings					179,677	1,272	180,949
Miscellaneous income					230,297	3,765	234,062
Total general revenues					38,476,125	5,037	38,481,162
Changes in net position					23,060	(79,917)	(56,857)
Net position - July 1, 2016 (as previously stated)					(25,442,953)	(916,730)	(26,359,683)
Prior period adjustment (see Note 14)					-	42,185	42,185
Net position - July 1, 2016 (restated)					(25,442,953)	(874,545)	(26,317,498)
Net position - June 30, 2017					\$ (25,419,893)	\$ (954,462)	\$ (26,374,355)

See Notes to Financial Statements.

PALMYRA AREA SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2017

	General Fund	Capital Projects Funds	Debt Service Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 691,642	\$ 785,571	\$ -	\$ 1,477,213
Investments	8,838,794	15,609,236	-	24,448,030
Receivables				
Taxes - net	1,414,667	-	-	1,414,667
Federal subsidies	31,228	-	-	31,228
State subsidies	2,178,686	-	-	2,178,686
Other	71,102	61,204	-	132,306
Intergovernmental receivables	566,063	-	-	566,063
Due from other funds	300,150	690,269	-	990,419
Prepaid expenses	98,608	-	-	98,608
Total assets	\$ 14,190,940	\$ 17,146,280	\$ -	\$ 31,337,220
Liabilities				
Due to other funds	\$ 835,378	\$ -	\$ -	\$ 835,378
Intergovernmental payables	81,358	-	-	81,358
Accounts payable	550,202	3,527,894	-	4,078,096
Accrued salaries and benefits	5,163,270	-	-	5,163,270
Payroll deductions and withholdings	157,071	-	-	157,071
Unearned revenues	25,966	-	-	25,966
Total liabilities	6,813,245	3,527,894	-	10,341,139
Deferred Inflows of Resources				
Delinquent property taxes	581,191	-	-	581,191
Fund Balances				
Restricted for:				
Capital projects	-	13,618,386	-	13,618,386
Committed for:				
Retirement	1,485,000	-	-	1,485,000
Assigned for:				
Dental claims	19,747	-	-	19,747
Self-insurance medical claims	800,000	-	-	800,000
Tax appeals	252,390	-	-	252,390
Nonspendable	98,608	-	-	98,608
Unassigned	4,140,759	-	-	4,140,759
Total fund balances	6,796,504	13,618,386	-	20,414,890
Total liabilities deferred inflows of resources and fund balances	\$ 14,190,940	\$ 17,146,280	\$ -	\$ 31,337,220

See Notes to Financial Statements.

PALMYRA AREA SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION**

June 30, 2017

Total fund balances - governmental funds	\$ 20,414,890
Capital assets used in governmental activities are not financial resources, and therefore, are not reported as assets in governmental funds. The cost of assets is \$132,627,677, and the accumulated depreciation is \$53,905,464.	78,722,213
Federal subsidy for reimbursement of bond interest on qualified school construction bonds is not due to be received in the current period.	241,500
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 inflows of resources in the funds.	581,193
Taxes receivable from Lebanon County EIT that are not to be received in the current period.	181,190
The difference between the the reacquisition price and the net carrying amount of the refunded debt is a deferred outflow of resources, which is not reported in the funds.	395,922
Deferred inflows and outflows or resources related to pensions are applicable to future periods and, therefore are not reported within the funds. Deferred inflows and outflows related to pensions are as follows (see footnote for detail)	
Deferred inflows	(601,000)
Deferred outflows	15,167,000
Long-term liabilities, including bonds payable and compensated absences, 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	(64,680,000)
Accrued interest	(452,700)
Bond-issuance premium	(1,772,897)
Other post-employment benefits	(646,189)
Pension liability	(72,221,000)
Compensated absences	(750,015)
	(140,522,801)
Total net position - governmental activities	\$ (25,419,893)

See Notes to Financial Statements.

PALMYRA AREA SCHOOL DISTRICT

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

Year Ended June 30, 2017

	General Fund	Capital Projects Funds	Debt Service Fund	Total Governmental Funds
Revenues				
Local sources	\$ 33,126,008	\$ 108,554	\$ 40,768	\$ 33,275,330
State sources	13,659,793	-	-	13,659,793
Federal sources	1,060,742	-	-	1,060,742
Total revenues	47,846,543	108,554	40,768	47,995,865
Expenditures				
Instructional	25,604,095	-	-	25,604,095
Support services	12,837,827	161,826	-	12,999,653
Operation of noninstructional services	1,030,055	-	-	1,030,055
Capital outlay	12,402	6,502,430	-	6,514,832
Refunds of prior years' receipts	120,686	-	-	120,686
Debt service				
Principal	115,000	-	4,460,000	4,575,000
Interest	25,532	-	1,755,642	1,781,174
Other	106,270	-	-	106,270
Total expenditures	39,851,867	6,664,256	6,215,642	52,731,765
Excess (deficiency) of revenues over expenditures	7,994,676	(6,555,702)	(6,174,874)	(4,735,900)
Other Financing Sources (Uses)				
Operating transfers in	-	561,987	6,174,874	6,736,861
Operating transfers out	(6,736,861)	-	-	(6,736,861)
Proceeds from general long-term debt	-	13,966,128	-	13,966,128
Total other financing sources (uses)	(6,736,861)	14,528,115	6,174,874	13,966,128
Net changes in fund balances	1,257,815	7,972,413	-	9,230,228
Fund Balances:				
July 1, 2016	5,538,689	5,645,973	-	11,184,662
June 30, 2017	\$ 6,796,504	\$ 13,618,386	\$ -	\$ 20,414,890

See Notes to Financial Statements.

PALMYRA 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, 2017**

Net changes in fund balances - all governmental funds	\$ 9,230,228
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>	
<p>Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation in the period.</p>	
Capital outlays	6,887,698
Less depreciation expense	<u>(3,513,079)</u>
	3,374,619
<p>Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues increased by this amount this year.</p>	
	116,348
<p>Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. In addition, bond premiums, discounts, and refunding losses are recognized as interest throughout the lives of the loans rather than at the issuance of the bonds. The effects of the modifications for accrued interest and bond-issuance discounts and premiums are shown here.</p>	
	(20,423)
<p>Governmental funds report district pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.</p>	
District pension contributions	5,635,000
Cost of benefits earned net of employee contributions (pension expense)	(8,220,000)
<p>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. This amount represents the sum of compensated absences and other post-employment benefits.</p>	
	(174,450)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effects of issuance costs, premiums, discounts, and similar items when debt is first issued; 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.</p>	
Intermunicipal-agreement receivable	(527,134)
Issuance of long-term debt	(12,370,000)
Premium on issuance of long-term debt	(1,596,128)
Repayment of long-term debt	<u>4,575,000</u>
	<u>(9,918,262)</u>
Change in net position of governmental activities	\$ 23,060

See Notes to Financial Statements.

PALMYRA AREA SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2017**

	Budgeted Amounts		Actual	Variance with Final
	Original (As Amended)	Final		Budget Positive (Negative)
Revenues				
Local sources	\$ 32,353,132	\$ 32,353,132	\$ 33,126,008	\$ 772,876
State sources	13,303,536	13,303,536	13,659,793	356,257
Federal sources	1,053,588	1,053,588	1,060,742	7,154
Total revenues	46,710,256	46,710,256	47,846,543	1,136,287
Expenditures				
Instructional	26,330,132	25,840,143	25,604,095	236,048
Support services	12,758,298	13,159,462	12,837,827	321,635
Operation of noninstructional services	1,025,179	1,069,041	1,030,055	38,986
Capital outlay	11,448	12,402	12,402	-
Refunds of prior years' receipts	-	-	120,686	(120,686)
Debt service	248,302	367,488	246,802	120,686
Total expenditures	40,373,359	40,448,536	39,851,867	596,669
Excess of revenues over expenditures	6,336,897	6,261,720	7,994,676	1,732,956
Other Financing Uses				
Operating transfers out	(6,630,350)	(6,736,862)	(6,736,861)	1
Budgetary reserve	(200,000)	(18,311)	-	18,311
Total other financing uses	(6,830,350)	(6,755,173)	(6,736,861)	18,312
Net change in fund balance	\$ (493,453)	\$ (493,453)	1,257,815	\$ 1,751,268
Fund Balance:				
July 1, 2016			<u>5,538,689</u>	
June 30, 2017			<u>\$ 6,796,504</u>	

See Notes to Financial Statements.

PALMYRA AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION - PROPRIETARY FUND - FOOD SERVICE

June 30, 2017

Assets	
Cash and cash equivalents	\$ 298,108
Receivables	
Federal subsidies	8,573
State subsidies	748
Other	663
Intergovernmental receivables	5,515
Prepaid expenses	84,352
Inventories	26,191
Other capital assets, net of depreciation	43,756
Total assets	<u><u>\$ 467,906</u></u>
 Deferred Outflows of Resources	
Deferred amounts on pension liability	<u><u>\$ 372,000</u></u>
 Liabilities	
Internal balances	\$ 155,041
Accounts payable	23,170
Unearned revenues	33,157
Long-term liabilities - pension	1,569,000
Total liabilities	<u><u>\$ 1,780,368</u></u>
 Deferred Inflows of Resources	
Deferred amounts on pension liability	<u><u>\$ 14,000</u></u>
 Net Position	
Invested in capital assets	\$ 43,756
Unrestricted	(998,218)
Total net position	<u><u>\$ (954,462)</u></u>

See Notes to Financial Statements.

PALMYRA AREA SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
PROPRIETARY FUND - FOOD SERVICE
Year Ended June 30, 2017**

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Operating Revenues	
Sales	\$ 862,295
Other income	3,765
Total operating revenue	<u>866,060</u>
Operating Expenses	
Purchased services	743,135
Labor, taxes and benefits	738,589
Purchased property services	928
Purchased professional, technical and other services	99,504
Depreciation	6,937
Total operating expenses	<u>1,589,093</u>
Operating loss	(723,033)
Nonoperating Revenues	
Investment earnings	1,272
Federal and state subsidies	641,844
Total non-operating revenues	<u>643,116</u>
Change in net position	(79,917)
Net Position - July 1, 2016 (as previously reported)	(916,730)
Prior period adjustment (see Note 14)	42,185
Net Position - July 1, 2016 (restated)	<u>(874,545)</u>
Net Position - June 30, 2017	<u>\$ (954,462)</u>

See Notes to Financial Statements.

PALMYRA AREA SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS -
 PROPRIETARY FUND - FOOD SERVICE
 Year Ended June 30, 2017**

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Cash Flows From Operating Activities	
Cash received from meal sales	\$ 861,571
Cash payments for goods and services	(541,188)
Cash payments to employees for services	(657,589)
Net cash used in operating activities	<u>(337,206)</u>
Cash Flows From Noncapital Financing Activities	
Federal and state sources	<u>532,758</u>
Cash Flows From Capital and Related Financing Activities	
Investment earnings	<u>1,272</u>
Net increase in cash and cash equivalents	196,824
Cash and Cash Equivalents:	
July 1, 2016	101,284
June 30, 2017	<u>\$ 298,108</u>
Reconciliation of Operating Loss to Net Cash used in Operating Activities	
Operating loss	\$ (723,033)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	6,937
Value of donated commodities used	108,506
Changes in assets and liabilities:	
(Increase) decrease in:	
Receivables	866
Prepays	(3,799)
Inventories	(7,360)
Deferred outflow resources	(216,000)
(Decrease) increase in:	
Internal balances	218,220
Accounts payable	(16,953)
Unearned revenues	(1,590)
Pension liability	291,000
Deferred inflow of resources	6,000
Net cash used in operating activities	<u>\$ (337,206)</u>

See Notes to Financial Statements.

PALMYRA AREA SCHOOL DISTRICT

**STATEMENT OF FIDUCIARY NET POSITION
June 30, 2017**

	Consolidated Scholarship Trust Fund	Student Activities Fund
Assets		
Cash	\$ 43,840	\$ 80,690
Total assets	<u>\$ 43,840</u>	<u>\$ 80,690</u>
Liabilities		
Accounts payable	\$ -	\$ 80,690
Total liabilities	<u>\$ -</u>	<u>\$ 80,690</u>
Net Position		
Restricted for		
Consolidated Scholarship Trust Fund	\$ 43,840	\$ -
Total net position	<u>\$ 43,840</u>	<u>\$ -</u>

See Notes to Financial Statements.

PALMYRA AREA SCHOOL DISTRICT

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -
CONSOLIDATED SCHOLARSHIP TRUST FUND
Year Ended June 30, 2017**

Additions	
Contributions	\$ 2,547
Investment earnings	388
Total additions	<u>2,935</u>
Deductions	
Scholarship awards	<u>4,300</u>
Changes in net position	(1,365)
Net Position:	
July 1, 2016	45,205
June 30, 2017	<u>\$ 43,840</u>

See Notes to Financial Statements.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Palmyra Area School District operates four elementary schools, one middle school, and one high school in Lebanon County, Pennsylvania. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania. The District operates under a locally elected, nine-member, Board form of government.

The financial statements of Palmyra Area School District (the District) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative, standard setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these principles are as follows:

A. Reporting Entity

Palmyra Area School District's financial statements include the operations of all entities for which the School Board exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Palmyra Area School District is the lowest level of government which has oversight responsibility and control over all activities related to public school education in the Commonwealth of Pennsylvania. The District receives funding from local, state and Federal government sources and must comply with the requirements of these sources. However, the District is not included in any other governmental "reporting entity" since the School Board members are elected by the public and have decision making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. Additionally, the District does not exercise oversight responsibility over any other entities, and consequently, no other entities have been included in the accompanying financial statements.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

B. Government-wide and Fund Financial Statements (Continued)

Separate fund financial statements are provided in the report for all of the governmental funds, proprietary funds, and the fiduciary funds of the School District, even though the latter are excluded from the government-wide financial statements. Major, individual governmental funds and the major enterprise fund are reported as separate columns in the fund financial statements. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. 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 revenues as soon as all eligibility requirements imposed by the provider have been met. Net position (total assets less total liabilities) is used as a practical measure of economic resources, and the operating statement includes all transactions and events that increased or decreased net position. Depreciation is charged against current operations, and accumulated depreciation is reported in the Statement of Net Position.

Governmental fund financial statements are reported using the current, financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues from Federal, state and other grants designated for payment of specific District expenditures are recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recorded as unearned revenues until earned. 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.

When both restricted and unrestricted (including committed, assigned, and unassigned) resources are available for use, it is the District's policy to use the resources with the most stringent restrictions first, followed by resources in decreasing order of restriction, as funds are needed.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related liabilities (except those accounted for in Proprietary Funds) are accounted for through governmental funds.

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources except those required to be in another fund. Revenues are primarily derived from local property, earned income, per capita, and occupational taxes, and state and Federal distributions. Many of the more important activities of the District, including instruction, administration of the District, and certain non-instructional services are accounted for in this fund.

The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those financed by proprietary funds).

The Debt Service Fund accounts for the accumulation of resources for, and the payment of long-term debt principal, interest, and related costs.

The District operates one enterprise fund, the Food Service Fund. This fund accounts for the activities of the District's food service program.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal, ongoing operations. The principal, operating revenues of the District's enterprise fund are food service charges. Operating expenses for the District's enterprise fund include food production costs, supplies, administrative costs, and depreciation on capital assets. All revenues or expenses not meeting these classifications are reported as non-operating revenues and expenses.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

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

The District accounts for assets held by the District in a trustee capacity in a private-purpose trust fund. This fund accounts for activities in the various scholarship accounts, the sole purposes of which are to provide annual scholarships to particular students as prescribed by donor stipulations.

The Student Activities Fund accounts for the monies authorized by Section 511 of the Public School Code of 1949 for school publications and organizations. A portion of this fund is an agency Fund which is separate from other agency funds because of legal requirements. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are also accounted for using the modified accrual basis of accounting.

D. Budget and Budgetary Accounting

An operating budget is adopted prior to the beginning of each year for the General Fund on the modified-accrual basis of accounting. The General Fund is the only fund for which a budget is legally required. The Pennsylvania School Code dictates specific procedures relative to adoption of the District's budget and reporting of its financial statements, specifically:

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

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

Notice that public 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 Board of School Directors may make transfers of funds appropriated to any particular item of expenditure by legislative action in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without Board approval. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effects of approved budget amendments.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position or Equity

Cash and Cash Equivalents: For purposes of the Statement of Cash Flows presented for the proprietary fund, the School District considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Investments: Investments are stated at fair value or at amortized costs, depending on the investment type, consistent with generally accepted accounting principles.

Allowances for Estimated Uncollectible Taxes and Unearned Revenues:

The allowance for estimated uncollectible taxes is based upon an historical estimate of delinquent taxes that will not be received within one year of the fiscal year-end. Delinquent property taxes in the deferred inflows section are based upon an historical estimate of delinquent taxes expected to be received within one year of the fiscal year-end.

The portion of taxes receivable which is expected to be received within 60 days of June 30 is recorded as revenue in the current year. The remaining amount of taxes receivable which is expected to be received within one year from June 30 is recorded as delinquent property taxes in the deferred inflows section. All other amounts in taxes receivable are written off as estimated uncollectible taxes.

Inventories: On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

A physical inventory of the Food Service Fund's food and supplies was taken as of June 30, 2017. The inventory consisted of government donated commodities which were valued at estimated, fair-market value. The District has adopted a single inventory, recordkeeping system which does not distinguish between donated and purchased commodities. Accordingly, no unearned revenues for donated commodities have been recorded.

Prepaid Expenses: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items (consumption method) in both the government-wide and fund financial statements.

Capital Assets and Depreciation: Capital assets, which include property, plant, and equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are capitalized at the discretion of management, unless the assets are acquired by debt proceeds, in which case the assets must be capitalized. Management considers various factors in the capitalization of assets, including the assets' estimated useful lives, costs, and the extent to which the assets are parts of larger capital projects. The District's capitalization policy excludes library books, classroom texts, computer equipment, classroom furniture, and other instructional equipment, subject to the ongoing discretion of management. The costs of normal maintenance and repairs that do not add to the values of the assets or materially extend their economic useful lives are not capitalized.

Depreciation of individual capital assets or groups of such assets is provided on the straight line basis over the assets' estimated useful lives as determined by management.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position or Equity (Continued)

Deferred Outflows of Resources - Deferred Amounts on Refunding Debt: The District recognizes the difference between the re-acquisition price and the net carrying amount of the old debt as a deferred outflow and as a component of interest expense over the remaining life of the old or new debt, whichever is shorter.

Deferred Outflows of Resources - Pensions: The District recognizes the difference between actual employer contributions to its pension plan, the proportionate share of contributions and the contributions to the plan subsequent to the measurement date of June 30, 2016, and changes in proportions as deferred outflows of resources. These amounts are amortized over the average remaining service lives of active and inactive members.

Long-Term Obligations: In the government-wide financial statements, and in those of proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activity columns in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the lives of the bonds using the effective interest method. Bonds payable reflect the effects of applicable bond premiums or discounts. Other issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

In the fund financial statements, governmental-fund types recognize bond premiums and discounts during the current period. The face amount of the debt issued and related premiums are reported as other financing sources while discounts 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: According to the system of financial accounting and reporting for Pennsylvania School Systems, the District accrues certain accumulated employee benefits such as unpaid sick pay and vested bonus based on years of service. Calculations of these amounts are determined by the appropriate sick, and retirement lump-sum payments which would be available to employees if they left or retired from the District; the calculations are adjusted for expected, employee turnover rates. Accrued benefit days, multiplied by appropriate salary amounts, are reflected as long-term liabilities unless retirements are likely within the upcoming fiscal year. In the governmental funds, the cost of sick leave is recognized when payments are made to employees.

Post-Employment Benefits: In the government-wide financial statements, the District recognizes the costs and liabilities associated with post-employment benefits other than pension compensation; pension compensation is funded through the District's contributions to the statewide Public School Employees' Retirement System, a governmental, cost sharing, multiple-employer, defined benefit pension plan. The District provides retiree health, vision, dental care, and prescription drug benefits for eligible, retired employees and their qualified spouses/beneficiaries. The District estimates the cost of providing these benefits through an actuarial valuation.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position or Equity (Continued)

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 to PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The investments of the plan are reported at fair value.

Interfund Transfers: Advances between funds that are not expected to be repaid are accounted for as transfers. In those cases in which repayment is expected, the advances are accounted for through the various "due from" and "due to" accounts.

On fund financial statements, short-term, interfund loans are classified as interfund balances. These amounts are eliminated in the Statement of Net Position, except for amounts due between governmental and business-type activities, which are presented as internal balances.

Deferred Inflows of Resources - Pensions: The District recognizes its share of the difference between projected earnings and actual investments and the difference between expected and actual experience of their pension plan as deferred inflows of resources. These amounts are amortized over the average remaining service lives of active and inactive members.

Deferred Inflows of Resources - Unearned Revenues: The District recognizes the property tax revenues when they become available. Available includes those property tax receivables expected to be collected within sixty days after year-end. Those property tax receivables expected to be collected after sixty days after year-end are shown as deferred inflows of resources in the fund financial statements. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Fund Balance:

The School District's fund balances are classified as follows:

Non-spendable: Represents amounts that cannot be spent because they are not in a spendable form or are contractually required to be maintained intact.

Restricted: Represents amounts that are constrained for a specific purpose through restrictions by external parties, through constitutional provisions, or by enabling legislation.

Committed: Represents amounts that can only be used for specific purposes pursuant to the constraints imposed by formal action of the Board of School Directors, the District's highest level of decision making authority. Committed amounts cannot be used for any other purpose unless the Board removes the constraints or changes the specified purposes through the same action it used to commit the funds.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position or Equity (Continued)

Assigned: Represents amounts that are constrained by the government's intentions for them to be used for specific purposes, but such amounts are neither restricted nor committed. The Board has delegated the authority to establish intent to the District's Director of Business Affairs.

Unassigned: Represents amounts that have not been restricted, committed, or assigned to specific purposes within the General Fund.

The District has a Board policy which prescribes fund balance guidelines. The District will strive to maintain the assigned and unassigned fund balances of the General Fund at no less than four percent and at no more than eight percent of budgeted, annual expenditures.

F. Other

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events: In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through December 4, 2017, the date the financial statements were available to be issued.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments

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

- U.S. Treasury Bills.
- Short-term obligations of the U.S. Government or its agencies or its instrumentalities.
- Deposits in savings accounts or time deposits or share accounts of institutions insured by either:
 1. The Federal Deposit Insurance Corporation (FDIC), or
 2. The Federal Savings and Loan Insurance Corporation (FSLIC), or
 3. The National Credit Union Share Insurance Fund (NCUSIF)to the extent that such accounts are so insured, and for any amounts above maximum insurable limits, provided that approved collateral, as provided by law, shall be pledged by the depository.
- Obligations of (a) the United States of America or its agencies or instrumentalities backed by the full faith and credit of the United States of America, and (b) the Commonwealth of Pennsylvania or instrumentalities thereof backed by the full-faith and credit of these political subdivisions.
- Shares of investment companies whose investments are restricted to the above categories.

The deposit and investment policies of the District adhere to state statutes and prudent business practices. There were no deposit or investment transactions during the year that violated either state statutes or District policies.

Deposits: Custodial-Credit Risk

Custodial-credit risk is the risk that in the event of a bank failure, the District's investments may not be returned to it. A summary of the District's deposits at June 30, 2017, are shown below:

	Carrying Amount	Bank Balance	Financial Institution
Insured (FDIC)	\$ 250,000	\$ 250,000	Fulton Bank
Insured (FDIC)	4,220,000	4,220,000	Various Bank CD's
Uninsured and collateralized by assets maintained in conformity with Act 72	307,669	619,762	Fulton Bank
	<u>\$ 4,777,669</u>	<u>\$ 5,089,762</u>	

Act 72 of 1971, as amended, is an act standardizing the procedures for pledges of assets to secure deposits of public funds with banking institutions pursuant to other laws; establishing a standard rule for the types, amounts and valuations of assets eligible to be used as collateral for deposits of public funds, permitting assets to be pledged against deposits on a pooled basis, and authorizing the appointment of custodians to act as the pledgers of the assets.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Financial Institutions - Fulton - The District invests in Certificates of Deposit at a number of banks. These investments are individually covered by FDIC as they are under the FDIC insurance threshold of \$250,000. The certificates are invested at the various banks and are held in the name of the District.

Investments

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

<u>Investments</u>	<u>Weighted Avg. Maturities Years</u>	<u>Rating</u>	<u>Values</u>
Fulton Financial Advisors	Various	A-1/P-1	\$ 978,030
Pennsylvania School District Liquid Asset Fund (PSDLAF)			
Max Series (PSDMAX)	0.114	AAAm	1,342,132
Full Flex Investment Pool	0.375	NA	19,250,000
			<u>\$ 21,570,162</u>

Portfolio Assets

The District holds various investments with Fulton Financial Advisors within the General Fund and Capital Projects Funds. The investments consist of a money market account and commercial paper. The investments adhere to Pennsylvania Public School Code and maintain a credit risk rating of A-1/P-1 or better. The investments meet the criteria of money market or interest earning investment contracts with a remaining maturity of less than one year. This is consistent GASB Statement 31 and are reported at amortized cost.

Certain external pool investments held by the District, based on portfolio maturity, quality, diversification, and liquidity measures, qualify for measurement at amortized cost at both the pool and the participating government levels consistent with GASB Statement No. 79. The District measures those investments, which include PSDMAX, at amortized cost.

The PSDMAX fund invests in U.S. treasury securities, U.S. government securities, its agencies and instrumentalities, and repurchase agreements, collateralized by such securities and contracted with highly-rated counterparties. Weighted average portfolio maturity for the fund is expected to be kept at or below 60 days. PSDMAX does not have limitations or restrictions on withdrawals.

The PSDLAF Full Flex Pool, as part of the Fixed-Term Series at PSDLAF, are fixed-term investments collateralized in accordance with Act 72 and invests in assets listed above as permitted under Section 440.1 of the Public School Code of 1949. The Fixed-Term Series are fixed-term investment vehicles with maturities depending upon the maturity date of each particular Fixed-Term Series. All investments in a Fixed-Term Series by a Settlor are intended to be deposited for the full term of the particular Fixed-Term Series, however, participants in the full flex pool may remove funds without early withdrawal penalty. Whether a Fixed-Term Series has only one Settlor or more than one Settlor participating in it, each certificate of deposit in which the monies in such Fixed-Term Series are invested is registered in the name of that particular Fixed-Term Series.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Certificates of deposit used for Fixed-Term Series (i) are normally in principal amounts in excess of the FDIC insurance limit of \$250,000, (ii) are collateralized in accordance with law and (iii) the collateral is held by a third party custodian pursuant to a custody agreement among the Fund, the bank that issues the certificate of deposit and the third party custodian. In some instances, the collateral consists of an Irrevocable Letter of Credit issued by the applicable Federal Home Loan Bank. At present, The Bank of New York serves as the third party custodian with respect to all such collateralized certificates of deposit. Permitted Investments (other than certificates of deposit) such as US Treasury or Agency securities in which monies in which a Fixed-Term Series are invested are registered in the name or names of the Settlor or Settlers for which the Fixed-Term Series was created, and the security is held in custody by a third party custodian pursuant to a custody agreement between the Investment Adviser and the third party custodian. At present, U.S. Bank National Association, Minneapolis, Minnesota serves as the third party custodian with respect to all such securities. The District reports these non-participating contracts, as non-negotiable certificates of deposit with redemption terms that do not consider market rates, using a cost-based measure, provided that the fair value of those contracts is not significantly affected by the impairment of the credit standing of the issuer or other factors consistent with GASB Statement No. 31.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure 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 significant unobservable inputs. Presently, the investments currently held by the District are valued at amortized cost and are not subject to the fair value categorization disclosures.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Weighted Average Maturity

The weighted average maturity (WAM) method expresses investment time horizons - the time when investments become due and payable - in years or months, weighted to reflect the dollar-size of individual investments within an investment type. WAMs are computed for each investment type. The portfolio's WAM is derived by dollar-weighting the WAM for each investment type.

Interest-Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

As indicated above, Section 440.1 of the Public School Code of 1949, as amended, limits the composition of the District's investments, and the District has no investment policy that would further limit its investment choices.

Concentrations-of-Credit Risk

The District places no limit on the amounts invested in any one issuer. The concentration percentages of the District's investments at June 30, 2017, are as follows:

<u>Investment</u>	<u>Percent of Portfolio</u>
Fulton Financial Advisors	4.53%
Max Series (PSDMAX)	6.22%
Full Flex Investment Pool	89.24%
	<u>100.00%</u>

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 3. Taxes Receivable, Unearned Revenues and Estimated Uncollectible Taxes

A summary of the taxes receivable and related accounts at June 30, 2017, follows:

	Amount
Uncollected taxes	\$ 1,602,652
Estimated uncollectible taxes	187,985
	<hr/>
Taxes Receivable - Net	\$ 1,414,667
	<hr/>
Taxes to be collected within 60 days	\$ 833,476
Deferred inflows of resources - delinquent property taxes	581,191
	<hr/>
Taxes Receivable - Net	\$ 1,414,667
	<hr/>
Deferred Inflows of Resources	
Delinquent taxes	\$ 581,191
	<hr/>
Total Deferred Inflows of Resources	\$ 581,191
	<hr/>

Note 4. Property Taxes

Based upon assessed valuations provided by the County, the municipal tax collector bills and collects property taxes on behalf of the School District. The schedule for property taxes levied for 2016-2017 is as follows:

July 1, 2016	Tax levy date
Through August 31, 2016	2%-discount period
Through October 31, 2016	Face-payment period
November 1, 2016	10%-penalty period
4th Monday, 2016	Lien filing date
January 1, 2017	Interim tax levy date

The District's tax rate for all purposes in 2016-17 was 13.920 mills (\$13.920 per \$1,000 assessed valuation). Refunds on payments of prior year taxes are classified as Other Debt Service under the Commonwealth of Pennsylvania accounting system. Current tax collections for the District approximated 96 percent of the total tax levy.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 5. Interfund Balances

Individual, fund level receivables and payables at June 30, 2017, are as follows:

	Interfund Receivables	Interfund Payables
Governmental Fund Types		
General	\$ 300,150	\$ 835,378
Capital Projects	690,269	-
Total Governmental Fund Types	<u>990,419</u>	<u>835,378</u>
 Proprietary Fund Type - Food Service	 145,109	 300,150
	<u>\$ 1,135,528</u>	<u>\$ 1,135,528</u>

All interfund receivable/payable balances resulted from time lags between the dates that (1) interfund goods and services were provided or expenditures/expenses were reimbursed, (2) transactions were recorded in the accounting system, and (3) payments between funds were made. All balances are expected to be repaid within the following year.

Operating transfers between funds during the year ended June 30, 2017, are as follows:

Fund	Transfers In	Transfers Out
Governmental Funds		
General	\$ -	\$ 6,736,861
Capital Projects	561,987	-
Debt Service	6,174,874	-
Total governmental funds	<u>\$ 6,736,861</u>	<u>\$ 6,736,861</u>

Transfers and payments within the District are substantially for purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2017, was as follows:

	July 1, 2016	Increases	Decreases	June 30, 2017
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 1,803,847	\$ -	\$ -	\$ 1,803,847
Construction-in-progress	111,221	6,040,523	-	6,151,744
Total capital assets not being depreciated	<u>1,915,068</u>	<u>6,040,523</u>	<u>-</u>	<u>7,955,591</u>
Capital assets being depreciated				
Land improvements	9,043,853	433,096	-	9,476,949
Buildings and building improvements	103,144,907	-	-	103,144,907
Furniture and equipment	11,636,151	414,079	-	12,050,230
Total capital assets being depreciated	<u>123,824,911</u>	<u>847,175</u>	<u>-</u>	<u>124,672,086</u>
Less accumulated depreciation				
Land improvements	3,843,860	407,816	-	4,251,676
Buildings and building improvements	38,143,609	2,276,356	-	40,419,965
Furniture and equipment	8,404,916	828,907	-	9,233,823
Total accumulated depreciation	<u>50,392,385</u>	<u>3,513,079</u>	<u>-</u>	<u>53,905,464</u>
Total capital assets being depreciated, net	<u>73,432,526</u>	<u>(2,665,904)</u>	<u>-</u>	<u>70,766,622</u>
Governmental Activities - Capital Assets - Net				
	<u>\$ 75,347,594</u>	<u>\$ 3,374,619</u>	<u>\$ -</u>	<u>\$ 78,722,213</u>
Business-Type Activity				
Capital assets being depreciated				
Buildings and building improvements	\$ 150,000	\$ -	\$ -	\$ 150,000
Furniture and equipment	339,574	-	-	339,574
Total Business-Type Activity - Capital Assets	<u>489,574</u>	<u>-</u>	<u>-</u>	<u>489,574</u>
Less accumulated depreciation				
Buildings and building improvements	150,000	-	-	150,000
Furniture and equipment	288,881	6,937	-	295,818
Total accumulated depreciation	<u>438,881</u>	<u>6,937</u>	<u>-</u>	<u>445,818</u>
Business-Type Activity - Capital Assets - Net	<u>\$ 50,693</u>	<u>\$ (6,937)</u>	<u>\$ -</u>	<u>\$ 43,756</u>

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets (Continued)

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

	Amount
Governmental Activities:	
Instruction	\$ 2,470,846
Instructional student support	398,261
Admin and financial support	369,655
Op. and main of plant svcs.	184,130
Pupil Transportation	2,982
Student activities	87,205
Total governmental activities	<u>3,513,079</u>
Business-Type Activities:	
Food Service	<u>6,937</u>
Total School District	<u><u>\$ 3,520,016</u></u>

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Debt

During the fiscal year ended June 30, 2017, general long-term debt changed as follows:

	Balances July 1, 2016	Increases	Decreases	Balances June 30, 2017	Due Within one year
Bonds Payable					
Qualified School Construction Bonds Series of 2010	\$ 13,715,000	\$ -	\$ (270,000)	\$ 13,445,000	\$ 210,000
General Obligation Bonds - Series of 2011	3,245,000	-	(1,915,000)	1,330,000	1,330,000
General Obligation Bonds - Series of 2013	6,360,000	-	(795,000)	5,565,000	1,555,000
General Obligation Bonds - Series of 2014	9,710,000	-	(125,000)	9,585,000	125,000
General Obligation Bonds - Series A of 2014	9,425,000	-	(115,000)	9,310,000	115,000
General Obligation Bonds - Series A of 2015	3,230,000	-	(1,180,000)	2,050,000	1,200,000
General Obligation Bonds - Series B of 2015	9,935,000	-	(60,000)	9,875,000	125,000
General Obligation Note - Series of 2016	1,265,000	-	(115,000)	1,150,000	120,000
General Obligation Note - Series of 2017	-	12,370,000	-	12,370,000	5,000
	56,885,000	12,370,000	(4,575,000)	64,680,000	4,785,000
Bond-issuance premium - net	361,379	1,596,128	(184,610)	1,772,897	-
Total Bonds Payable	57,246,379	13,966,128	(4,759,610)	66,452,897	4,785,000
Compensated Absences	739,446	10,569	-	750,015	-
Net Pension Liability (Note 8)	62,287,000	11,503,000	-	73,790,000	-
Other Post-Employment Benefits (Note 9)	482,308	163,881	-	646,189	-
Total Long-Term Debt	\$ 120,755,133	\$ 25,643,578	\$ (4,759,610)	\$ 141,639,101	\$ 4,785,000

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Debt (Continued)

Qualified School Construction Bonds - Series of 2010

During 2010-2011, the District was awarded participation in the Qualified School Construction Bonds Program, a Federally subsidized loan. These taxable bonds, in the amount of \$15,000,000, are financed through the State Public Schools Building Authority. The majority of the interest will be reimbursed through Federal subsidies, resulting in a net interest rate of 0.17%.

General Obligation Bonds - Series of 2011

During 2011-2012, the Board of Directors of Palmyra Area School Board issued General Obligation Bonds, Series of 2011, in an aggregate principal amount of \$9,590,000. The proceeds were used to refund the District's outstanding General Obligation Bonds - Series of 2002. The economic gain on the refunding of the 2002 bonds was \$643,993. Interest rates range from 3.50% to 5.80%.

General Obligation Bonds - Series of 2013

During 2012-2013, the Board of Directors of Palmyra Area School Board issued General Obligation Bonds - Series of 2013, in an aggregate principal amount of \$9,155,000. The proceeds were used to refund the District's outstanding General Obligation Bonds - Series of 2006 and 2008. The economic gain on the refunding of the 2006 and 2008 Bonds was \$768,009. Interest rates range from 0.29% to 3.00%.

General Obligation Bonds - Series of 2014

During 2013-2014, the Board of Directors of Palmyra Area School Board issued General Obligation Bonds - Series of 2014, in an aggregate principal amount of \$9,980,000. The proceeds were used to fully or partially refund the District's outstanding General Obligation Bonds - Series of 2007. The economic gain on the refunding of the 2007 Bonds was \$872,172. Interest rates range from .20% to 2.50%.

General Obligation Bonds - Series A of 2014

During 2013-2014, the Board of Directors of Palmyra Area School Board issued General Obligation Bonds - Series A of 2014, in an aggregate principal amount of \$9,725,000. The proceeds were used to fully or partially refund the District's outstanding General Obligation Bonds - Series of 2005. The economic gain on the refunding of the 2005 Bonds was \$984,212. Interest rates range from 4.50% to 4.75%.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Debt (Continued)

General Obligation Bonds - Series A of 2015

During 2014-2015, the Board of Directors of Palmyra Area School Board issued General Obligation Bonds - Series A of 2015, in an aggregate principal amount of \$5,365,000. The proceeds were used to fully or partially refund the District's outstanding General Obligation Bonds - Series of 2005. The economic gain on the refunding of the 2005 Bonds was \$293,676. Interest rates range from 0.22% to 3.00%.

General Obligation Bonds - Series B of 2015

During 2014-2015, the Board of Directors of Palmyra Area School Board issued General Obligation Bonds - Series B of 2015, in an aggregate principal amount of \$9,995,000. The proceeds were used to fully or partially refund the District's outstanding General Obligation Bonds - Series of 2009. The economic gain on the refunding of the 2009 Bonds was \$1,094,817. The interest rate is 2.30%.

General Obligation Note - Series of 2016

During 2015-2016, the Board of Directors of Palmyra Area School Board issued General Obligation Note - Series of 2016, in an aggregate principal amount of \$1,265,000. The proceeds were used to provide funding towards the costs of capital projects of the District and to pay the costs of issuing and insuring the note. The interest rate is fixed at 2.10% for 7 years and then at 4.00% for the remaining three years.

General Obligation Bonds - Series of 2017

During 2016-2017, the Board of Directors of Palmyra Area School Board issued General Obligation Bonds - Series of 2017, in an aggregate principal amount of \$12,370,000. The proceeds of the Bonds were used to fund various capital projects in the District and to pay the costs of issuing and insuring the bonds. Interest rates range from 1.00% to 5.00%.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Debt (Continued)

Annual and aggregate maturities of the long-term debt issues are as follows:

Year	General Obligation Debt				
	Principal	Interest	Total	Federal Reim.	Net Interest
2018	\$ 4,785,000	\$ 2,392,593	\$ 7,177,593	\$ (724,500)	\$ 1,668,093
2019	4,990,000	2,169,145	7,159,145	(724,500)	1,444,645
2020	5,130,000	2,035,783	7,165,783	(724,500)	1,311,283
2021	5,245,000	1,927,518	7,172,518	(724,500)	1,203,018
2022	5,350,000	1,826,359	7,176,359	(724,500)	1,101,859
2023-2027	24,125,000	7,469,298	31,594,298	(3,622,500)	3,846,798
Thereafter	15,055,000	2,393,850	17,448,850	(362,250)	1,149,850
	<u>\$ 64,680,000</u>	<u>\$ 20,214,544</u>	<u>\$ 84,894,544</u>	<u>\$ (7,607,250)</u>	<u>\$ 12,607,294</u>

The District will receive Federal reimbursement for the majority of interest paid on the Qualified School Construction Bonds - Series of 2010. The table above presents the total reimbursement due.

The District is in compliance with all debt covenants. Those covenants include the following: the School District shall include the annual debt service in its budget for the fiscal year; shall appropriate these amounts from its general revenues; and shall punctually cause the payment of the principal and interest of each of the Bonds.

Compensated Absences

Under the terms of the District's employment policies, employees are reimbursed for accrued sick upon retirement or termination of employment. Employees are granted sick days per school year and any unused sick days may be carried over to future years. Upon retirement from the District, employees are reimbursed for accumulated sick days equal to the number of unused days multiplied by a pre-established, contractual amount,. The employees are also offered options regarding retirement payouts as prescribed in the contract if certain conditions are met. The total liability for accrued sick leave and retirement bonuses is presented in the Statement of Net Position.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined-Benefit Pension Plan

Plan Description

PSERS is a governmental cost sharing multiple-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.pa.gov.

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after 10 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.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined-Benefit Pension Plan (Continued)

Contributions

Member Contributions:

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

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

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

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

Employer Contributions:

The school districts' contractually required contribution rate for the fiscal year ended June 30, 2017 was 29.20% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$5,932,179 for the year ended June 30, 2017. For the year ended June 30, 2017, the District recognized retirement subsidy revenue from the Commonwealth in the amount of \$2,959,011.

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

At June 30, 2017, the District reported a liability of \$73,790,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2015 to June 30, 2016. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2016, the District's proportion was .1489 percent, which was an increase of .0051 percent from its proportion measured as of June 30, 2015.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined-Benefit Pension Plan (Continued)

For the year ended June 30, 2017, the District recognized pension expense of \$8,385,000. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	\$ -	\$ 615,000
Changes in assumptions	2,664,000	-
Net difference between projected and actual investment earnings	4,113,000	-
Changes in proportion	2,794,000	-
Difference between employer contributions and proportionate share of total contributions	200,000	-
Contributions subsequent to the measurement date	5,768,000	-
	<u>\$ 15,539,000</u>	<u>\$ 615,000</u>

\$5,768,000 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year	Total
2017	\$ 2,148,000
2018	2,148,000
2019	2,839,000
2020	2,017,000
2021	4,000
	<u>\$ 9,156,000</u>

Changes in Actuarial Assumptions

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

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

- The Investment Rate of Return was adjusted from 7.50% to 7.25%.
- The inflation assumption was decreased from 3.0% to 2.75%.
- Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined-Benefit Pension Plan (Continued)

- Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back three years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back seven years for males and three years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. The actuarial assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the five-year period ending June 30, 2015. The recommended assumption changes based on this experience study were adopted by the Board at its June 10, 2016 Board meeting, and were effective beginning with the June 30, 2016 actuarial valuation.

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global public equity	22.5%	5.3%
Fixed income	28.5%	2.1%
Commodities	8.0%	2.5%
Absolute return	10.0%	3.3%
Risk parity	10.0%	3.9%
Infrastructure/MLPs	5.0%	4.8%
Real estate	12.0%	4.0%
Alternative investments	15.0%	6.6%
Cash	3.0%	20.0%
Financing (LIBOR)	-14.0%	50.0%
	<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, 2016.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 8. Defined-Benefit Pension Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
District's proportionate share of the net pension liability	\$ 90,265,000	\$ 73,790,000	\$ 59,946,000

Pension Plan Fiduciary Net Position

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

Plan Payables

At June 30, 2017, the District has payables to the PSERS pension plan of \$2,159,812. This total is composed of staff payroll accruals and the quarterly PSERS payment amount for retirement contributions in the second quarter of 2017.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Other Post-Employment Benefits

Plan Description

The District provides access to retiree health, vision, dental-care, and prescription drug benefits to eligible, retired employees and their qualified spouses/beneficiaries. The plan also provides retirement benefits outlined in employment contracts. This is a single employer, defined-benefit plan administered by the District. Benefits are provided to all academic and support staff who meet the following requirements. Administrative personnel must retire into PSERS. Teaching and support personnel are required to have 10 years with the District or 30 years of PSERS service. Currently, the plan has approximately 330 members. The plan does not issue a separate, stand-alone set of financial statements

Funding Policy

The District's medical plans are self-funded, and each plan's premiums are updated annually based on actual claims. Participating employees are responsible for paying the full premiums. The District funds OPEB on a pay-as-you-go basis, and there is no obligation to make contributions in advance of when insurance premiums or claims are due for payment.

Funding Progress

For the year ended June 30, 2017, the District has estimated the cost (annual expense) of providing retiree-health, vision, dental care, and prescription drug benefits through an actuarial valuation performed as of July 1, 2016. In accordance with GASB Statement No. 45, the valuation computes an annual required contribution, which 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 over a period of 30 years. This valuation's computed contribution and actual funding are summarized as follows:

	Amount
Annual required contribution	\$ 282,050
Less adjustment to the annual required contribution	(29,610)
Interest on estimated OPEB obligation	21,704
Annual OPEB cost	<u>274,144</u>
Amounts contributed:	
Payments of current premiums and claims	<u>(110,263)</u>
Advance funding	
Increase in net OPEB obligation	163,881
OPEB obligation - beginning of year	482,308
OPEB obligation - end of year	<u><u>\$ 646,189</u></u>

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9. Other Post-Employment Benefits (Continued)

The annual OPEB cost, the percentage contributed to the plan, and the net OPEB obligation for the current year are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2015	\$ 223,609	51.84%	\$ 374,363
June 30, 2016	\$ 221,843	51.34%	\$ 482,308
June 30, 2017	\$ 274,144	40.22%	\$ 646,189

Actuarial methods and assumptions:

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probabilities of occurrences of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts are 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.

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

In the July 1, 2016, actuarial valuation, the Entry-Age Normal Cost Method was used. The actuarial assumptions include an annual healthcare cost trend rate of 6.50% initially, reduced by decrements to an ultimate rate of 5.50% after four years. Both rates included a 4.50% inflation assumption. The UAAL is being amortized over 30 years as a level percentage of projected payroll on an open basis, with 29 years remaining.

Note 10. Intermunicipal - Agreement Receivable

During the years 2004-2007, the Lebanon County Earned Income Tax Bureau underpaid earned income tax to the District. In 2011, the District entered into an agreement to settle disputes resulting from the underpayment. The District will receive, by agreement, \$512,129 over a 10-year period, interest free. The District received the sixth payment of \$32,587 in the 2016-2017 year.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 11. Joint Venture

Lebanon County Career and Technology Center (LCCTC)

Lebanon County Career and Technology Center is a separate legal entity. LCCTC provides vocational-technical training and education to participating students of the member districts. The District is one of six member school districts of LCCTC. LCCTC is controlled and governed by the Area Vocational-Technical Board for Lebanon County (Vo-Tech Board), which is composed of school-board members of all the member districts. No member school district exercises specific control over the fiscal policies or operations of LCCTC. The District's financial obligation to LCCTC for the year ended June 30, 2017, was \$813,597 which has been reported in the District's General Fund. Complete financial statements for LCCTC can be obtained from the Administrative Office at 833 Metro Drive, Lebanon, PA 17042.

Lebanon County Vo-Tech School Authority

The District is also a member of the Lebanon County Vo-Tech School Authority (Authority). In 1965, the Authority entered into an agreement with the member schools and the Vo-Tech Board to acquire land and construct buildings to provide for the operation of LCCTC.

During fiscal year 2001-02, the Authority issued Lease Revenue Bonds Series of 2002, in the aggregate amount of \$2,100,000 for the purpose of providing funds for the costs of design and construction of improvements, renovations, and extraordinary repairs to and the acquisition and installation of related equipment for the facilities of Lebanon County Vocational Technical School. In April 2008, the 2002 Bonds were refunded and Lease Revenue Bonds Series of 2008 were issued in the aggregate amount of \$9,035,000. The District's allocated principal portion of the lease rentals to the Authority is \$1,526,102. The purpose of the 2008 Bonds is to provide funds to cover costs of renovations, alterations, additions to, and equipping of existing facilities of the LCCTC. Concurrent with the issuance of these Bonds, the District entered into a supplemental, lease agreement with the Authority, the rentals of which act as security for the Bonds. In August 2013, the Lease Revenue Bonds - Series of 2008 bonds were refunded and the Lease Revenue Bonds - Series of 2013 were issued. The purpose of the refunding was to reduce interest rates and refund the 2008 bond series. The bond terms remained the same and District will see a reduction in debt service owed from \$2,071,448 to \$1,981,586. The District is required, under terms of the lease, to pay lease rentals in connection with the Lease Revenue Bonds, Series of 2013, as follows:

Year	Principal	Interest	Total
2018	\$ 68,409	\$ 35,618	\$ 104,027
2019	70,098	33,631	103,729
2020	71,787	31,595	103,382
2021	73,476	29,510	102,986
2022	76,010	27,365	103,375
2023-2027	372,447	142,892	515,339
Thereafter	543,046	76,409	619,455
	<u>\$ 1,275,273</u>	<u>\$ 377,020</u>	<u>\$ 1,652,293</u>

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 11. Joint Venture (Continued)

The District treats these lease payments as operating rentals as no assets or additional rights have been conveyed to the District. If the Authority and LCCTC cease to be going concerns, the District will be obligated to satisfy its allocable portion of the debt obligations. Concurrently, under terms of the organizing documents, the allocable assets of the defunct, participating entities will be transferred to the District. Complete financial statements for the Authority can be obtained from the Administrative Office at 833 Metro Drive, Lebanon, PA 17042.

Lancaster-Lebanon Joint Authority

The District is a member in the Lancaster-Lebanon Joint Authority (Authority), which is a separate legal entity. The Authority was incorporated on February 14, 1980, under the Municipality Authorities Act of 1945, Act of May 2, 1945, P.L. 382, as amended, by the Boards of School Directors of the 22 school districts located in Lancaster and Lebanon Counties. The school districts established the Authority for the purpose of acquiring, holding, constructing, improving, maintaining, operating, owning and/or leasing projects for public school purposes and for the purposes of Lancaster-Lebanon Intermediate Unit No.13. The District did not have any financial transactions with the Authority during the year ended June 30, 2016. Complete financial statements for the Authority can be obtained from the Administrative Office at 1110 Enterprise Road, East Petersburg, PA 17520.

Lancaster-Lebanon Intermediate Unit (LLIU)

The LLIU Board of Directors consists of 20 members from the IU's constituent school districts. The LLIU Board members are school-district board members, who are elected by the public, and are appointed to the LLIU Board by the member districts' Boards of Directors. Palmyra Area School District is responsible for appointing one of these members. The LLIU Board has decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. Palmyra Area School District contracts with LLIU for special education services for District students and for computer consortium services. The direct and indirect amounts paid for these services during the year ended June 30, 2017, approximated \$1,308,440. Complete financial information for LLIU can be obtained from the Administrative Office at 1110 Enterprise Road, East Petersburg, PA 17520.

Lebanon School District

Palmyra Area School District is affiliated with the Lebanon School District. On September 12, 2002, the affiliates entered into a 15-year sublease agreement for the building located at One Cumberland Street, Lebanon City, Lebanon County, PA. During the year ended June 30, 2010, the Lancaster-Lebanon Intermediate Unit agreed to sublease the space to the extent possible in order to reduce costs. The District still maintains the contractual obligation for future lease payments if the IU is not able to sublease the space. In the 2016-2017 year, the LLIU was able to fully use the building space, and the District incurred no expense.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 12. Employee Insurance Program

Effective January 1, 2004, the District instituted a self-funded insurance program to cover up to \$1,500 of dental costs per participant. During the year ended June 30, 2017, the District paid claims of \$198,227 under the program. In addition, based on the history of benefits paid under private insurance, the District has designated \$19,747 of additional fund balance to provide for future claims.

Beginning July 1, 2016 the District entered into an agreement for self-insurance of medical benefits. The program is a point-of-service, managed care plan with an opt-out feature. Under the medical plan, the District reimburses the third-party administrator for actual claims paid, and additionally, incurs expenses for administrative, reinsurance, capitation fees, and other fees associated with administration of program. During the year ended June 30, 2017, the District paid claims of \$2,978,869 under the program. The District designated \$800,000 of additional fund balance to provide for future medical claims.

Note 13. Commitments and Subsequent Events

Operating Leases

The School District maintains copying machines under long-term, operating leases. Future minimum rental payments required under operating leases that have an initial or remaining non-cancelable lease term in excess of one year as of June 30, 2017, are:

Years	Minimum Lease Obligation
2018-2019	\$ 84,631
2019-2020	78,056
2020-2021	78,056
	<u>\$ 240,743</u>

Rental expense for these leases is \$100,143 for the year ended June 30, 2017. There are no options under the current leases for renewal or purchase of the copying machines.

On July 1, 2015, the District extended a 60-month lease agreement to lease two modular classrooms. In addition to an upfront fee of \$129,805 for installation and delivery costs, the District is obligated to make monthly payments in the amount of \$940 through June 30, 2020.

During the 2016-17 fiscal year, the District entered into a Guaranteed Energy Savings Agreement for \$2,224,422 of which \$516,925 is still outstanding. The Restricted Fund Balance for Capital Projects has funds reserved for this project to update building systems.

PALMYRA AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 14. Prior Period Adjustment

A retroactive adjustment was made to Net Position to record a reduction in utilities expense related to a change in indirect cost calculation in the food service fund. The adjustment increased Net Position in the food service fund by \$42,185.

Note 15. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets, errors, or omissions. Significant losses are covered by commercial insurance for all major programs. For insured programs, there have been no significant reductions in settlement coverage.

REQUIRED SUPPLEMENTARY INFORMATION

PALMYRA AREA SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
POST-EMPLOYMENT BENEFITS PLAN
Year Ended June 30, 2017**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
7/1/2012	\$ -	\$ 1,380,647	\$ 1,380,647	0.00%	\$ 15,539,276	8.88%
7/1/2014	\$ -	\$ 1,605,460	\$ 1,605,460	0.00%	\$ 16,101,418	9.97%
7/1/2016	\$ -	\$ 2,074,216	\$ 2,074,216	0.00%	\$ 16,811,686	12.34%

PALMYRA AREA SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION -
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Year Ended June 30, 2017**

	2017	2016	2015
District's proportion of the net pension liability	0.1489%	0.1438%	0.1433%
District's proportionate share of the net pension liability	<u>\$ 73,790,000</u>	<u>\$ 62,287,000</u>	<u>\$ 56,719,000</u>
District's covered employee payroll	<u>\$ 19,285,286</u>	<u>\$ 18,499,827</u>	<u>\$ 18,292,453</u>
District's proportionate share of net pension liability as a percentage of its covered employee payroll	382.62%	336.69%	310.07%
Plan fiduciary net position as a percentage of the total pension liability	50.14%	54.36%	57.24%

PALMYRA AREA SCHOOL DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION -
SCHEDULE OF DISTRICT'S CONTRIBUTIONS
Year Ended June 30, 2017**

	2017	2016	2015
Contractually required contribution	\$ 5,768,220	\$ 4,989,032	\$ 3,711,595
Contributions in relation to the contractually required contribution	(5,768,220)	(4,989,032)	(3,711,595)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
District's covered employee payroll	\$ 18,431,696	\$ 19,301,774	\$ 18,497,483
Contributions as a percentage of covered employee payroll	31.30%	25.85%	20.07%

SUPPLEMENTARY INFORMATION

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of School Directors
Palmyra Area School District
Palmyra, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Palmyra Area School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Palmyra Area School District's basic financial statements, and have issued our report thereon dated December 4, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Palmyra 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*.

Purpose of this Report

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

A handwritten signature in cursive script that reads "Boyer & Ritter". The signature is written in black ink and is centered on the page.

Camp Hill, Pennsylvania
December 4, 2017

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

Board of School Directors
Palmyra Area School District
Palmyra, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Palmyra Area School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Palmyra Area School District's major federal programs for the year ended June 30, 2017. Palmyra Area School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Palmyra 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; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Palmyra Area School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe 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 Palmyra Area School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Palmyra Area School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of Palmyra 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 Palmyra Area School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 Palmyra 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.

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.

A handwritten signature in cursive script that reads "Boyer & Fitter". The signature is written in black ink and is positioned centrally on the page.

Camp Hill, Pennsylvania
December 4, 2017

PALMYRA AREA SCHOOL DISTRICT
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2017

Identification of the major programs:

CFDA Number(s)	Name of Federal Programs/Cluster
84.027	Special Education – Grants to States
84.173	Special Education – Preschool Grants

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

Auditee qualified as low-risk auditee? X Yes No

Section II – Financial Statement Findings

A. Significant Deficiency(ies) in Internal Control

There were no findings relating to the financial statement audit required to be reported.

B. Compliance Findings

There were no compliance findings relating to the financial statement audit required to be reported.

Section III - Federal Award Findings and Questioned Costs

A. Compliance Findings

There were no findings relating to the Federal awards as required to be reported in accordance with Section 2 CFR 200.516(a) of the Uniform Guidance.

B. Significant Deficiency(ies) in Internal Control

There were no findings relating to the Federal awards as required to be reported in accordance with Section 2 CFR 200.516(a) of the Uniform Guidance.

PALMYRA AREA SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2017

	Federal C.F.D.A. Number	Pass Through Grantor's Number	Grant Period	Program or Annual Award	Total Received (Refunded) in Fiscal Year	Accrued (Deferred) Revenue at July 1, 2016	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue at June 30, 2017	Provided to Subrecipients
U.S. Department of Education										
Passed through the Pennsylvania Department of Education:										
Title I - Grants to Local Educational Agencies	84.010	013-160318	15-16	\$ 268,176	\$ 17,740	\$ 17,740	\$ -	\$ -	\$ -	\$ -
Title I - Grants to Local Educational Agencies	84.010	013-170318	16-17	\$ 307,403	307,403	-	307,403	307,403	-	-
Title II - Supporting Effective Instruction State Grants	84.367	020-160318	15-16	\$ 48,417	16,023	16,023	-	-	-	-
Title II - Supporting Effective Instruction State Grants	84.367	020-170318	16-17	\$ 47,361	41,135	-	47,361	47,361	6,226	-
					382,301	33,763	354,764	354,764	6,226	
Passed through the Lancaster-Lebanon Area Intermediate Unit:										
Race to the Top - Phase 3	84.413A	N/A	12-16	\$ 14,675	479	479	-	-	-	-
Special Education Cluster										
Early Intervention - Special Education Preschool Grants	84.173	131-16-0-013	15-16	\$ 4,176	4,176	4,176	-	-	-	-
Early Intervention - Special Education Preschool Grants	84.173	131-17-0-013	16-17	\$ 2,973	-	-	2,973	2,973	2,973	-
Special Education - Grants to States - IDEA Part B	84.027	062-17-0-013	16-17	\$ 176,059	176,059	-	176,059	176,059	-	-
Special Education - Grants to States - IDEA Part B	84.027	062-16-0-013	15-16	\$ 501,578	501,578	501,578	-	-	-	-
Special Education - Grants to States - IDEA Part B	84.027	062-17-0-013	16-17	\$ 527,383	-	-	527,383	527,383	527,383	-
Total Special Education Cluster					681,813	505,754	706,415	706,415	530,356	-
Total passed through Lancaster Lebanon Area Intermediate Unit:					682,292	506,233	706,415	706,415	530,356	-
Total U.S. Department of Education					1,064,593	539,996	1,061,179	1,061,179	536,582	-

(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Year Ended June 30, 2017

	Federal C.F.D.A. Number	Pass Through Grantor's Number	Grant Period	Program or Annual Award	Total Received (Refunded) in Fiscal Year	Accrued (Deferred) Revenue at July 1, 2016	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue at June 30, 2017	Provided to Subrecipients
U.S. Department of Homeland Security										
Passed through the Pennsylvania										
Emergency Management Agency										
Public Assistance Grants	97.036	FEMA-4267-DR-PA	16-17	24,288	24,288	-	24,288	24,288	-	-
Total Medicaid Cluster					24,288	-	24,288	24,288	-	-
Total U.S. Department of Health and Human Services					24,288	-	24,288	24,288	-	-
U.S. Department of Agriculture										
Passed through the Pennsylvania										
Department of Education:										
National School Lunch Program *	10.555	N/A	15-16	N/A	6,858	6,858	-	-	-	-
National School Lunch Program *	10.555	N/A	16-17	N/A	359,175	-	366,617	366,617	7,442	-
School Breakfast Program *	10.553	N/A	15-16	N/A	1,166	1,166	-	-	-	-
School Breakfast Program *	10.553	N/A	16-17	N/A	43,582	-	44,712	44,712	1,130	-
Passed through the Pennsylvania										
Department of Agriculture:										
National School Lunch Program *	10.555	N/A	15-16		108,506	-	108,506	108,506	-	-
Total U.S. Department of Agriculture					519,287	8,024	519,835	519,835	8,572	-
Total Expenditures of Federal Awards					\$ 1,608,168	\$ 548,020	\$ 1,605,302	\$ 1,605,302	\$ 545,154	\$ -

* Programs in the Child Nutrition Cluster

National School Lunch Program	\$ 366,617
School Breakfast Program	44,712
National School Lunch Program - Food Donation	108,506
	<u>\$ 519,835</u>

See Notes to Schedule of Expenditures of Federal Awards

PALMYRA AREA SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of the District's under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the District's operations, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

Note 2. Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Revenue is recognized when earned, and expenses are recognized when incurred. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available. The District has not elected to use the 10 percent de Minimis indirect cost rate as allowed under the Uniform Guidance.

PALMYRA AREA SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
Year Ended June 30, 2017

There were no prior year's audit findings