

**SOMERSET AREA SCHOOL DISTRICT**

**SOMERSET, PENNSYLVANIA**

**FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2017**

SOMERSET AREA SCHOOL DISTRICT  
YEAR ENDED JUNE 30, 2017

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# *Zelenkofske Axelrod LLC*

## Independent Auditor's Report

Members of the Board  
Somerset Area School District  
Somerset, Pennsylvania

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the SOMERSET 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 SOMERSET AREA SCHOOL DISTRICT's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinions**

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information for the SOMERSET AREA SCHOOL DISTRICT as of June 30, 2017, and the respective changes in the financial position, and cash flows, where applicable, thereof for the year ended in conformity with the accounting principles generally accepted in the United States of America.

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# *Zelenkofske Axelrod LLC*

Members of the Board  
Somerset Area School District  
Page 2

## **Adoption of GASB Statements**

As described in Note 1 to the financial statements, in 2017 the District adopted the provisions of Governmental Accounting Standards Board's Statement No. 73, "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions to GASB Statements 67 and 68*", Statement No. 74, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*", Statement No. 80, "*Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*", Statement No. 81, "*Irrevocable Split-Interest Agreements*" and Statement No. 82, "*Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73*". Our opinion is not modified with respect to these matters.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress for postemployment benefits other than pensions, budgetary comparison, schedule of the district's proportionate share of the net pension liability- last 10 years, and schedule of district's contributions- last 10 years information on pages 3 through 19 and 61 through 64 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 Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2017 on our consideration of the SOMERSET 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Zelenkofske Axelrod LLC*

ZELENKOFSCHE AXELROD LLC

December 11, 2017  
Greensburg, Pennsylvania

# SOMERSET AREA SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2017

This discussion and analysis of Somerset Area School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2017. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the basic financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in the School District's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the School District's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

This discussion and analysis is part of the Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* issued June 1999. GASB Statement No. 34 requires certain comparative information to be presented between the current year and the prior year and is detailed herein accordingly.

## **DESCRIPTION OF THE SCHOOL DISTRICT**

The Somerset Area School District is located in the central portion of Somerset County, approximately 65 miles southeast of the city of Pittsburgh and 135 miles west the city of Harrisburg. The District is a rural school district encompassing 156 square miles with a population of 21,140 (U. S. Census, 2015 estimate). The District includes the following municipalities: Somerset Borough, Somerset Township, Jefferson Township and Lincoln Township. The school system includes two elementary schools and two secondary schools with a total approximate enrollment of 2,044 students.

The School District employs 295 regular employees. The teaching staff consists of 171 professionals. The Pennsylvania State Education Association ("PSEA") and the Somerset Area Education Association ("SAEA") represent teachers in the District. The SAEA is the representative bargaining unit. Currently, the SAEA is working under the terms of a 5-year contract that expires on June 30, 2022. The PSEA/NEA Somerset Area Educational Support Personnel Association ("SAESPA") represent the support staff members. The SAESPA is working under a 4-year contract that expires on June 30, 2018.

## **INDEPENDENT AUDIT**

As required by Pennsylvania state law, the Somerset Area School District submits its financial data to independent certified public accountants at year-end for a comprehensive annual audit of the District's financial affairs. The Board of Education has retained Zelenkofske Axelrod LLC, Certified Public Accountants, to complete an independent audit of the financial position and results of its operations in accordance with auditing standards generally accepted in the United States and with government auditing standards. The District also submits its federal program financial and operational data in compliance with the provisions of the Federal Government's Office of Management and Budget Circular A-133, "Audits of State, Local Governments and Non-profit Organizations".

SOMERSET AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017

**FINANCIAL HIGHLIGHTS**

- The District's financial status remained stable during the 2016/2017 fiscal year. Due to the implementation of GASB 68, Pension Reporting, the District's Net position continues to show as a negative. Net position increased by approximately 3.5% to (\$25.3 million). School Districts across the state of Pennsylvania will see significant changes in Net Position due to GASB 68. Overall revenues increased 2.2% to \$38.06 million, while expenses decreased by 4.2%. Liabilities remained increased 10.0% to \$90.67 million. The increase in liabilities is due to the increase in the PSERS liability of \$10.7 million. All other liabilities decreased by \$2.43 million, primarily due to the payment of long-term debt. General revenues for governmental activities accounted for \$29.33 million in revenue, or 79.6% of total governmental revenues. Governmental activities program specific revenues in the form of charges for services and grants and contributions accounted for \$7.50 million or 20.4% of total governmental revenues.
- The District's expenses for governmental activities decreased 4.4% (\$1.59 million) to \$34.87 million of which \$7.50 million of these expenses were offset by program specific charges for services, grants and contributions. General governmental activities revenues of \$29.33 million were utilized to provide for these programs.
- Among major funds, the General Fund had \$36.69 million in total revenues and other financing sources and \$36.47 million in expenditures and other financing uses. The General Fund's unassigned fund balance increased 10.63% to \$2.79 million due to better than expected revenues and a decrease in actual expenditures that allowed a positive net change in fund balance. Because of the unassigned fund balance, the District did not need to borrow for cash flow needs.
- In FY 2016/2017, the District had committed fund balance of \$7,656,829, of which \$6,101,405 is committed for future employer contributions to the Public School Employees Retirement System (PSERS), which will significantly increase for years. The District committed the \$6.1 million over multiple years beginning in fiscal years 2008/2009 through 2014/2015 for PSERS prefunding. More importantly, however, the millage already having been put in place in past fiscal years will help to fund the District's current share of the PSERS cost. Continued financial efforts will be necessary to fund this ongoing expense for an undetermined time into the future.
- The District's investment in Capital Assets Net of Depreciation decreased by \$520,701 (1.3%) to \$38.51 million. The decrease in Capital Assets was due to the re-valuation of the District's Capital Assets by Industrial Appraisal Company. During the revaluation, assets were retired that had been fully depreciated and adjustments were made to account for corrected estimated historical cost of capital assets.
- Governmental long-term debt decreased by a net \$2.65 million, reflecting, for the most part, the repayment of scheduled principal and interest on the District's General Obligation Issues. The District refunded a portion of the 2007A bonds, which provided a net local share savings of \$626,384. In 2016, the District refunded a portion of the 2007B bonds, which provided a net local share savings of \$510,365. Also in 2016, the District advanced refunded the remaining portions of the 2007A

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FOR THE YEAR ENDED JUNE 30, 2017

and 2007C bonds, which will provide a net local share savings of approximately \$598,000. Due to market opportunity and lower rate availability, the District will save over \$1.73 million from the refunding of the Series 2007A, 2007B, and 2007C bond issues.

- Total Outstanding Long-Term Debt increased 11.19% and this increase is due to the implementation of GASB 68. The Net Pension Liability increased from \$43.51 million to \$54.22 million at June 30, 2017. This is the third year the District reported the allocated portion of the defined benefit unfunded pension obligation for PSERS. The Governmental Accounting Standard Board (GASB) accounting statement No. 68, Accounting and Financial Reporting for Pensions, requires the reporting. In Pennsylvania, the PSERS' unfunded accrued liability at June 30, 2016 (unaudited) of (\$42.7) billion. Currently, the State has 501 school districts, therefore the average for each district in the state is a deficit of (\$85) million. Somerset Area School District's portion is \$54.22 million or considerably less than the average.

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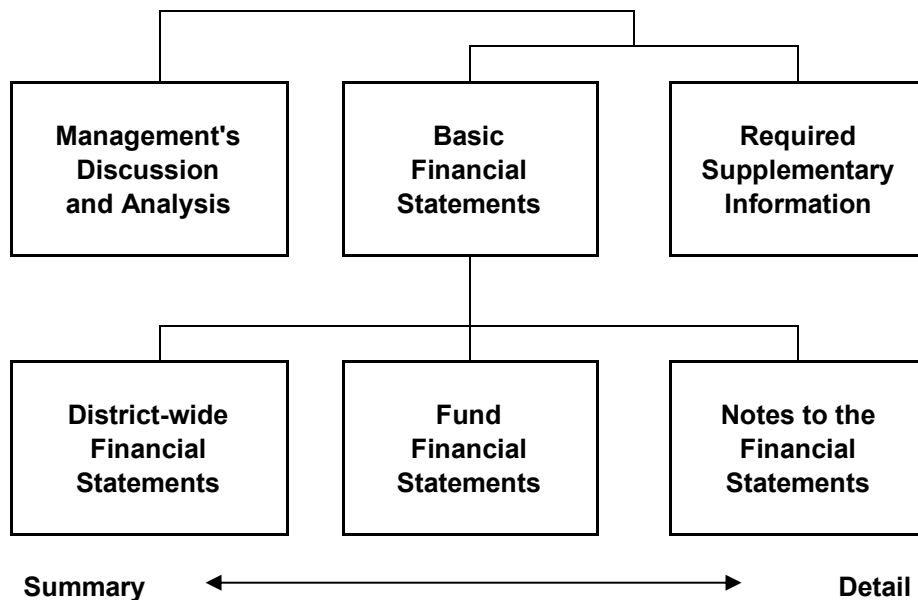
**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. Management's discussion and analysis is intended to serve as an introduction to the District's basic financial statements.

The basic financial statements include two kinds of statements, which present different views of the District. The first two statements are ***District-wide Financial Statements*** that provide both *short-term* and *long-term* information about the District's overall financial status. The remaining statements are ***Fund Financial Statements*** that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the District-wide Statements. The *governmental funds statements* indicate how the District financed its basic services such as regular and special education. *Proprietary fund* statements offer financial information about the one activity the District operates *like a business*, its Food Service Fund. *Fiduciary funds* statements provide information regarding the District's Student Activity Fund for which the District acts solely as a *trustee* for the benefit of the students who manage the funds.

The financial statements also include notes that explain some of the information in the statements, as well as provide data that are more detailed. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and are related to one another.

**Figure A-1**  
**Organization of Somerset Area School District Annual Financial Report**





**SOMERSET AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017**

Figure A-2 summarizes the major features of the District's financial statements. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

**Figure A-2  
Major Features of the District-wide and Fund Financial Statements**

	District-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds).	Activities of the District that are not proprietary or fiduciary, such as general operating and capital projects.	An activity the District operates similar to private businesses (Food Service Fund).	Instances in which the District administers resources on behalf of someone else (Student Activity Fund).
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of revenues, expenses, and changes in net position</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net position</li> </ul>
Accounting Basis and measurement focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial focus.	Accrual accounting and economic resources focus.	Accrual accounting and economic resources focus.
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term.	Generally assets expected to be used and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included.	All assets and liabilities, both financial and capital, short-term and long-term.	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets.
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable.	All revenues and expenses during the year, regardless of when cash is received or paid.	All additions and deductions during the year, regardless of when cash is received or paid.

### **District-wide Financial Statements**

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The *Statement of Net Position* includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the *Statement of Activities* regardless of when

SOMERSET AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017

cash is received or paid.

The two District-wide statements report the District's *net position* and how it has changed. Net position - the difference between the District's assets and liabilities - is one way of measuring the District's financial health or position. Over time, increases or decreases in the District's net position is an indicator of whether its financial position is improving or deteriorating, respectively. To assess the District's overall health one must also consider additional factors such as increases (decreases) to the District's long-term debt, changes in the District's property tax base and the condition of or need for improvements or expansion to existing school facilities.

In the District-wide financial statements, the District's activities are divided into two categories as follows:

- **Governmental Activities:** Most of the District's basic services are included here, such as regular and special education, maintenance and operation of plant services, transportation services and administrative services. Property taxes, along with state formula aid, finance most of these activities. Fixed assets and related debt are supported by taxes and intergovernmental activities.
- **Business-type Activities:** The District charges fees to cover the cost of certain services such as its food services program.

### Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds. These statements focus on the District's most significant or "major" funds - not the District as a whole. Funds are accounting components the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law and by bond covenants. The District may establish other funds to control and manage money for particular purposes, such as repaying its long-term debts.

The District has three types of funds as follows:

**Governmental Funds:** Governmental funds are used to account for essentially the same functions reported as governmental activities in the District-wide Financial Statements. Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted into cash inflows and outflows and (2) balances left at year-end that are available for spending. Consequently, the Governmental Funds Statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the long-term focus of the District-wide Statements, additional information within the Governmental Funds Statements explains the relationship (or differences) between them. Readers may better understand the long-term impact of the District's current financing decisions by comparing the information presented for governmental funds with similar information presented for governmental activities in the District-wide Financial Statements. The Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a

SOMERSET AREA SCHOOL DISTRICT  
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FOR THE YEAR ENDED JUNE 30, 2017

reconciliation to facilitate this comparison between governmental funds and governmental activities.

**Proprietary Funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide financial statements. A district's *Enterprise Funds* (one type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, its Food Service Fund.

**Fiduciary Funds:** The District is the trustee, or *fiduciary*, for assets that belong to others, such as student activity funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

**Net position.** Net position may serve over time as a useful indicator of government's financial position. In the case of the District, liabilities exceeded assets by (\$25.20) million as of June 30, 2017, an increase of 3.5% or \$918,923 from the prior year. This increase is due to an increase in deferred outflows of resources related to PSERS. The reporting of GASB 68, pension liability is the reason the District's Net Position is negative.

The District's financial position is a product of several financial transactions including the net result of activities, the acquisition and payment of debt (currently implementation of GASB 68), the acquisition and disposal of capital assets and the depreciation of capital assets. Specifically, the District increased its unrestricted net assets by \$994,042 and increased its outstanding long-term debt by \$8.54 million. The District's total assets/outflows increased 15.8% while its total liabilities increased 10.0% in the fiscal year ended June 30, 2017.

The portion of the District's governmental activities net position that reflects its net investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, furniture and equipment, and construction in progress less any related debt used to acquire those assets that is still outstanding) decreased \$140,238 to \$6.91 million at June 30, 2017.

**SOMERSET AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017**

The following table presents a summary of the District's net position for the fiscal year ended June 30, 2017. See Figure A-3.

**Figure A – 3**

<b>Condensed Statement of Net Assets As of June 30, 2017</b>							
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total School District</b>		<b>% Change</b>
	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016-2017</u>
Current and Other Assets	\$18,515,149	\$19,006,641	\$459,170	\$422,675	\$18,974,319	\$19,429,316	
Capital Assets	<u>38,965,194</u>	<u>38,379,374</u>	<u>70,389</u>	<u>135,508</u>	<u>39,035,583</u>	<u>38,514,882</u>	
<b>Total Assets</b>	<b>57,480,343</b>	<b>57,386,015</b>	<b>529,559</b>	<b>558,183</b>	<b>58,009,902</b>	<b>57,944,198</b>	<b>-0.1%</b>
Deferred Outflows of Resources	<u>0</u>	<u>9,215,090</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>9,215,090</u>	
<b>Total Assets/Outflows</b>	<b>57,480,343</b>	<b>66,601,105</b>	<b>529,559</b>	<b>558,183</b>	<b>58,009,902</b>	<b>67,159,288</b>	
Long-term Debt Outstanding	76,360,401	84,903,763	0	0	76,360,401	84,903,763	
Other Liabilities	<u>6,015,441</u>	<u>5,700,464</u>	<u>22,528</u>	<u>67,031</u>	<u>6,037,969</u>	<u>5,767,495</u>	
<b>Total Liabilities</b>	<b>82,375,842</b>	<b>90,604,227</b>	<b>22,528</b>	<b>67,031</b>	<b>82,398,370</b>	<b>90,671,258</b>	<b>10.0%</b>
Deferred Inflows of Resources	<b>1,822,000</b>	<b>1,779,575</b>	<b>0</b>	<b>0</b>	<b>1,822,000</b>	<b>1,779,575</b>	
<b>Net Assets/Position</b>							
Invested in Capital Assets	7,055,195	6,914,957	70,389	135,508	7,125,584	7,050,465	
Net of Related Debt							
Restricted for:							
Capital Projects	0	0	0	0	0	0	
Debt Service	6,767	6,767	0	0	6,767	6,767	
Unrestricted	<u>(33,779,461)</u>	<u>(32,704,421)</u>	<u>436,642</u>	<u>355,644</u>	<u>(33,342,819)</u>	<u>(32,348,777)</u>	
<b>Total Net Assets/Position</b>	<b>(\$26,717,499)</b>	<b>(\$25,782,697)</b>	<b>\$507,031</b>	<b>\$491,152</b>	<b>(\$26,210,468)</b>	<b>(\$25,291,545)</b>	<b>3.5%</b>

**Changes in net position.** The District's total revenues for the fiscal year ended June 30, 2017 increased 2.2% (\$813,111) to \$38.06 million. Operating grants increased by \$430,428 (6.4%) to total \$7.17 million. Capital grants decreased 3.1% to \$747 thousand due to lower debt service rental subsidy based on savings on debt service expense. Property taxes and other taxes levied for general purposes remained stable and accounted for largest share (53.8%) of total revenues. State formula aid increased 3.5% to \$8.67 million due to increases in the basic education and special education state subsidies. See Figures A-4 & A-5.

The total cost of regular programs and services decreased 4.2% to \$36.12 million. The District's expenses are predominately related to direct instruction and care for students (instructional support services, student activities, food services, transportation and operation & maintenance of school facilities), which represent 88.11% or \$31.82 million of total expenses. See Figures A-4 & A-6.

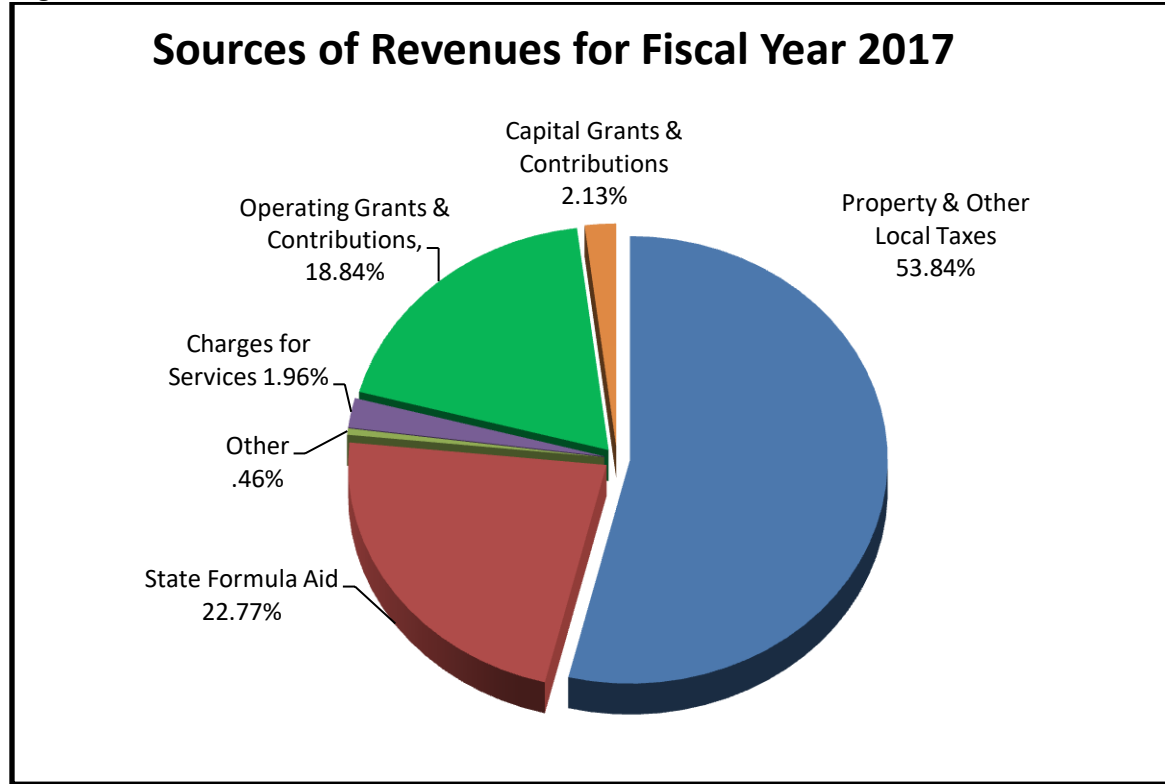
**SOMERSET AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017**

**Figure A-4**

<b>Changes in Net Assets From Operating Results</b>							
<b>July 1, 2016 to June 30, 2017</b>							
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total School District</b>		<b>Total % Change</b>
	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2016-2017</u></b>
<b>Revenues</b>							
Program Revenues							
Charges for Services	\$364,598	\$329,253	\$499,055	\$481,530	\$863,653	\$810,783	-6.1%
Operating Grants & Contributions	5,991,980	6,423,856	748,968	747,520	6,740,948	7,171,376	6.4%
Capital Grants & Contributions	771,657	747,352			771,657	747,352	-3.1%
General Revenues							
Property Taxes & Other Taxes Levied for General Purposes	20,442,254	20,488,522			20,442,254	20,488,522	0.2%
State Formula Aid	8,375,636	8,665,716			8,375,636	8,665,716	3.5%
Other	<u>50,650</u>	<u>173,000</u>	<u>662</u>	<u>1,822</u>	<u>51,312</u>	<u>174,822</u>	<u>240.7%</u>
<b>Total Revenues</b>	<b>35,996,775</b>	<b>36,827,699</b>	<b>1,248,685</b>	<b>1,230,872</b>	<b>37,245,460</b>	<b>38,058,571</b>	<b>2.2%</b>
<b>Expenses</b>							
Instruction	20,892,096	21,680,377	0	0	20,892,096	21,680,377	3.8%
Instructional Student Support	3,091,273	2,812,379	0	0	3,091,273	2,812,379	-9.0%
Administrative & Financial Support	4,643,967	2,726,503	0	0	4,643,967	2,726,503	-41.3%
Operation & Maintenance of Plant	3,170,009	3,370,321	0	0	3,170,009	3,370,321	6.3%
Pupil Transportation	1,629,486	1,655,553	0	0	1,629,486	1,655,553	1.6%
Other	<u>3,034,553</u>	<u>2,628,657</u>	<u>1,230,253</u>	<u>1,246,751</u>	<u>4,264,806</u>	<u>3,875,408</u>	<u>-9.1%</u>
<b>Total Expenses</b>	<b><u>36,461,384</u></b>	<b><u>34,873,790</u></b>	<b><u>1,230,253</u></b>	<b><u>1,246,751</u></b>	<b><u>37,691,637</u></b>	<b><u>36,120,541</u></b>	<b><u>-4.2%</u></b>
<b>Transfers</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>Special Item</b>	<b><u>76,056</u></b>	<b><u>78,433</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>76,056</u></b>	<b><u>78,433</u></b>	
<b>Incr. (Decr.) in Net Assets</b>	<b>(\$388,553) <sup>▼</sup></b>	<b>\$2,032,342</b>	<b>\$18,432 <sup>▼</sup></b>	<b>(\$15,879)</b>	<b>(\$370,121)</b>	<b>\$2,016,463</b>	<b>N/A</b>

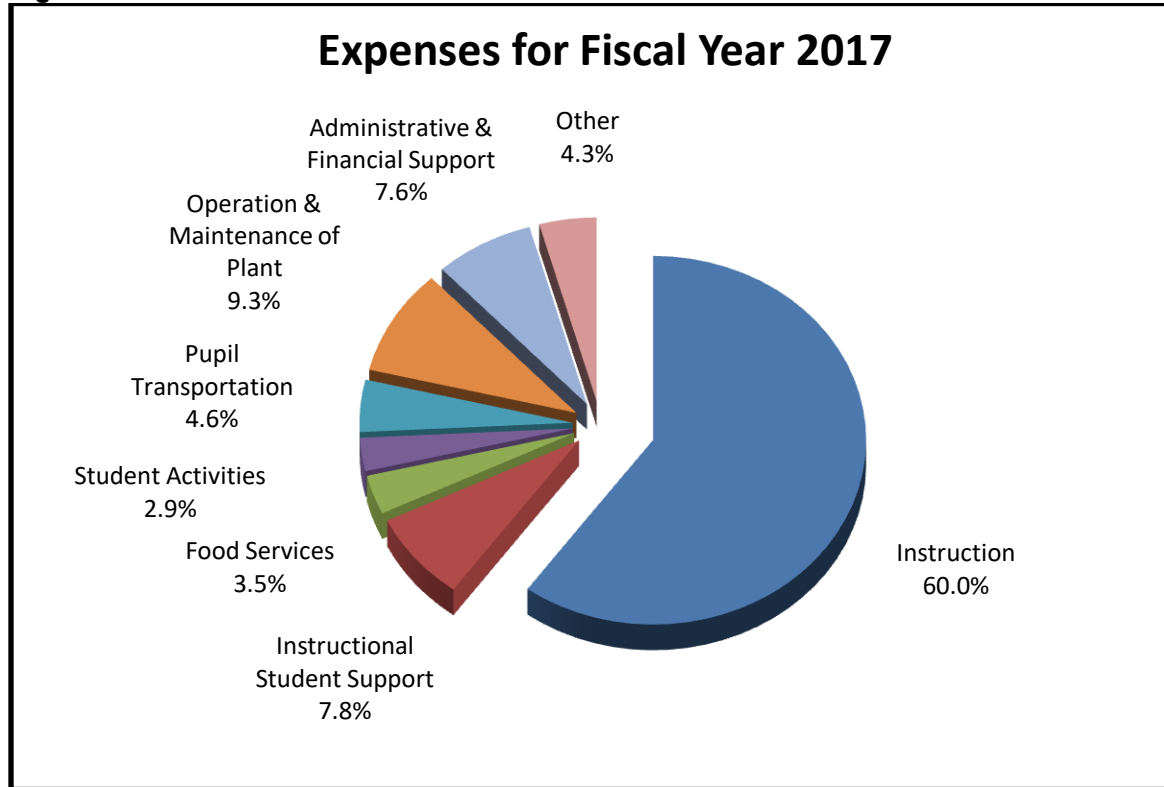
SOMERSET AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017

Figure A-5



SOMERSET AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017

**Figure A-6**



**Governmental activities.** Figure A-7 presents the cost of six (6) major District activities: instruction, instructional student support, administrative and financial support services, operation and maintenance of plant services, pupil transportation, and other. The table also shows each activity's *net cost* (total cost less fees generated by the activities and governmental aid provided for *specific* programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions. The net cost of governmental activities decreased 6.7% to \$27.37 million. The net cost is financed by general revenue, which is made up of primarily property and other local taxes levied by the District (\$20.49 million) and state formula aid (\$8.67 million).

**SOMERSET AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017**

**Figure A-7**

<b>Net Cost of Governmental Activities</b>					
<b>July 1, 2016 to June 30, 2017</b>					
	<b>Total Cost of Services</b>		<b>Net Cost of Services</b>		<b>Total % Change</b>
	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2016-2017</u></b>
<b>Regular Expenses</b>					
Instruction	20,892,096	21,680,377	\$15,828,012	\$16,296,641	3.0%
Instructional Student Support	3,091,273	2,812,379	2,856,401	2,556,695	-10.5%
Administrative & Financial Support	4,643,967	2,726,503	4,381,922	2,425,057	-44.7%
Operation & Maintenance of Plant	3,170,009	3,370,321	3,007,163	3,182,463	5.8%
Pupil Transportation	1,629,486	1,655,553	1,148,980	1,173,293	2.1%
Other	<u>3,034,553</u>	<u>2,628,657</u>	<u>2,110,671</u>	<u>1,739,180</u>	<u>-17.6%</u>
<b>Total</b>	<b>\$36,461,384</b>	<b>\$34,873,790</b>	<b>\$29,333,149</b>	<b>\$27,373,329</b>	<b>-6.7%</b>

## **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

**Governmental Funds.** As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the District's governmental funds is to provide information on current inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The financial performance of the District, as a whole, is reflected, in large part, in the change in its governmental fund balances and the increase (decrease) in its long-term debt. As the District completed the current year, its governmental funds reported a combined fund balance of \$14.16 million, an increase of \$297,051 from the prior year. The Capital Reserve Fund increased \$72,382 due to General Fund transfers primarily due to refinancing of bonds and the realized savings. The District continues to fund the Capital Reserve Fund and upgrade facilities by utilizing this fund. The projects completed during 2016/2017 included: completion of an upgrade to the Junior/Senior High School mechanical systems and replacement/upgrade to the IT network system and servers (E-rate funding paid for \$200,963 of the IT project). Other improvements include, the Eagle View Elementary School had the building's domestic hot water heater replaced. The District's swimming pool facility had the deck flooring replaced, and the costs totaled \$118,179. At the athletic complex, the tennis courts were resurfaced at a cost of \$110,949.

The General Fund restricted, committed, and assigned fund balance decreased \$43,706 from the prior year to \$7.95 million. The majority of this fund (\$6.1 million) was designated to pay for required employer contributions to the Public School Employees Retirement System (PSERS) that have increased significantly and are expected to continue to increase for a number of years. The slight decrease was due to a reduction in non-spendable reserve for inventories.



**SOMERSET AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017**

The General Fund unassigned fund balance increased \$268,375 (10.23%) from the prior year to \$2.79 million. The General Fund's unassigned fund balance is available for pending expenses at the District's discretion. See Figure A-8.

**Figure A-8**

<b>Governmental Funds - Fund Balances</b>						
	<b>2016</b>			<b>2017</b>		
	<b>Committed, Assigned or Restricted</b>	<b>Unassigned</b>	<b>Total</b>	<b>Committed, Assigned or Restricted</b>	<b>Unassigned</b>	<b>Total</b>
General Fund	\$7,993,264	\$2,525,354	\$10,518,618	\$7,959,558	\$2,783,729	\$10,743,287
Capital Reserve	3,346,709	0	3,346,709	3,419,091	0	3,419,091
Capital Projects	0	0	0	0	0	0
Debt Service	194	0	194	194	0	194
Non-Major Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total</b>	<b>\$11,340,167</b>	<b>\$2,525,354</b>	<b>\$13,865,521</b>	<b>\$11,378,843</b>	<b>\$2,783,729</b>	<b>\$14,162,572</b>

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2017, the District's capital assets used in its governmental activities increased 3.96% to \$73.07 million, including land, site improvements, school buildings and furniture and equipment. Total accumulated depreciation as of June 30, 2017 was \$34.69 million, resulting in net capital assets of \$38.38 million, down 1.5% from the prior year (see Figure A-9). The District's net investment in capital assets decreased as a result of depreciation.

**Figure A-9**

<b>Capital Assets (Net of Depreciation)</b>						
<b>July 1, 2016 to June 30, 2017</b>						
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total School District</b>	
	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>
Land	\$627,988	\$627,988			\$627,988	\$627,988
Site Improvements	2,468,175	1,631,010			2,468,175	1,631,010
Buildings & Improvements	34,235,724	34,156,181			34,235,724	34,156,181
Fixtures & Equipment	1,510,802	1,939,417	70,389	135,508	1,581,191	2,074,925
Construction In Progress	<u>122,505</u>	<u>24,778</u>			<u>122,505</u>	<u>24,778</u>
<b>Total</b>	<b>\$38,965,194</b>	<b>\$38,379,374</b>	<b>\$70,389</b>	<b>\$135,508</b>	<b>\$39,035,583</b>	<b>\$38,514,882</b>
						<b>-1.3%</b>

**SOMERSET AREA SCHOOL DISTRICT  
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FOR THE YEAR ENDED JUNE 30, 2017**

**Debt Administration.** At June 30, 2017, the District had \$87.05 million in general obligation bonds and other long-term debt outstanding (which at the present includes net pension liability, other postemployment benefits, and compensated absences). This represents a net increase from June 30, 2016 of \$8.21 million or 10.4%. The increase was primarily the pension liability increase. The District's General Obligations bonds (including the SCTC bonds) decreased \$2.65 million. See Figure A-10.

The District maintains a municipal bond credit rating of bond rating of "A+" with S & P Global Ratings.

**Figure A-10**

<b>Governmental Outstanding Long-Term Debt</b>			
	<b>June 30, 2016</b>	<b>June 30, 2017</b>	<b>Total % Change</b>
General Obligation Bonds	\$31,910,000	\$29,454,999	-7.7%
Other General Obligation Debt			
SCTC Debt	1,989,574	1,797,316	-9.7%
Other Postemployment Benefits	415,690	583,016	40.3%
Net Pension Liability	43,513,406	54,215,169	24.6%
Compensated Absences	<u>1,013,989</u>	<u>1,001,346</u>	<u>-1.2%</u>
	<b>\$78,842,659</b>	<b>\$87,051,846</b>	<b>10.4%</b>

**FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of the following significant existing circumstances that could affect its financial position in the future:

- On June 29, 2006, the Pennsylvania Legislature passed Act 1 of 2006, which requires all school districts in Pennsylvania to seek voter approval for tax increases that exceed a prescribed index beginning with the 2007/2008 fiscal year. In essence, Act 1 introduced voter referendum into the financing equation for the first time and dramatically reshaped the budgetary process and resulting taxing policies for the majority, if not all, districts.

The statewide, unmodified Act 1 index for fiscal year 2018/2019 has been established at 2.4% and Somerset Area School District's modified index is 3.0%. To put this in perspective, the maximum increase in millage that the District can impose for fiscal year 2018/2019 is 1.25 mill, resulting in \$560,000 of new tax revenue. Early estimates have a 6.74% or \$290,786 increase in the District's medical premiums for the 2018/19 fiscal year. This increase will use a large portion of these funds, leaving minimal new monies to pay for contractual increases in salaries and related costs or any other General Fund expenditures without applying for

SOMERSET AREA SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017

referendum exceptions, a voter referendum, or without savings resulting from staff or program reductions.

- As noted in last year's analysis, The Pennsylvania School Employees Retirement System (PSERS) trustees set the percentage of payroll that all school districts were required to pay in fiscal year 2007/2008 at 7.13%. For fiscal year 2008/2009, the required rate fell to 4.76%, and in fiscal year 2009/2010, was set at 4.78%. For fiscal year 2010/2011, the state mandated that a scheduled contribution of 8.22% of covered payroll be reduced to 5.64%. These low contribution rates, combined with PSERS market losses of -2.82% for the fiscal year 2007/2008 and -26.54% for fiscal year 2008/2009 have caused projected employer contribution to escalate. In the more recent fiscal years, PSERS fund posted positive market returns of 14.91% in FY 2014 and 7.96% in FY 2013, but in FY 2016 and FY 2015, the fund earned 1.29% and 3.04%, which did not meet the earnings assumption for the fiscal year periods. Due to active management of PSERS assets and a positive market environment, the fund posted a positive return of 10.14% for FY 2017. In addition, the annualized rate of returns were positive including: 4.76% for the three-year, 7.35% for the five-year, and 7.24% for 15-year, and 8.03% for the 25-year periods ended June 30, 2017. According to PSERS actuaries, the projected employer contribution rates are as follows: 32.57% for 2017/2018, 33.43% for 2018/2019, and a peak of 36.56% in 2021/2022. PSERS employer contribution rates are projected for five years (2021/2022) with a presumed 7.25% rate of return on investments. The employer rates are expected to remain above 30% for many years, and will require taxpayers to fund a rate at this level for these years.

Somerset Area School District, however, did maintain a budgetary contribution level of 7.13% in 2008/2009 and committed \$346,869 in the General Fund Reserve Account to offset future required contributions. More importantly, the District, in fiscal year 2009/2010, designated 1.86 mills for the express purpose of prefunding the looming PSERS increases and committed an additional \$1.12 million. In 2010/2011, the District designated an additional ½ mill and will be funding at a net District contribution rate of 13.73% that allowed the District to commit \$1,420,231 for the purpose of mitigating future contributions. Again, in 2011/2012, the District funded at a net contribution rate of 14.48% that allowed the District to commit another \$862,205 to mitigate future employer contributions. In 2012/2013, the District committed \$700,000 and \$1,250,000 in 2013/2014. Most recently in 2014/2015, the District committed \$400,000 bringing the committed balance to over \$6.1 million. The result is expected to reduce the amount the District will have to increase millage to fund the District's share of the maximum rate released by the state to date. The District's commitment of over \$6.1 million in the General Fund Reserve Account at June 30, 2017 to help "smooth" a transition to a required District net expense of approximately 18.3% of covered payroll (36.28% gross expense). The action taken by the District effectively minimizes future increases in contributions but demands continued monitoring and prospective planning, especially since future contribution rates depend upon positive 7.25% per annum returns by the PSERS fund in the interim.

- The District's unreimbursed Special and Gifted Education costs directly expensed to General Fund Function 1200 showed a large increase from the prior year of 10.8% (\$471,656) to \$4.83 million. At the same time, the State's reimbursement for these mandated costs increased minimally. The increase was \$13,514 or 0.9% to \$1.49

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FOR THE YEAR ENDED JUNE 30, 2017

million, causing the District's net cost to increase 15.9% (\$458,142). The large increase is a combination of causes including ever-increasing costs for cyber school tuition, tuition costs for special needs students placed in other educational facilities, and the ever-increasing costs of PSERS. The District is trying to control these costs and anticipate a much smaller increase in 2017/2018. The State's reimbursement for the 2017/2018 fiscal year is not expected to increase. The State's reimbursement for these mandated costs has fallen from 42.0% in fiscal year 2007/2008 to 30.9% this fiscal year, while the District's actual net expenses have increased 4.8% per annum over the same period. Funding mandated special education costs, even if they are qualified for an exception to voter referendum under Act 1, continues to present a significant challenge. In recent years, the District has brought a number of services in-house in order to reduce costs while still meeting the needs of our students. The District must continue to be financially resourceful in meeting the needs of its identified students without compromising services to them.

- The District's costs for students attending cyber/charter schools, most of which are cyber schools, increased 23.7% or \$163,395 for a total expense of \$852,845. This is an increase of \$830,042 from \$22,803 (net cost of \$15,962) in fiscal year 2001/2002. The State discontinued all funding starting in the fiscal year 2011/2012. The State requires districts to pay tuition charges to charter schools based on the district's educational costs but not the actual costs of the particular charter school. The issue is expected to continue to put budgetary pressure on the District, over which it has little control. Somerset Area School District has developed our own cyber school for students of the District, which provides a quality education at an affordable cost for our students that prefer a cyber-education experience.
- The District belongs to the Bedford-Somerset health consortium, made up of eighteen districts, for the provision of employee health care. The increase for FY 2014/2015 was 1.99%, 6.18% for 2015/2016, 5.68% for 2016/2017, and 10.01% in 2017/2018. The first few months of FY 2017/2018 actual claims are below average. The Act 1 projection for 2018/2019 rate is 6.74%. Medical cost trend is not expected to decrease in the immediate future, and the federal Healthcare Reform Act further complicates this issue. This expense coupled with retirement, cyber school tuition, and special education funding are the most significant pressures on the District's budget.
- As stated previously in this document, the District implemented GASB 68, *Accounting and Financial Reporting for Pensions*. This change in accounting requirements is to improve accountability and transparency of school district's financial statements. At June 30, 2016, the District reported a liability of \$43.51 million for its proportionate share of the net pension liability. The liability increased to \$54.22 million in FY 2016/2017. 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 an actuarial valuation as of that date. One of the factors that caused an increase in the net pension liability is the change in actuarial assumptions used in the measurement beginning with the June 30, 2016 valuation. Changes include the decrease in investment rate of return from 7.50% to 7.25%, inflation assumption decreased from 3.0% to 2.75%, salary growth changed from an average of 5.50% to 5.00%, and modification of mortality rates. The District's proportion of the net

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pension liability is based on the covered payroll reported to the pension plan by the school district relative to the total covered payroll of all participating employers, for the year ended June 30, 2016. At June 30, 2016, the District's proportion was 0.1094%.

- Another factor with potential bearing on the Somerset Area School District's finances is the November 1, 2016 filing of a significant civil complaint against the District regarding administrative actions taken in response to alleged teacher misconduct occurring in or around 2001. The 30-year-old former student claims that the District was "deliberately indifferent" to the teacher's inappropriate actions.

Currently, the District's Legal Counsel is aggressively countering this claim; however, because this case is far from a conclusion, an outcome in the District's favor cannot be assured. Further complicating an assessment of the potential financial impact of this suit is communication received from the District's insurance carrier. Although the District procured and has maintained appropriate general liability and errors and omissions (legal liability) insurance policies covering the time of the alleged inappropriate conduct, its carrier (Chubb North American Claims, formerly Ace North America), has responded that it will provide the District with a defense under a reservation of rights. Essentially, this means that the carrier will determine the applicability of the coverage to this claim after further investigation. For this reason, District officials cannot determine whether insurance coverage will provide for any damages potentially awarded to the plaintiff or if the claim will be covered under its policies.

#### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Superintendent's Office or the Business Office, Somerset Area School District, 645 South Columbia Ave., Somerset, PA 15501.

SOMERSET AREA SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2017

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>			
<b>Assets</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 6,408,325	\$ 324,996	\$ 6,733,321
Investments	8,912,000	-	8,912,000
Taxes Receivable (Net)	1,967,611	-	1,967,611
Due from Other Governments	1,298,168	77,970	1,376,138
Other Receivables	130,396	-	130,396
Inventories	280,141	19,709	299,850
Prepaid Expenses	10,000	-	10,000
Total Current Assets	<u>19,006,641</u>	<u>422,675</u>	<u>19,429,316</u>
Noncurrent Assets:			
Land	627,988	-	627,988
Construction in Progress	24,778	-	24,778
Site Improvements (Net of Accumulated Depreciation)	1,631,010	-	1,631,010
Buildings and Building Improvements (Net of Accumulated Depreciation)	34,156,181	-	34,156,181
Furniture and Equipment (Net of Accumulated Depreciation)	1,939,417	135,508	2,074,925
Total Noncurrent Assets	<u>38,379,374</u>	<u>135,508</u>	<u>38,514,882</u>
Total Assets	<u>57,386,015</u>	<u>558,183</u>	<u>57,944,198</u>
Deferred Outflows of Resources	<u>9,215,090</u>	<u>-</u>	<u>9,215,090</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u><b>\$ 66,601,105</b></u>	<u><b>\$ 558,183</b></u>	<u><b>\$ 67,159,288</b></u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>			
<b>Liabilities</b>			
Current Liabilities:			
Internal Balances	\$ 15,037	\$ (15,037)	\$ -
Due to Other Governments	201,870	-	201,870
Accounts Payable	523,229	55,850	579,079
Current Portion of Long-Term Debt	2,148,084	-	2,148,084
Short-Term Payables	212,102	-	212,102
Accrued Salaries, Benefits, Payroll Liabilities	2,595,807	5,040	2,600,847
Unearned Revenues	4,336	5,612	9,948
Other Current Liabilities	-	15,566	15,566
Total Current Liabilities	<u>5,700,465</u>	<u>67,031</u>	<u>5,767,496</u>
Noncurrent Liabilities:			
Bonds Payable	27,505,000	-	27,505,000
Extended Term Financing Agreement Payable	1,599,232	-	1,599,232
Net Pension Liability	54,215,169	-	54,215,169
Long-Term Portion of Compensated Absences	1,001,345	-	1,001,345
Other Postemployment Benefits	583,016	-	583,016
Total Noncurrent Liabilities	<u>84,903,762</u>	<u>-</u>	<u>84,903,762</u>
Total Liabilities	<u>90,604,227</u>	<u>67,031</u>	<u>90,671,258</u>
Deferred Inflows of Resources	<u>1,779,575</u>	<u>-</u>	<u>1,779,575</u>
Net Position			
Net Investment in Capital Assets	6,914,957	135,508	7,050,465
Restricted For:			
Retirement of Long-Term Debt	194	-	194
Other Restrictions	6,573	-	6,573
Unrestricted	(32,704,421)	355,644	(32,348,777)
Total Net Position	<u>(25,782,697)</u>	<u>491,152</u>	<u>(25,291,545)</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u><b>\$ 66,601,105</b></u>	<u><b>\$ 558,183</b></u>	<u><b>\$ 67,159,288</b></u>

The accompanying notes are an integral part of these financial statements.

SOMERSET AREA SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for	Operating	Capital	Governmental	Business-Type	Total
	Expenses	Services	Grants and Contributions	Grants and Contributions	Activities	Activities	
Governmental Activities							
Instruction	\$ 21,680,377	\$ 274,273	\$ 5,109,463	\$ -	\$ (16,296,641)	\$ -	\$ (16,296,641)
Instructional Student Support	2,812,379		255,684	-	(2,556,695)	-	(2,556,695)
Administrative and Financial Support Services	2,726,503	-	301,446	-	(2,425,057)	-	(2,425,057)
Operation and Maintenance of Plant Services	3,370,321	-	187,858	-	(3,182,463)	-	(3,182,463)
Pupil Transportation	1,655,553	-	482,260	-	(1,173,293)	-	(1,173,293)
Student Activities	1,059,312	33,942	72,513	-	(952,857)	-	(952,857)
Community Services	117,687	21,038	14,632	-	(82,017)	-	(82,017)
Interest on Long-Term Debt	980,946	-	-	747,352	(233,594)	-	(233,594)
Depreciation - Unallocated	470,712	-	-	-	(470,712)	-	(470,712)
Total Governmental Activities	34,873,790	329,253	6,423,856	747,352	(27,373,329)	-	(27,373,329)
Business-Type Activities							
Food Service	1,246,751	481,530	747,520	-	-	(17,701)	(17,701)
TOTAL	36,120,541	810,783	7,171,376	747,352	(27,373,329)	(17,701)	(27,391,030)
General Revenues							
Taxes:							
Property and Other Taxes, Levied for General Purposes, Net					20,488,522	-	20,488,522
Grants, Subsidies, and Contributions, Not Restricted					8,665,716	-	8,665,716
Investment Earnings					91,497	1,822	93,319
Miscellaneous Income					81,503	-	81,503
Total General Revenues					29,327,238	1,822	29,329,060
Change in Net Position Before Special Item					1,953,909	(15,879)	1,938,030
Special Item - Difference in SCTC Debt Payments					78,433	-	78,433
Change in Net Position					2,032,342	(15,879)	2,016,463
Net Position, Beginning of Year, (As Restated, See Note 12)					(27,815,039)	507,031	(27,308,008)
Net Position, End of Year					\$ (25,782,697)	\$ 491,152	\$ (25,291,545)

The accompanying notes are an integral part of these financial statements.

SOMERSET AREA SCHOOL DISTRICT  
BALANCE SHEET: GOVERNMENTAL FUNDS  
JUNE 30, 2017

	General Fund	Capital Reserve	Debt Service	Total Governmental Funds
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>				
Assets				
Cash and Cash Equivalents	\$ 4,594,149	\$ 1,813,982	\$ 194	\$ 6,408,325
Investments	7,178,000	1,734,000	-	8,912,000
Taxes Receivable, Net	1,998,301	-	-	1,998,301
Due From Other Governments	1,298,168	-	-	1,298,168
Other Receivables	124,500	5,896	-	130,396
Inventories	280,141	-	-	280,141
Prepaid Expense	10,000	-	-	10,000
Total Assets	<u>15,483,259</u>	<u>3,553,878</u>	<u>194</u>	<u>19,037,331</u>
Deferred Outflows of Resources	-	-	-	-
Total Assets and Deferred Outflows of Resources	<u>\$ 15,483,259</u>	<u>\$ 3,553,878</u>	<u>\$ 194</u>	<u>\$ 19,037,331</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
Liabilities				
Due to Other Funds	\$ 15,037	\$ -	\$ -	\$ 15,037
Due to Other Governments	201,870	-	-	201,870
Accounts Payable	388,442	134,787	-	523,229
Accrued Salaries and Benefits	2,432,545	-	-	2,432,545
Payroll Deductions and Withholdings	163,262	-	-	163,262
Other Current Liability	4,336	-	-	4,336
Total Liabilities	<u>3,205,492</u>	<u>134,787</u>	<u>-</u>	<u>3,340,279</u>
Deferred Inflows of Resources - Unavailable Revenue - Property Taxes	<u>1,534,480</u>	<u>-</u>	<u>-</u>	<u>1,534,480</u>
Fund Balances				
Nonspendable Reserve for Inventories and Prepaid Expenses	290,141	-	-	290,141
Restricted Fund Balance	6,573	-	194	6,767
Committed Fund Balance	7,656,829	-	-	7,656,829
Assigned Fund Balance	6,015	3,419,091	-	3,425,106
Unassigned Fund Balance	2,783,729	-	-	2,783,729
Total Fund Balances	<u>10,743,287</u>	<u>3,419,091</u>	<u>194</u>	<u>14,162,572</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 15,483,259</u>	<u>\$ 3,553,878</u>	<u>\$ 194</u>	<u>\$ 19,037,331</u>

The accompanying notes are an integral part of these financial statements.



SOMERSET AREA SCHOOL DISTRICT  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE DISTRICT-WIDE STATEMENT OF NET POSITION  
 JUNE 30, 2017

Total Fund Balances - Governmental Funds	\$ 14,162,572
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Amounts reported for governmental activities in the district-wide statement of net position are different because:

Capital assets used in governmental funds are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$73,070,941 and the accumulated depreciation is \$34,691,567

38,379,374

Property taxes receivable not available to pay for current period's expenditures and, therefore, are deferred in the funds

1,534,480

Establish allowance for doubtful accounts - property taxes receivable

(30,690)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Bonds Payable	\$ 29,455,000	
Extended Term Financing Agreement Payable	1,797,316	
Accrued Interest Payable	212,102	
Net Pension Liability	54,215,169	
Deferred Outflows of Resources Related to Net Pension Liability	(9,215,090)	
Deferred Inflows of Resources Related to Net Pension Liability	1,779,575	
Compensated Absences	1,001,345	
Other Postemployment Benefits	583,016	

(79,828,433)

Total Net Position - Governmental Activities

\$ (25,782,697)

The accompanying notes are an integral part of these financial statements.

SOMERSET AREA SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017

	General <u>Fund</u>	Capital <u>Reserve</u>	Debt <u>Service</u>	Total Governmental <u>Funds</u>
REVENUES				
Local Sources	\$ 21,335,222	\$ 16,465	\$ 1	\$ 21,351,688
State Sources	14,531,579	-	-	14,531,579
Federal Sources	825,094	-	-	825,094
Total Revenues	<u>36,691,895</u>	<u>16,465</u>	<u>1</u>	<u>36,708,361</u>
EXPENDITURES				
Instruction	20,520,644	-	-	20,520,644
Support Services	10,737,367	-	176,101	10,913,468
Noninstructional Services	1,215,085	-	-	1,215,085
Capital Outlay	-	794,083	-	794,083
Debt Service	150,239	-	2,997,784	3,148,023
Total Expenditures	<u>32,623,335</u>	<u>794,083</u>	<u>3,173,885</u>	<u>36,591,303</u>
Excess (Deficiency) Of Revenues Over Expenditures	4,068,560	(777,618)	(3,173,884)	117,058
OTHER FINANCING SOURCES (USES)				
Proceeds From Refunding Bonds	-	-	9,825,000	9,825,000
Bond Premium	-	-	638,007	638,007
Payment to Refunded Bond Escrow Agent	-	-	(10,283,014)	(10,283,014)
Interfund Transfers From Other Funds	-	850,000	2,993,891	3,843,891
Transfers Out to Other Funds	(3,843,891)	-	-	(3,843,891)
Total Other Financing Sources (Uses)	<u>(3,843,891)</u>	<u>850,000</u>	<u>3,173,884</u>	<u>179,993</u>
NET CHANGE IN FUND BALANCES	224,669	72,382	-	297,051
FUND BALANCES, BEGINNING OF YEAR	<u>10,518,618</u>	<u>3,346,709</u>	<u>194</u>	<u>13,865,521</u>
FUND BALANCES, END OF YEAR	<u>\$ 10,743,287</u>	<u>\$ 3,419,091</u>	<u>\$ 194</u>	<u>\$ 14,162,572</u>

The accompanying notes are an integral part of these financial statements.

SOMERSET AREA SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES  
JUNE 30, 2017

Total Net Change In Fund Balance - Governmental Funds \$ 297,051

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current year:

Capital Outlays	\$ 2,864,923	
Less: Depreciation Expense	<u>(2,353,563)</u>	511,360

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, but deferred inflows of resources. This increased by this amount this year

119,338

Issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, but issuing debt increases liabilities in the statement of net position. Repayment of debt principal is an expenditure in governmental funds, but the repayment reduces liabilities in the statement of net position. The effect of these transactions in the statement of activities is shown below:

Issuance of Long-Term Debt	(9,825,000)	
Repayment of Principal	<u>12,472,258</u>	2,647,258

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. Accrued interest decreased by this amount this year

56,266

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

Additional Pension Expense	(1,444,248)	
Change in Long-Term Compensated Absences	12,643	
Change in Other Postemployment Benefits	<u>(167,326)</u>	(1,598,931)

Change in Net Position - Governmental Activities		<u><u>\$ 2,032,342</u></u>
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SOMERSET AREA SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUND  
JUNE 30, 2017

	<u>Food Service</u>
<b>ASSETS</b>	
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 324,996
Due From Other Funds	15,037
Due From Other Governments	77,970
Inventories	19,709
Total Current Assets	<u>437,712</u>
Noncurrent Assets	
Furniture and Equipment, Net of Accumulated Depreciation	<u>135,508</u>
Total Assets	<u>\$ 573,220</u>
 <b>LIABILITIES AND NET POSITION</b>	
Liabilities	
Current Liabilities	
Accounts Payable	\$ 55,850
Accrued Salaries and Benefits	5,040
Unearned Revenue	5,612
Other Current Liabilities	15,566
Total Current Liabilities	<u>82,068</u>
Total Liabilities	<u>82,068</u>
 Net Position	
Investment in Capital Assets	135,508
Unrestricted	355,644
Total Net Position	<u>491,152</u>
Total Liabilities and Net Position	<u>\$ 573,220</u>

The accompanying notes are an integral part of these financial statements.

SOMERSET AREA SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Food Service</u>
OPERATING REVENUES	
Food Service Revenues	\$ 481,530
Total Operating Revenues	<u>481,530</u>
OPERATING EXPENSES	
Salaries	78,422
Employee Benefits	69,897
Other Purchased Services	454,570
Food & Supplies	633,297
Depreciation	10,565
Total Operating Expenses	<u>1,246,751</u>
OPERATING LOSS	<u>(765,221)</u>
NONOPERATING REVENUES	
Earnings on Investments	1,822
State Sources	54,516
Federal Sources	693,004
Total Nonoperating Revenues	<u>749,342</u>
Net Loss	(15,879)
NET POSITION, BEGINNING OF YEAR	<u>507,031</u>
NET POSITION, END OF YEAR	<u><u>\$ 491,152</u></u>

The accompanying notes are an integral part of these financial statements.

SOMERSET AREA SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Food Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Users	\$ 487,139
Cash Payments to Employees for Services	(154,089)
Cash Payments to Suppliers for Goods and Services	(1,108,330)
Net Cash Used In Operating Activities	<u>(775,280)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
State Sources	54,516
Federal Sources	693,004
Net Cash Provided By Non-Capital Financing Activities	<u>747,520</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Outlay	<u>(75,684)</u>
Net Cash Used For Capital and Related Financing Activities	<u>(75,684)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on Investments	1,822
Net Cash Provided By Investing Activities	<u>1,822</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(101,622)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>350,934</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 249,312</u></u>
Operating Loss	<u>\$ (765,221)</u>
Adjustments to Reconcile Operating Loss to Net Cash Used In Operating Activities:	
Depreciation	10,565
USDA Donated Commodities	(81,455)
(Increase) Decrease in Accounts Receivable	5,609
(Increase) Decrease in Inventories	7,237
Increase (Decrease) in Accounts Payable	55,783
Increase (Decrease) in Unearned Revenue	(7,936)
Increase (Decrease) in Other Current Liabilities	138
Total Adjustments	<u>(10,059)</u>
Net Cash Used In Operating Activities	<u><u>\$ (775,280)</u></u>

The accompanying notes are an integral part of these financial statements.

SOMERSET AREA SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUND  
JUNE 30, 2017

	Student Activity <u>Fund</u>
ASSETS	
Assets	
Cash and Cash Equivalents	\$     76,026
Total Assets	<u>\$     76,026</u>
LIABILITIES	
Liabilities	
Accounts Payable	\$       3,713
Due to Student Organizations	<u>72,313</u>
Total Liabilities	<u>\$     76,026</u>

The accompanying notes are an integral part of these financial statements.

SOMERSET AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Somerset Area School District (the "District") is a third-class district serving Somerset Borough, Somerset Township, Jefferson Township and Lincoln Township located in Somerset County, Pennsylvania.

The District is governed by a board of nine school board members who are residents of the District and who are elected every two years, on a staggered basis, for a four-year term.

The Board of Directors (the "Board") has the power and duty to establish, equip, furnish and maintain a sufficient number of elementary, secondary and other schools necessary to educate every person residing in such district between the ages of six and twenty-one years, who may attend.

In order to establish, enlarge, equip, furnish, operate and maintain any school herein provided, or to pay any school indebtedness, which the District is required to pay, or to pay an indebtedness that may at any time hereafter be created by the District. The Board is vested with all the necessary authority and power annually to levy and collect the necessary taxes required and granted by the legislature, in addition to the annual State appropriation, and are vested with all necessary power and authority to comply with and carry out any or all of the provisions of the Public School Code of 1949.

The financial statements of the District have been prepared in accordance with generally accepted accounting principles 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.

A.) 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 expenses during the reporting period. Actual results could differ from those estimates.

B.) Reporting Entity:

The District is the basic level of government, which has financial accountability and control over all activities related to the public school education in the District. The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. However, the District, is not included in any other governmental "reporting entity" as defined by the GASB pronouncements, since Board members are elected from the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units as defined in GASB Statement No. 61, which are included in the District's reporting entity.



SOMERSET AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C.) Joint Venture:

The Somerset Area School District participates in the Somerset County Technology Center as a joint venture with the following seven other Somerset County schools; Berlin-Brothersvalley School District, North Star School District, Rockwood Area School District, Shade-Central City School District, Shanksville-Stonycreek School District, Meyersdale Area School District and Turkeyfoot Valley Area School District. The Technology Center provides training in vocational areas not otherwise offered by the School District. The Somerset County Technology Center is governed by nine member joint operating committee comprised of one appointee from seven of the participating districts and two appointees from the largest participating school, Somerset Area School District. The secondary school operational expenditures of the Technology Center are shared proportionately by the member districts according to student enrollment. Major capital expenditures of the Technology Center are distributed among the participating school districts on the basis of the percentage which the market value of taxable real property of each participating school district, as published by the State Equalization Board, bears to the total market value of taxable real property of all participating districts. During the year ended June 30, 2017, Somerset Area School District paid \$1,046,073 to the Somerset County Technology Center for its share of 2016-17 operational expenditures. In addition, during 2003-04 the member districts entered into extended term financing agreements for major building renovations to the Technology Center facility (see Note 5). These extended term financing agreements were refinanced in 2011-12.

Audited financial statements of the Somerset County Technology Center may be obtained directly from its administrative office located at 281 Technology Drive, Somerset, PA 15501.

D.) Fund Accounting:

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts, which are comprised of each fund's assets, liabilities, fund balance, revenues and expenditures or expenses as appropriate. Resources are allocated to and accounted for in the individual funds based on the purpose for which they are to be spent.

The District uses the following funds:

GOVERNMENTAL FUNDS – These funds are used to account for most of the District's finances. The measurement focus is on determination of the financial position and changes in financial position (current financial resources) rather than on income determination.

SOMERSET AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D.) Fund Accounting (Continued):

The District reports the following major funds:

1. General Fund – This is the general operating fund of the District. All activities of the District are accounted for through this major fund except for those required to be accounted for in another fund. General Fund activities are funded primarily by subsidies and taxes. Major functions financed from the General Fund include school instruction, support services and operation and maintenance of equipment and facilities.
2. Capital Reserve Fund – This major fund is used to account for financial resources that are used for the acquisition or construction of major assets at the Board's discretion. This fund was created pursuant to Section 2932 of the Pennsylvania Municipal Code, 53 P.S. 1432 as a Special Revenue Fund for capital outlays
3. Debt Service Fund - This major fund is used to account for the accumulation of resources for payment of principal and interest on the general obligation bonds of the School District. Payments are remitted to independent fiscal agents to cover principal, interest and fees.

PROPRIETARY FUND – This fund accounts for District activities that are similar to business operations in the private sector or where the reporting focus is on determining net income, financial position and changes in financial position (economic resources measurement focus).

1. Food Service Fund – This major fund is used to account for the District's food service operations that are financed and operated in a manner similar to private business enterprises. The Fund accounts for all revenues, food purchases, costs and expenses for the Food Service Program.

FIDUCIARY FUNDS – These funds are used to account for assets held by the District as trustee or agent. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

1. Student Activity Fund – This fund accounts for the receipts and disbursements of monies from student activity organizations. These organizations exist with the explicit approval and are subject to revocation by the District's governing body. This accounting reflects the District's agency relationship with the student activity organizations.

E.) Basis of Presentation:

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 District. As a general rule, the effect of interfund activity has been eliminated 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.

SOMERSET AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E.) Basis of Presentation (Continued):

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or segment. Program revenues include charges to customers who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment. In addition, program revenues include 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.

Fund financial statements are also provided in the report for all of the governmental funds, proprietary funds and the fiduciary funds of the District. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Fiduciary funds are reported by fund type.

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 this definition are reported as non-operating revenues and expenses.

F.) Measurement Focus and Basis of Accounting:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as is the Proprietary 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 revenue as soon as all eligibility requirements imposed by the provider have been met. Net Position (total assets and deferred outflows less total liabilities and deferred inflows) 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 as expense against current operations and accumulated depreciation is reported on the Statement of Net Position.

The 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 tax revenue to be available if collected within sixty days of the end of the fiscal period. Revenue from federal, state, and other grants designated for payment of specific school district expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recorded as deferred 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.

SOMERSET AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G.) Budgetary Data:

In accordance with Act 1, the District elected not to increase the real estate tax rate above the index established by the Pennsylvania Department of Education and, therefore, follows the procedures outlined below in establishing the budgetary data reflected in the basic financial statements:

1. Prior to May 31, the Board submits a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the General Fund.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of a resolution.
4. The budget of the District is the approved spending plan of the District for the year and the Board is prohibited from obligating funds in excess of these amounts. The Board may, during any fiscal year, amend the budget by making additional appropriations or increase existing appropriations to meet emergencies. The funds shall be provided from unexpended balances in existing appropriations, from unappropriated revenues or from temporary loans. Legal budgetary control is maintained by the Board at the department level. Transfers between departments, whether between funds or within a fund or revisions that alters the total revenues and expenditures of any fund, must be approved by the Board. Budget information in the Budgetary Comparison Schedule is presented at or below the legal level of budgetary control. Several functions had expenditures that exceeded the budgeted amount; however, these overages were absorbed by surpluses in other functions and fund balance. Total expenditures exceeded the appropriations for the year which is a violation of school code.
5. Budgetary data is included in the District's management information system and is employed as a management control device during the year.
6. The budget for the General Fund is adopted on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.
7. There were supplemental budgetary appropriations or amendments proposed or approved during the year.

Legal budgetary control is maintained by the District Board at the functional object level. Transfer between functional objects, whether between funds or within a fund or revisions that alters the total revenues and expenditures of any fund, must be approved by the District Board. Budget information in the Budgetary Comparison Schedule for the General Fund is presented at or below the legal level of budgetary control.

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

SOMERSET AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H.) Cash and Cash Equivalents:

Cash and cash equivalents in the basic financial statements include all highly liquid investments with an original maturity of three months or less.

I.) Investments:

Investments are carried at market value based on quoted market prices.

J.) Interfund Receivables/Payables:

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "interfund receivables/payables." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

K.) Accounts Receivable:

Accounts receivable are recorded at the invoiced amount. The District determines the allowance for doubtful accounts based on historical write-off experience. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

L.) Inventories and Prepaid Items:

Inventories of the Food Service Fund consisting of food and paper supplies are carried at cost, using the first-in, first-out method. Federal donated commodities are valued at their fair market value as determined by the U.S. Department of Agriculture at the date of donation. The inventories on hand at June 30, 2017, consist of the following:

Purchased Food and Paper	\$ 14,097
Purchased Food and Paper	<u>5,612</u>
Total Inventory	<u>\$ 19,709</u>

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

Inventories in the General Fund total \$280,141 and consist of various education and Janitorial supplies carried at cost, using the first-in, first-out method.

M.) Capital Assets:

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$1,500 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous asset categories with individual assets less than \$1,500 as composite groups for financial reporting purposes. In addition, capital assets purchased with long-term debt may be capitalized regardless of the thresholds established. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

SOMERSET AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M.) Capital Assets: (continued)

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

All reported capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Site Improvements	15 – 20 years
Buildings and Improvements	20 – 40 years
Furniture and Equipment	5 – 20 years
Food Service Equipment	12 years

N.) Long-Term Obligations:

In the government-wide financial long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of Net Position. Bond premiums are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium.

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

O.) Fund Balance:

*Fund Balance Classification:* The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the School District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

SOMERSET AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O.) Fund Balance: (Continued):

• *Non-spendable*: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The School District has \$290,141 in non-spendable fund balance in the General Fund as of June 30, 2017.

• *Restricted*: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The School District had \$6,767 of restricted fund balance as of June 30, 2017. The funds were restricted for the retirement of long term debt.

• *Committed*: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The School District had \$7,656,829 of committed resources as of June 30, 2017.

The District's Committed Resources consisted of the following:

PSERS Employer Contributions	\$6,101,405
Textbook/Media Purchases	462,000
Cyber/Charter School Expense	225,000
Health Insurance Expense	750,000
Summer Professional Development Expense	100,000
Litigation Contingency Fund	<u>18,424</u>
	<u>\$7,656,829</u>

SOMERSET AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O.) Fund Balance: (Continued):

• *Assigned*: This classification includes amounts that are constrained by the School District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Directors or through the Board of Directors delegating this responsibility to the School District's management. The School District had \$3,425,106 of assigned resources as of June 30, 2017.

The District's Assigned Fund Balance consisted of the following:

Capital Projects	\$3,419,091
Retiree Health Insurance	<u>6,015</u>
	<u>\$3,425,106</u>

• *Unassigned*: This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts. The School District had \$2,783,729 of unassigned fund balance as of June 30, 2017.

The School District uses Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

P.) Deferred Outflows /Inflows of Resources:

The Statement of Net Position report separate sections for deferred outflows and deferred inflows of resources. These separate financial statement elements represent a consumption or acquisition of net position that applies to a future period(s) and so will not be recognized as an outflow or inflow of resources (expense/revenue) until then. The District has three items that qualify for reporting in these categories: deferred outflows on refunding bonds, deferred outflows and inflows related to pensions, and unavailable tax revenue.

Deferred outflows and inflows of resources related to pensions are described further in Note 8. Annual changes to the net pension liability resulting from differences between expected and actual experience with regard to economic and demographic factors and from changes of assumptions about future economic or demographic factors or other inputs are deferred and amortized over a closed period equal to the average of the expected service lives of all employees that are provided with pension benefits determined for the period during which the changes occurred. Differences between projected and actual earnings on pension plan investments are amortized over a closed five-year period.



SOMERSET AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P.) Deferred Outflows /Inflows of Resources: (Continued):

In the governmental funds balance sheet, the District only has one type of item, which arises under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable tax revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

Q.) Adoption of Governmental Accounting Standards Board Statements:

The School District adopted the provisions of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The adoption of this statement had no effect on previously reported amounts.

The School District adopted the provisions of GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The adoption of this statement had no effect on previously reported amounts.

The School District adopted the provisions of GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*. The adoption of this statement had no effect on previously reported amounts.

The School District adopted the provisions of GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The adoption of this statement had no effect on previously reported amounts.

The School District adopted the provisions of GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. The adoption of this statement had no effect on previously reported amounts.

R.) Pending Changes in Accounting Principles:

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The District is required to adopt statement No. 75 for its fiscal year 2018 financial statements.

In November of 2016, the GASB issued Statement No. 83 *Certain Asset Retirement Obligations*. The District is required to adopt Statement No. 83 for its calendar year 2019 financial statements.

In January 2017, the GASB issued Statement No. 84 *Fiduciary Activities*. The District is required to adopt Statement No. 84 for its calendar year 2019 financial statements.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The District is required to adopt Statement No. 85 for its calendar year 2018 financial statements.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The District is required to adopt Statement No. 86 for its calendar year 2018 financial statements.

SOMERSET AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R.) Pending Changes in Accounting Principles (Continued):

In June 2017, the GASB issued Statement No. 87, "Leases". The District is required to adopt Statement No. 87 for its calendar year 2020 financial statements.

The School District has not yet completed the various analysis required to estimate the financial statement impact of these new pronouncements.

NOTE 2: CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision and (d) shares of an investment company registered under the Investment Company Act of 1940, provided that the instruments are those types of investments listed above, and the investment company is managed so as to maintain its shares at a constant net asset value and the investment company is rated in the highest category by a nationally recognized rating agency. Pursuant to Act 72 of the Pennsylvania State Legislature, a depository must pledge assets to secure state and municipal deposits. The pledged assets must at least be equal to the total amount of such assets required to secure all of the public deposits at the depository and may be on a pooled basis. Additionally, all such pledged assets must be delivered to a legal custodian.

Act 10 of 2016 broadened the scope of investment options for the District with safeguard measures to protect those investments. The Act added high quality money market instruments including repurchase agreements, commercial paper, negotiable certificates of deposit and bankers' acceptances to the authorized list of investments.

The deposit and investment policy of the District adheres to State statutes and prudent business practice. There were no deposits or investment transactions during the year that were in violation of either the State statutes or the policy of the District.

A portion of the District's cash and investments are in the Pennsylvania School District Liquid Asset Fund ("PSDLAF"), which is a fund very similar to mutual funds. PSDLAF operates in accordance with appropriate State laws and regulations and under State oversight. The reported value of the pool is the same as the fair value of the pool shares.

In accordance with the Government Accounting Standards Board, investments in PSDLAF are valued at amortized cost, which approximates market value. The amortized cost method involves valuing a security at its cost on the date of purchase and recording a constant amortization or accretion to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of the investment. The net asset value per share for the purpose of calculating the price at which shares are issued and redeemed is determined by the Administrator each banking day. Such determination

SOMERSET AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 2: CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

is made by subtracting the liabilities from the value of the assets and dividing the remainder by the number of shares outstanding.

Although such requirement has been waived since 2005, all investments in PSDLAF's MAX Series by Settlers must be deposited for a minimum of 14 calendar days. No investment made in the MAX Series may be withdrawn by the Settlor making it during the first 14 calendar days after it is made without the incurrence of a penalty for such premature withdrawal. However, the 14 day minimum investment period does not apply to direct deposits of state aid payments into the MAX Series. In the event that a Settlor withdraws a deposit within such initial 14 calendar day period, it will be subject to a penalty equal to the loss of 14 days interest on the amount so withdrawn. Such 14 day interest penalty shall be calculated on the basis of the dividend rates in effect for the MAX Series for the 14 day period immediately preceding the withdrawal date. Accordingly, the penalty will be equal to the dividend that would have been paid during the 14 days preceding the withdrawal date on the amount prematurely withdrawn. Such penalty will be payable even though the amount withdrawn has not been invested in the MAX Series for the full 14 day period preceding the withdrawal. However, as noted above, the 14 day minimum investment period has been waived since 2005 and would not be reinstituted without notice to the Fund's Settlers.

As of June 30, 2017, there were no redemption fees or maximum transaction amounts, or any other requirements that serve to limit a participant's daily access to 100 percent of their account value.

*Interest Rate Risk* – The School District does not have a formal investment policy for the that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk* – The School District has no formal investment policy for its operating and Fiduciary funds that addresses credit risk. As of June 30, 2017, the School District's operating investments were all maintained in the CD Program with the Pennsylvania Local Government Investment Trust – CD Program (PLGIT).

*Custodial Credit Risk* – For deposits and investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the School District will be able to recover the value of its investment or collateral securities that are in the possession of an outside party. As of June 30, 2017, the School District's cash balances for its governmental activities, business-type activities and agency fund were \$6,809,347 and its bank balances were \$7,104,312. Of these bank balances, \$372,564 was collateralized with securities held by the pledging financial institutions, or by their trust departments or agents, but not in the School District's name, and therefore was subject to custodial credit risk.

*Concentration of Credit Risk* – The School District has no formal investment policy for operating investments pertaining to the concentration of credit risk. All of the School District's investments were in the PLGIT.

NOTE 3: REAL ESTATE TAXES RECEIVABLE

The District has independently elected tax collectors who are responsible for the collection of taxes. Assessed values are established by the Somerset County Board of Assessment. The District tax rate for the year ended June 30, 2017 was 41.70 mills (\$41.70) per \$1,000 of assessed valuation) as levied by the Board of School Directors.

SOMERSET AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 3: REAL ESTATE TAXES RECEIVABLE (CONTINUED)

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

July 1	Levy Date
July 1 – September 30	2% Discount period
October 1 – November 30	Face payment period
December 1 – January 15	10% Penalty period
January 15	Turnover to delinquent collector

The District, in accordance with U.S. generally accepted accounting principles, recognizes the delinquent and unpaid taxes receivable, reduced by an allowance for uncollectible taxes, as determined by management. A portion of the net amount estimated to be collectible, which was measurable and available within sixty days, was recognized as revenue and the balance deferred in the fund financial statements.

The SCHOOL DISTRICT's 2017 real estate taxes are based on assessed values established by the County of Somerset's Bureau of Assessments. Assessed values of real property are generally 100% of the market value as determined by the Somerset County Tax Assessment Office. The total 2017 real estate taxes levied was \$18,036,379 based on a total SCHOOL DISTRICT assessed valuation of \$448,242,000.

SOMERSET AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

## NOTE 4: CAPITAL ASSETS

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

	Restated Beginning Balance (Note 12)	Net Increases/ Reclassifications	Net Decreases/ Reclassifications	Ending Balance
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital Assets, Not Being Depreciated:				
Land	\$ 627,988	\$ -	\$ -	\$ 627,988
Construction in Progress	122,505	24,778	(122,505)	24,778
Total Capital Assets, Not Being Depreciated	750,493	24,778	(122,505)	652,766
Capital Assets, Being Depreciated:				
Site Improvements	4,161,641	12,457	(31,616)	4,142,482
Buildings and Improvements	60,817,412	479,861	(25,664)	61,271,609
Equipment and Vehicles	6,531,622	475,506	(3,044)	7,004,084
Total Capital Assets, Being Depreciated	71,510,675	967,824	(60,324)	72,418,175
Less Accumulated Depreciation For:				
Site Improvements	(2,290,259)	(189,597)	(31,616)	(2,511,472)
Buildings and Improvements	(25,596,130)	(1,493,635)	(25,664)	(27,115,428)
Equipment and Vehicles	(4,396,619)	(670,331)	2,283	(5,064,667)
Total Accumulated Depreciation	(32,283,008)	(2,353,563)	(54,997)	(34,691,567)
Total Capital Assets, Being Depreciated, Net	39,227,667	(1,385,739)	(115,321)	37,726,608
Governmental Activities Capital Assets, Net	\$ 39,978,160	\$ (1,360,961)	\$ (237,826)	\$ 38,379,374
<b>BUSINESS TYPE ACTIVITIES</b>				
	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Being Depreciated:				
Food Service Equipment	\$ 113,032	\$ 73,738	\$ -	\$ 186,770
Total Capital Assets, Being Depreciated	113,032	73,738	-	186,770
Less Accumulated Depreciation	(42,643)	(10,565)	1,946	(51,262)
Total Capital Assets, Being Depreciated, Net	70,389	63,173	1,946	135,508
Business Type Activities Capital Assets, Net	\$ 70,389	\$ 63,173	\$ 1,946	\$ 135,508

SOMERSET AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 4: CAPITAL ASSETS (CONTINUED):

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

Instruction	\$ 1,412,137
Support Services	470,713
Unallocated (not including direct depreciation charged to other functions)	<u>470,713</u>

Total Depreciation Expense - Governmental Activities	<u>\$ 2,353,563</u>
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Business Type Activities:

Food Service	<u>\$ 10,565</u>
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NOTE 5: LONG-TERM LIABILITIES OBLIGATIONS

Bonds Payable:

General Obligation Bonds, Series A/B/C of 2007

During the year ended June 30, 2007, the School District issued General Obligation Bonds, Series A/B/C of 2007, in the total aggregate amount of \$28,600,000 to provide funds for renovations to the Jr./Sr. High School, athletic facility improvement and to pay costs and expenses in connection with the issuance.

These bonds are in fully registered form, numbered consecutively from A/B/CR-1 and upward, each in the principal sum of \$5,000 or integral multiple thereof.

The Series A/B/C of 2007 Bonds maturing on or after March 15, 2013, may be redeemed prior to maturity, at the option of the School District, as a whole or in part, on any date on or after March 15, 2012, at the redemption.

Series A

Series A Bonds in the amount of \$14,940,000 were issued at an original issue premium of \$343,541, underwriter fee of \$104,580, and other issuance costs of \$1,082,800, including a termination payment of \$1,019,923 paid in accordance with an Interest Rate Management Plan Agreement (SWAP Agreement) with PNC Bank, NA.

During the year ended June 30, 2015, the School District advance refunded \$9,030,000 of the 2007 Series A Bonds with the issuance of General Obligation Bonds, Series of 2015.

During the year ended June 30, 2017, the School District advance refunded the remaining \$5,695,000 of the 2007 Series A Bonds with the issuance of General Obligation Bonds, Series of 2016 A.

Series B

Series B Bonds in the amount of \$9,000,000 were issued at an original issue discount of \$146,410, underwriter fee of \$63,000, and other issuance costs of \$884,201, including a termination payment of \$845,803 paid in accordance with an Interest Rate Management Plan Agreement (SWAP Agreement) with PNC Bank, NA.

SOMERSET AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 5: LONG-TERM LIABILITIES OBLIGATIONS (CONTINUED):

During the year ended June 30, 2016, the School District advance refunded the total Series B Bonds currently outstanding in the aggregate principal sum of \$8,935,000, with the issuance of General Obligation Bonds, Series of 2016.

Series C

Series C Bonds in the amount of \$4,660,000 were issued at an original issue discount of \$154,880, underwriter fee of \$32,620, and other issuance costs of \$20,451.

The Series C Bonds were not subject to an Interest Rate Management Plan Agreements (SWAP Agreement) with PNC Bank, NA.

During the year ended June 30, 2017, the School District advance refunded the remaining \$4,395,000 of the 2007 Series C Bonds with the issuance of General Obligation Bonds, Series of 2016 A.

General Obligation Bonds, Refunding Series of 2009

On May 28, 2009, the School District issued \$6,110,000 General Obligation Bonds, Refunding Series of 2009 for the purposes of providing for the redemption of the School District's Series of 2004 Bonds and the payment of the costs and expenses of the bond issue. The General Obligation Bonds, Refunding Series of 2009 were issued at a premium of \$127,117 and issuance costs amounted to \$47,942. Of the proceeds, \$6,186,643 was used for the redemption of the Series of 2004 Bonds. The remaining bond issue proceeds, along with accrued interest were deposited into the 2009 Bonds Sinking Fund.

The Bonds are in fully registered form, numbered consecutively from IR-1 and upward, each in the principal sum of \$5,000 or integral multiples thereof.

Final payment on the General Obligation Bonds, Refunding Series of 2009 was made during the fiscal year ended June 30, 2017.

General Obligation Bonds, Series of 2015

On March 17, 2015, the School District issued \$10,000,000 General Obligation Bonds, Series of 2015, for the purposes of providing for the advance refunding \$9,030,000 of the School District's 2007 Series A Bonds and the payment of the costs and expenses of the bond issue. The General Obligation Bonds, Series of 2015 were issued at an original issue discount of \$56,310, underwriter's discount of \$80,000, and issuance costs of \$72,422. United States government securities were purchased with \$9,789,938 of the proceeds and deposited into an escrow fund. This amount was determined by the School District's underwriters to be sufficient, with interest earnings thereon, to provide for the advance refunding of \$9,030,000 of the 2007 Series A Bonds. The remaining bond issue proceeds, along with accrued interest, were deposited into the Sinking Fund.

The Series of 2015 Bonds are in fully registered form each in the principal sum of \$5,000 or integral multiples thereof.

SOMERSET AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 5: LONG-TERM LIABILITIES OBLIGATIONS (CONTINUED)

The maturity schedule of the outstanding Series of 2015 Bonds is set forth below:

<u>March 15</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
2018	1.000%	\$ 5,000
2019	2.000%	55,000
2020	2.000%	230,000
2021	2.000%	2,180,000
2022	2.000%	2,305,000
2023	2.000%	2,355,000
2024	2.125%	2,385,000
2025	2.250%	475,000
		<hr/>
		\$ 9,990,000

The bonds maturing on or after March 15, 2021, may be redeemed prior to maturity, at the option of the School District, as whole or in part, by lot within a maturity, at any time on or after March 15, 2020, at the redemption price of 100% or principal amount, together with accrued interest thereon to the date fixed for said optional redemption.

General Obligation Bonds, Series of 2016

On January 7, 2016, the School district issued \$9,645,000 General Obligation Bonds, Series of 2016, for the purposes of providing for the advance refunding of \$8,935,000 of the School District's 2007 Series B Bonds and the payment of the costs and expenses of the bond issue. The General Obligation Bonds, Series of 2016 were issued at an original issue discount of \$38,516, underwriter's discount of \$77,160, and issuance costs of \$83,683. United States government securities were purchased with \$9,441,623 of the proceeds and deposited into an escrow fund. This amount was determined by the School district's underwriters to be sufficient, with interest earnings thereon, to provide for the advance refunding of all of the currently outstanding 2007 Series B Bonds. The remaining bond issue proceeds were deposited into the Sinking Fund.

This advance refunding of the 2007 Series B Bonds was undertaken to reduce the total debt service payments by \$647,178 over the next ten years, resulting in an estimated economic gain after state reimbursement of \$510,365.

The Series of 2016 Bonds are in fully registered form, each in the principal sum of \$5,000 or integral multiples thereof.



SOMERSET AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 5: LONG-TERM LIABILITIES OBLIGATIONS (CONTINUED)

The maturity schedule of the Series of 2016 Bonds is set forth below:

<u>March 15</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
2018	2.000%	\$ 575,000
2019	2.000%	765,000
2020	2.000%	780,000
2021	2.000%	790,000
2022	2.000%	810,000
2023	2.000%	785,000
2024	2.125%	815,000
2025	2.375%	2,735,000
2026	2.500%	1,585,000
		<hr/>
		\$ 9,640,000

The Bonds stated to mature on and after March 15, 2022, are subject to redemption prior to maturity at the option of the School District in any order of maturities either as a whole, or in part, at any time on or after March 15, 2021, at a redemption price of 100% of the principal amount thereof, together with accrued interest to the date fixed for redemption.

General Obligation Bonds, Series A of 2016

On October 25, 2016, the School District issued \$9,825,000 General Obligation Bonds, Series A of 2016, for the purposes of providing the funds to (1) advance refund the Series A of 2007 Bonds of \$5,695,000, of the School District, and (2) advance refund the Series C of 2007 Bonds of \$4,395,000, of the School District, and (3) pay the costs and expenses of the bond issue. The General Obligation Bonds, Series A of 2016 were issued at an original issue premium of \$638,007, and issuance costs of \$176,101. United States government securities were purchased with \$10,283,014 of the proceeds and deposited into an escrow fund. This amount was determined by the School District's underwriters to be sufficient, with interest earnings thereon, to provide for the advance refunding of all of the currently outstanding 2007 Series A and 2007 Series C Bonds. The remaining bond issue proceeds were deposited into the Sinking Fund.

This advance refunding of the 2007 Series A and 2007 Series C Bonds was undertaken to reduce the total debt service payments by \$538,000 over the next ten years.

The Series A of 2016 Bonds are in fully registered form, each in the principal sum of \$5,000 or integral multiples thereof.

SOMERSET AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 5: LONG-TERM LIABILITIES OBLIGATIONS (CONTINUED)

The maturity schedule of the Series A of 2016 Bonds is set forth below:

<u>March 15</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
2018	1.000%	\$ 1,370,000
2019	1.500-4.000%	1,950,000
2020	1.500-4.000%	2,015,000
2021	1.500%	145,000
2022	2.000%	50,000
2023	2.000%	95,000
2024	2.000%	95,000
2025	2.000%	35,000
2026	2.000-4.000%	1,365,000
2027	2.250-4.000%	2,705,000
		<hr/>
		\$ 9,825,000

The Bonds stated to mature on and after March 15, 2026, are subject to redemption prior to maturity at the option of the School District in any order of maturities either as a whole or in part, on March 15, 2025, or any date thereafter, upon not less than 30 days notice, at a redemption price of 100% of the principal, together with accrued interest to the redemption date.

Extended Term Financing Payable

During the fiscal year ended June 30, 2004, the member school districts of the Somerset County Technology Center (see Note 1) each entered into financing agreements to provide funds for major building and site renovation to the Technology Center facility. The Somerset Area School District entered into General Obligation Note, Series A of 2004 for this project. As provided in the financial agreement, each school district's proportionate share of this total debt is calculated by a formula determined annually based on the percentage which the market value of taxable real property of each school district bears to the total market value of taxable real property in all of the member district. However, the agreement also provides for a maximum amount of each school district's share of the debt. During 2011-12, this note was refinanced through the issuance of General Obligation Note, Series of 2011, which due to the issuance costs, increased Somerset Area School District's maximum share of the total remaining debt by \$49,523. Since the School District's proportionate share of this debt can vary from year to year, the remaining maximum amount of the District's obligation is included as a liability in the statement of net assets in the district-wide financial statements. During the year ended June 30, 2017 the School District paid \$113,825 on the principal amount of this debt. The difference between this amount actually paid and the maximum scheduled debt service principal payment is reflected in these financial statements as a special item in the amount of \$78,433 in the district-wide statement of activities.

SOMERSET AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 5: LONG-TERM LIABILITIES OBLIGATIONS (CONTINUED)

The following is a schedule of the Somerset Area School District's maximum remaining principal amounts at the maximum interest rate of 3.300%.

<u>15-Nov</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
2017	3.300%	\$ 198,084
2018	3.300%	206,823
2019	3.300%	215,561
2020	3.300%	218,474
2021	3.300%	227,213
2022	3.300%	235,953
2023	3.300%	241,778
2024	3.300%	253,430
		<u>\$ 1,797,316</u>

An analysis of debt service requirements to maturity for the governmental activities on these obligations follows (with the exception of the compensated absences and postemployment benefit liability):

<u>Governmental Activities</u>	<u>Principal Requirements</u>	<u>Interest Requirements</u>	<u>Total Debt Service Requirements</u>
Year Ended June 30:			
2018	\$ 2,148,084	\$ 765,899	\$ 2,913,983
2019	2,976,823	733,968	3,710,791
2020	3,240,561	647,599	3,888,160
2021	3,333,474	555,888	3,889,362
2022	3,392,213	486,959	3,879,172
2023-2027	<u>16,161,161</u>	<u>1,307,263</u>	<u>17,468,424</u>
Total	<u>\$ 31,252,316</u>	<u>\$ 4,497,576</u>	<u>\$ 35,749,892</u>

SOMERSET AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

## NOTE 5: LONG-TERM OBLIGATIONS (CONTINUED)

Compensated Absences

Pursuant to various employment agreements and contracts, unused accumulated sick leave (personal leave for administrators) will be paid to employees meeting certain criteria upon retirement at a fixed, per day amount. In accordance with GASB Statement No. 16, the liability for compensated absences as of June 30, 2017, in the amount of \$1,001,346 has been recorded as a governmental activities long-term liability in the district-wide financial statements. The June 30, 2017, Food Service Fund liability for compensated absences in the amount of \$5,040 has been included in accrued salaries and benefits in the Food Service Fund financial statements and in the business-type activities column of the district-wide financial statements.

Under the current plan, the following is a summary of the items covered:

Administrators – Rate paid equals \$100 per day.  
Teachers – Rate ranges from \$60 to \$100 per day.  
Support Personnel – Rate ranges from \$10 to \$20 per day.

A summary of changes in long-term debt obligations for 2017 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<u>Governmental Activities:</u>					
Bonds and Notes payable:					
General obligation bonds	\$ 31,910,000	\$ 9,825,000	\$ (12,280,000)	\$ 29,455,000	\$ 1,950,000
General obligation notes	1,989,574	-	(192,258)	1,797,316	198,084
Total bonds and notes payable	33,899,574	9,825,000	(12,472,258)	31,252,316	2,148,084
 Other Liabilities:					
Compensated absences	1,013,989	-	(12,643)	1,001,346	-
Other Postemployment Benefits	415,690	167,326	-	583,016	-
Total Other Liabilities	1,429,679	167,326	(12,643)	1,584,362	-
 Governmental Activities Long-Term Liabilities	 \$ 35,329,253	 \$ 9,992,326	 \$ (12,484,901)	 \$ 32,836,678	 \$ 2,148,084

Payments on bonds are made by the Debt Service Fund. The compensated absence liabilities will be liquidated by the General Fund. Total interest paid during the year ended June 30, 2017 was \$1,037,212.

SOMERSET AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 6: RISK MANAGEMENT

The School District has purchased commercial insurance policies for various risks of loss related to torts, theft, damage to or destruction of assets; errors or omissions; injuries to employees; or natural disasters. Insurance settlements have not exceeded insurance coverage in the past three years. There were no significant reductions in coverage compared to the prior year.

The Somerset Area School District, along with seventeen other local area education institutions, is a member of the Bedford-Somerset Schools Health Insurance Consortium, a public entity risk pool formed to provide health and medical care benefits to employees. This is a self-funded program governed by the Bedford-Somerset Schools Health Insurance Consortium Cooperative Committee that is comprised of one delegate from each participating school. The Cooperative Committee determines the monthly rates charged to the participating schools for sufficient funding of the medical and health care benefits, stop loss insurance, and administrative expenses. The Consortium retains The Reschini Agency as its broker to assist in the administration of the program. The Consortium is required by its by-laws to purchase stop loss insurance coverage to limit the aggregate exposure to a maximum of 125% of actual claims and to limit the individual claim exposure to \$150,000. Participants may only withdraw from the Consortium under terms as specified in the by-laws.

NOTE 7: OTHER POST-EMPLOYMENT BENEFITS

Plan Description:

The District provides access to retiree medical and prescription drug benefits to eligible retired employees and qualified spouses/beneficiaries. This is a single employer defined benefit plan administered by the School District. Benefits are provided to all active professional and support staff under Act 110/43. All retirees are benefiting under Act 110/43, and are required to contribute the full premium, with the exception of selected retired administrators who were granted notional accounts to fund healthcare coverage. In the 2010-11 plan year, teachers were offered a one-time incentive of \$20,000 and a closed group of retirees elected to apply these funds to offset future healthcare premiums. One retiree remains in this closed group. Currently the plan has approximately 294 members. The plan does not issue separate stand-alone financial statements.

Funding Policy:

The District's medical plans are self-funded through the Bedford-Somerset Schools Health Insurance Consortium and premiums are updated annually based on actual claims. The District has elected to finance these post-employment benefits on a pay-as-you-go basis.

The benefits are expensed when incurred and are financed on a pay-as-you-go basis. Professional Staff retirees and spouses contribute the full amount of the premium. Selected retired administrators were granted notional accounts to fund healthcare coverage. Selected retired administrators contribute the monthly \$100 PSERS premium assistance. Support Staff retirees and spouses contribute the full amount of the premium. Healthcare coverage for retiree and/or spouse ends at age 65, death, or qualification for Medicare if earlier. Monthly PPO premium rates for 2016-17 Plan Year was \$506 for the retiree or \$1,370 for the retiree/spouse.

SOMERSET AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 7: OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

The School District's annual OPEB cost is calculated based on the annual required contribution of the employees (ARC), an amount actually determined in accordance with the parameters of GASB Statement No 45. The ARC is the normal cost plus the portion of the unfunded actuarial accrued liability to be amortized in the current period. The ARC is an amount that is actuarially determined in accordance with the requirements so that if paid on an ongoing basis, it would be expected to provide sufficient resources to fund both normal cost for each year and the amortized unfunded liability.

Annual OPEB Cost and Net OPEB Obligation:

The District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period 20 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the District's net OPEB obligation.

	Governmental <u>Activities</u>
Annual Required Contribution	\$ 405,045
Interest on Net OPEB Obligation	-
ARC Adjustment	<u>(23,220)</u>
Annual OPEB Cost	381,825
Estimated contributions made	<u>(214,500)</u>
Net Increase in Net OPEB Obligation	167,325
Net OPEB Obligation, beginning of year	<u>415,691</u>
Net OPEB Obligation, end of year	<u><u>\$ 583,016</u></u>

Funded Status and Funding Progress:

As of July 1, 2016, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$2,966,000 for the District and the actuarial value of assets was \$0 for the plan, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,966,000 for the District. The covered payroll (annual payroll of active employees covered by the plan) was \$12,814,000 for the District, and the ratio of the UAAL to the covered payroll was 20.0% for the District.

SOMERSET AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 7: OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about actuarial value of plan assets and actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost 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 perspective of the calculations.

In the July 1, 2016 actuarial valuations, the entry age normal cost method was used. The actuarial assumptions included a 3.25% discount rate of return compounded annually and an annual healthcare cost trend of 7.30% initially, decreasing in varying amounts to ultimate rate of 5.0% in 2032. Rates increase to 5.0% in 2037 and 5.9% in 2042 before gradually decreasing from 5.9% in 2042 to 4.1% in 2076 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. The unfunded actuarial accrued liability is being amortized at the end of the year based on a closed 20-year level percent of payroll amortization with payments increasing by 2.75% annually, beginning in Fiscal Year 2008-09 (12 years remaining).

NOTE 8: EMPLOYEE RETIREMENT PLAN

*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 fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS' fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

SOMERSET AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 8: EMPLOYEE RETIREMENT PLAN (CONTINUED)

General Information about the Pension Plan:

*Plan Description.* The District contributes to the Commonwealth of Pennsylvania School Employees Retirement System ("PSERS"), a governmental cost-sharing multi-employer defined benefit plan. Benefit provisions of the plan are established under the provisions of the PSERS Code (Act No. 96 of October 2, 1975, as amended) (24 PA C. S. 8101-8535) and may be amended by an act of the Pennsylvania legislature. The plan provides retirement and disability, legislatively mandated ad hoc cost-of-living adjustments and healthcare insurance premium assistance to qualifying plan members and beneficiaries. It also provides for refunds of a member's accumulated contributions upon termination of a member's employment in the public school sector. PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to, PSERS, P.O. Box 125, Harrisburg, PA 17108-0125. This publication is also available on the PSERS website at [www.psers.state.pa.us/publications/cafr/index.htm](http://www.psers.state.pa.us/publications/cafr/index.htm).

*Benefits provided.* PSERS provides retirement, disability, and death benefits. Retirement benefits are determined as 2.5 percent of the employee's final 3-year average compensation times the employee's years of service. Employees with 10 years of continuous service are eligible to retire at age 60. Employees are eligible for service-related disability benefits regardless of length of service. Five years of services is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits equal two times the employee's final full-year salary.

*Contributions.* The contribution policy is established in the Public School Employee's Retirement Code and requires contributions by active members, employers and the Commonwealth. 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 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-F contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-E contribution rate to fluctuate between 10.3% and 12.3%.

*Employer Contributions.* The School Districts' contractually required contribution rate for fiscal year ended June 30, 2017 was 29.2% 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 \$4,302,123 for the year ended June 30, 2017.



SOMERSET AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 8: EMPLOYEE RETIREMENT PLAN (CONTINUED)

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

At June 30, 2017, the District reported a liability of \$54,215,169 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 0.1094 percent, which was a decrease of 0.0006 from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$5,026,450. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 326,484
Changes of assumptions	1,467,789	-
Net difference between projected and actual investment earnings	3,288,578	773,888
Changes in proportion	156,600	679,203
Differences between district contributions and proportionate share of contribution	-	-
District contributions subsequent to the measurement date	4,302,123	-
Total	<u>\$ 9,215,090</u>	<u>\$ 1,779,575</u>

\$4,302,123 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 ended June 30:**

2018	\$ 496,523
2019	1,446,408
2020	1,190,461
	<u>\$ 3,133,392</u>

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

Actuarial cost method	Entry Age Normal – level % of pay
Salary increases	5.00 percent, average, including inflation of 2.75 percent, and real wage growth and merit or seniority increases of 2.25%
Investment rate of return	7.25 percent, net of pension plan investment expense, includes inflation of 2.75%

SOMERSET AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 8: EMPLOYEE RETIREMENT PLAN (CONTINUED)

Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

The 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.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global public equity	22.5%	5.3%
Fixed Income	28.5%	2.1%
Commodities	8.0%	2.5%
Absolute return	10.0%	3.3%
Risk parity	10.0%	3.9%
Infrastructure/MLP's	5.0%	4.8%
Real estate	12.0%	4.0%
Alternative investments	15.0%	6.6%
Cash	3.0%	0.2%
Financing (LIBOR)	-14.0%	0.5%
Total	<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.

SOMERSET AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 8: EMPLOYEE RETIREMENT 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 District's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25 percent) or 1-percentage point higher (8.250 percent) than the current rate:

	Amounts X \$1,000		
	1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
District's proportionate share of the net pension liability	\$ 66,320	\$ 54,215	\$ 44,044

*Pension plan fiduciary net position.* Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on the System's website at [www.psers.state.pa.us](http://www.psers.state.pa.us).

NOTE 9: INTERFUND RECEIVABLES AND PAYABLES

The following is a summary of Interfund Receivables and Payables at June 30, 2017:

	Due from	Due to
<u>Governmental Fund Types</u>		
General Fund	\$ -	\$ 15,037
Total Governmental Fund Type	-	15,037
<u>Enterprise Fund</u>		
Food Service Fund	15,037	-
Total Enterprise Fund	15,037	-
Total Internal Balances	\$ 15,037	\$ 15,037

Interfund balances between the General Fund and the Enterprise Fund represent subsidy payments deposited in the General Fund during 2017 which have not been remitted to the Enterprise Fund by June 30, 2017.

SOMERSET AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

NOTE 10: COMMITMENTS AND CONTINGENCIES

As of June 30, 2017, the Somerset Area School District had commitments outstanding, in the form of purchase orders, of approximately \$115,953 for supplies.

The District receives a number of state and federal grants. The grants may be subject to audit by the granting agency to determine if activities undertaken by the District comply with the conditions of the grant. Management believes no material liability would arise from any such audit.

The School District is involved in various litigation matters. One specific case involves claims of a former student allegedly subject to inappropriate conduct by a former employee. An estimate of any potential amount or range of loss has not been determined should there be adverse results.

NOTE 11: SUBSEQUENT EVENTS

The School District has evaluated for possible financial statement disclosure, subsequent events through December 9, 2017, the date this report is available for issuance, and has determined there are no such additional events.

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SOMERSET AREA SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

## NOTE 12: RESTATEMENT OF NET POSITION

During the 2017 year the District elected to have its Capital Assets tagged by an independent appraisal company. The following restatement was necessary to reflect the understatement in Capital Assets beginning balance due to various reclassifications from the revaluation.

GOVERNMENTAL ACTIVITIES	Beginning Balance	Restatement Amount	Beginning Balance As Restated
Capital Assets, Not Being Depreciated:			
Land	\$ 627,988	\$ -	\$ 627,988
Construction in Progress	122,505	-	122,505
Total Capital Assets, Not Being Depreciated	<u>750,493</u>	<u>-</u>	<u>750,493</u>
Capital Assets, Being Depreciated:			
Buildings	59,728,518	1,088,894	60,817,412
Site Improvements	4,627,347	(465,706)	4,161,641
Equipment and Vehicles	5,183,021	1,348,601	6,531,622
Total Capital Assets, Being Depreciated	<u>69,538,886</u>	<u>1,971,789</u>	<u>71,510,675</u>
Less Accumulated Depreciation For:			
Buildings	(25,492,794)	(103,336)	(25,596,130)
Site Improvements	(2,159,172)	(131,087)	(2,290,259)
Equipment and Vehicles	(3,672,219)	(724,400)	(4,396,619)
Total Accumulated Depreciation	<u>(31,324,185)</u>	<u>(958,823)</u>	<u>(32,283,008)</u>
Total Capital Assets, Being Depreciated, Net	<u>38,214,701</u>	<u>1,012,966</u>	<u>39,227,667</u>
Governmental Activities Capital Assets, Net	<u>\$ 38,965,194</u>	<u>\$ 1,012,966</u>	<u>\$ 39,978,160</u>

Governmental Activities Net Positon, Beginning of Year \$ (26,717,499)

Increase to expense (84,574)  
Restatement of Capital Assets (1,012,966)

Governmental Activities Net Position, Beginning of Year (Restated) \$ (27,815,039)

## REQUIRED SUPPLEMENTAL INFORMATION

SOMERSET AREA SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources	\$ 21,246,691	\$ 21,246,691	\$ 21,335,222	\$ 88,531
State Sources	14,401,466	14,401,466	14,531,579	130,113
Federal Sources	685,025	685,025	825,094	140,069
Total Revenues	36,333,182	36,333,182	36,691,895	358,713
EXPENDITURES				
Instruction				
Regular Programs	13,717,752	12,965,652	12,917,803	47,849
Special Programs	4,808,581	4,916,679	4,826,305	90,374
Vocational Programs	2,123,696	2,111,797	2,106,841	4,956
Other Instructional Programs	179,358	310,058	304,933	5,125
Nonpublic School Programs	35,000	52,200	23,513	28,687
Pre-Kindergarten Programs	398,269	383,269	341,249	42,020
Total Instruction	21,262,656	20,739,655	20,520,644	219,011
Support Services				
Pupil Personnel Services	1,027,445	1,069,246	988,259	80,987
Instructional Staff Services	1,932,475	2,154,276	2,098,068	56,208
Administrative Services	2,032,920	2,013,320	1,978,591	34,729
Pupil Health	398,215	403,815	401,791	2,024
Business Services	616,095	593,095	559,110	33,985
Operation & Maintenance of Plant Services	3,339,726	3,172,226	3,020,710	151,516
Student Transportation Services	1,600,200	1,830,700	1,614,222	216,478
Central Support Services	34,219	71,819	64,671	7,148
Other Support Services	16,645	28,645	11,945	16,700
Total Support Services	10,997,940	11,337,142	10,737,367	599,775
Noninstructional Services				
Student Activities	1,291,708	1,134,309	1,109,565	24,744
Community Services	172,488	118,786	105,520	13,266
Total Noninstructional Services	1,464,196	1,253,095	1,215,085	38,010
Debt Service	154,034	154,034	150,239	3,795
Total Expenditures	33,878,826	33,483,926	32,623,335	860,591
Excess of Revenues Over Expenditures	2,454,356	2,849,256	4,068,560	1,219,304
OTHER FINANCING SOURCES (USES)				
Interfund Transfers Out	(3,601,080)	(4,395,980)	(3,843,891)	552,089
Budgetary Reserve	(400,000)	-	-	-
Total Other Financing Sources (Uses)	(4,001,080)	(4,395,980)	(3,843,891)	552,089
Net Change In Fund Balance	(1,546,724)	(1,546,724)	224,669	1,771,393
FUND BALANCE, BEGINNING OF YEAR	9,856,235	9,856,235	10,518,618	662,383
FUND BALANCE, END OF YEAR	\$ 8,309,511	\$ 8,309,511	\$ 10,743,287	\$ 2,433,776

SOMERSET AREA SCHOOL DISTRICT  
SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT  
BENEFITS OTHER THAN PENSIONS  
JUNE 30, 2017

The following schedule of the funded status of the plan (in \$000s)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (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	\$ -	\$ 2,219	\$ 2,219	0%	\$ 15,064	14.7%
7/1/2014	\$ -	\$ 2,241	\$ 2,241	0%	\$ 14,278	15.7%
7/1/2016	\$ -	\$ 2,966	\$ 2,966	0%	\$ 14,346	20.7%

See the independent auditor's report and the accompanying notes to the financial statements.



SOMERSET AREA SCHOOL DISTRICT  
Schedules of Required Supplementary Information  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE  
NET PENSION LIABILITY  
Pension Plan  
Last 10 Fiscal Years\*

	2014	As of June 30 2015	2016
District's proportion of the net pension liability	0.1144%	0.1088%	0.1094%
District's proportionate share of the net pension liability	\$ 41,277,594	\$ 43,513,406	\$ 54,215,169
District's covered employee payroll	\$ 14,216,486	\$ 13,996,076	\$ 14,164,519
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	290.35%	310.90%	382.75%
Plan fiduciary net position as a percentage of total pension liability	57.24%	54.36%	50.14%

\* The amounts are presented for each fiscal year were determined as of 6/30

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available

See the independent auditor's report and the accompanying notes to the financial statements.

SOMERSET AREA SCHOOL DISTRICT  
Schedules of Required Supplementary Information  
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS  
Pension Plan  
Last 10 Fiscal Years\*

	2015	As of June 30 2016	2017
Contractually required contributions	\$ 2,815,406	\$ 3,613,594	\$ 4,302,123
Contributions in relation to contractually required contribution	2,815,406	3,613,594	4,302,123
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 13,996,076	\$ 14,164,519	\$ 14,345,636
Contributions as a percentage of covered-employee payroll	20.12%	25.51%	29.99%

<p>This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available</p>
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See the independent auditor's report and the accompanying notes to the financial statements.