

**REPORT ON
NAZARETH AREA SCHOOL DISTRICT
SINGLE AUDIT REPORT
FISCAL YEAR ENDED JUNE 30, 2016**

NAZARETH AREA SCHOOL DISTRICT
Single Audit Report
For the Fiscal Year Ended June 30, 2016

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INTRODUCTORY SECTION



GORMAN & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Members of
American Institute of Certified Public Accountants
Pennsylvania Institute of Certified Public Accountants
Florida Institute of Certified Public Accountants

Members of the Board
Nazareth Area School District
One Education Plaza
Nazareth, PA 18064-2397

We have performed the Single Audit of the Nazareth Area School District for the fiscal year ended June 30, 2016, and have enclosed the Single Audit reporting package.

The Single Audit was done to fulfill the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, which entailed:

1. An audit of the basic financial statements, and our opinion thereon;
2. A review of compliance and of internal control over financial reporting based on an audit of the financial statements performed in accordance with Governmental Auditing Standards, and our report thereon;
3. An examination of the Schedule of Expenditures of Federal Awards and our report thereon; and,
4. An opinion on compliance with requirements applicable to each major program, and a review of internal control over compliance in accordance with the Uniformed Guidance, explained above, and our report thereon.

As part of our report, we have enclosed our management letter.

Respectfully submitted,

December 13, 2016



GORMAN & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Members of
American Institute of Certified Public Accountants
Pennsylvania Institute of Certified Public Accountants
Florida Institute of Certified Public Accountants

Board of School Directors
Dr. Dennis L. Riker, Superintendent
Nazareth Area School District
One Education Plaza
Nazareth, PA 18064-2397

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Nazareth Area School District for the year ended June 30, 2016, and have issued our report thereon dated December 13, 2016.

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether your financial statements are fairly presented, in all material respects, in conformity with the U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities, including having compensating controls in place to ensure our preparation of your financial statements and note disclosures are not materially misstated.

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matter on June 30, 2016.

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Nazareth Area School District are described in the notes to the financial statements. No new accounting policies were adopted during this past year and the existing policies were properly applied. We did not discover any transactions entered into by the District that lacked authoritative guidance or consensus. In addition, there are no significant transactions affecting the financial statements that have been recognized incorrectly in the wrong year.

Accounting estimates, which are part of the significant accounting policies, are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events may differ significantly from those expected. The most sensitive estimates affecting the financial statements were depreciation taken on capital assets based upon the estimated useful life of each asset and calculated on the straight-line basis of depreciation, and the Actuary's Reports on Other Post-Employment Benefits, and Net Pension Liability. We have evaluated the factors and assumptions used to develop these estimates and have determined the estimates to be reasonable in relation to the financial statements taken as a whole.

We wish to inform you that the disclosures in your financial statements are neutral, consistent, and clear. From time to time, certain disclosures are more sensitive than others due to their significance to financial statement users. The most sensitive disclosures involve capital assets and long-term debt.

We have requested certain representations from management that are included in the management representation letter provided to us on December 13, 2016. We advise the governing body to request this letter from management for their review. In conjunction with their representations, we wish to inform you we did not encounter any significant difficulties in dealing with management and had no disagreements with your management. To our knowledge, management did not find a need to converse with any other independent accountant on any related accounting or auditing issue.

In addition, the representation letter provided to us, by management, confirmed there were no uncorrected misstatements. Management has recorded all of our adjusting journal entries, and has agreed to the conversion entries necessary to convert governmental funds and proprietary funds to governmental activities and business-type activities, respectively.

In accordance with auditing standards, generally accepted in the United States of America, we have acquired a sufficient understanding of the District and its environment, including its internal control, to assess the risk of material misstatements of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures that were necessary to express an opinion on the 2015-16 basic financial statements.

Our consideration of the District's internal control components was not designed for the purpose of making detailed recommendations and would not necessarily disclose all significant deficiencies within the components. Our audit procedures have been appropriately adjusted to compensate for any observed significant deficiencies. The following three paragraphs define the three different types of deficiencies that can occur:

A control deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

As the primary purpose of our audit is to form an opinion on the basic financial statements, you will appreciate that reliance must be placed on adequate methods of internal control as your principal safeguard against errors and fraud which audit procedures may not disclose. The objective of internal control over financial reporting is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use and that financial records are reliable for preparing financial statements in accordance with generally accepted accounting principles and for maintaining the accountability for assets. The concept of reasonable assurance recognizes that the cost of internal control should not exceed the related benefits; to operationalize this concept, management is required to formulate estimates and judgments of the cost/benefit ratios of alternative controls.

There are inherent limitations that should be recognized in considering the potential effectiveness of internal control over financial reporting. Errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, fatigue, and other personnel factors. Control procedures whose effectiveness depends upon the segregation of duties can be circumvented by collusion or by management. What's more, any projection of internal control evaluations to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions or due to the deterioration of the degree of compliance with control procedures.

As an adjunct to our audit, we remained alert throughout for opportunities to enhance internal controls and operating efficiency. These matters were discussed with management as the audit progressed and have subsequently been reviewed in detail to formulate practical recommendations. We wish to thank your staff for their courtesies and cooperation, which facilitated the efficient performance of audit procedures. The remainder of this letter will explain any internal control deficiencies discovered during the audit, other auditor recommendations, and other information pertinent to the District.

A control deficiency is determined to be considered a material weakness or significant deficiency based upon the magnitude of the problem as it pertains to a particular opinion unit. In other words, what is considered a significant deficiency in one fund may only be a control deficiency in another fund of greater size.

The following section in this governance/management letter is separated by categories based on importance, with any material weaknesses or significant deficiencies listed in the beginning:

CONTROL DEFICIENCIES

General Fund – Purchasing Controls

During our testing of significant expenditures paid in the General Fund this year, we discovered check no. 61084, issued for \$206,760, payable to Benchmark Education for Educational Textbooks was purchased prior to the issuance of a purchase order or approval of the School Board. The supplies were ordered and delivered in March 2016, with invoices dated in the same time period; however the purchase order wasn't issued until May 24, 2016, after the Board approved the purchase on May 23, 2016.

The failure to follow purchasing controls in this manner can cause the District to overspend its annual budget. Although this is the only instance we discovered in our testing, we wish to advise management to follow appropriate purchasing controls in the future. If this purchase was included in the original budget passed by the Board, then the only control failure was not encumbering the budget before purchase.

RECOMMENDATIONS

Activity Funds

During our review of student clubs this past year, we discovered the following clubs with large unspent balances at year end:

- Shafer Student Council - \$6,932
- Drama - \$10,115
- Chorus - \$6,083
- Comet Yearbook - \$9,696
- Class of 2017 - \$7,144
- Drama Club - \$31,976
- Student Government Assn. - \$13,896

As you are aware, the student clubs' fundraising activities are to benefit the students participating in the above-mentioned clubs. The funds are to be spent for the current members of the club, not future members of the club. One exception exists as it pertains to "Class" or "Yearbook" clubs.

We wish to suggest management make inquiries to the appropriate faculty advisor and resolve these large balances in the majority of the above-mentioned student clubs.

OTHER INFORMATION

In prior years, we included in this section future Governmental Accounting Standards Board Statements that will affect the School District in future years. This year and future years, we are showing this in the Notes to the Basic Financial Statements.

GASB Projects

Leases

Although there is no official standard at this date, we are aware that the Governmental Accounting Standards Board (GASB) is working on a project that will change the reporting in future years on all capital and operating leases. Under present accounting principles, only capital leases are required to be reported on the financial statements; however, once this project is completed all operating leases will also be recorded onto the financial statements as an asset and liability.

Fiduciary Activities

The GASB is working on a new standard dealing with fiduciary activities. Although, we do not expect most changes to affect the District, one, in particular, can affect the current reporting of student clubs and/or organizations. Based on their last communication, they are contemplating

This letter is required by our standards and has been combined with, what we previously referred to as, the management letter. The intent of this letter is to communicate with those charged with governance on matters pertaining to the audit and includes information that we believe can help you correct or improve operating efficiency, under the limitations of staff availability, within the District.

Respectively submitted,



December 13, 2016

REPORT DISTRIBUTION LIST

The Nazareth Area School District has distributed copies of the Single Audit Act Package to the following:

ONE COPY TO: BUREAU OF THE CENSUS
(Electronically Submitted) DATA PREPARATION DIVISION

ONE COPY TO: COMMONWEALTH OF PENNSYLVANIA
(Electronically Submitted) OFFICE OF THE BUDGET/BUREAU OF AUDITS

ONE COPY TO : COLONIAL INTERMEDIATE UNIT 20
6 DANFORTH DRIVE
EASTON, PA 18045-7899

FINANCIAL SECTION



GORMAN & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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Pennsylvania Institute of Certified Public Accountants
Florida Institute of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of School Directors
Nazareth Area School District
One Education Plaza
Nazareth, PA 18064-2397

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the general fund budgetary comparison statement of the Nazareth Area School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the 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 error or fraud.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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, the aggregate remaining fund information, and the general fund budgetary comparison statement of the Nazareth Area School District, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2-G to the financial statements, effective July 1, 2015, the Nazareth Area School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application, Governmental Accounting Standards Board Statement No. 73, Accounting and Financial Reporting Amendments to Certain Provisions of GASB Statement No. 68, Governmental Accounting Standards Board Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, and Governmental Accounting Standards Board Statement No. 79, Certain External Investment Pools and Pool Participants. Our opinion is not modified with respect to these pronouncements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 10-22, Schedule of the District's Proportionate Share of Net Pension, Schedule of District's Contribution-Pensions, and the Schedule of Funding Progress, on pages 84-86, 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.

Supplementary Information

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

The *combining and individual fund financial statements, schedules, and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for federal awards, are the responsibility of management and were derived from and related to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, *the combining and individual fund financial statements, schedules, and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for federal awards, are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2016, on our consideration of the Nazareth Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Nazareth Area School District's internal control over financial reporting and compliance.

Respectfully submitted,



December 13, 2016

**NAZARETH AREA SCHOOL DISTRICT
Management's Discussion and Analysis**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MDA)
Required Supplementary Information (RSI)
(UNAUDITED)
For the Year Ended June 30, 2016**

The discussion and analysis of Nazareth Area School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

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

FINANCIAL HIGHLIGHTS

The District's overall financial position, as reflected in total net position, changed by \$312,184 due in large part to the new reporting requirements of GASB Statement No. 68. This statement and its component statement no. 67 have a massive impact on all governments' entity-wide financial statements. It affects every government in the Commonwealth of PA and every other government located in all 50 states, including state governments.

It requires all governments to report the entire amount of the unfunded actuarial liability for any pension plans associated with each respective government onto their government-wide financial statements that are used for bond rating agencies to establish our debt ratings. In the past, governments only reported approximately one-thirtieth of this liability on their financial statements assuming they have a stand-alone pension plan.

Those governments, like the Nazareth Area School District, that don't report any pension obligation because they and we belong to a pension trust (PSERS), now have to report our proportionate share of the pension trust's unfunded actuarial pension liability. Our proportionate share of this significant liability is based up the percentage of our contributions into the plan compared to the total contributions submitted by all participating governments in the pension trust.

Due to the new reporting requirements of GASB Statement No. 68, the governmental net assets increased by \$350,429 and the business-type net position decreased by \$38,245.

Program revenues accounted for \$13.04 million or 16.1 percent of total revenues, and general revenues accounted for \$67.5 million or 83.8 percent.

As of August 29, 2016, we have 4,659 pupils enrolled. The District decreased the principal amount of outstanding General Obligation Debt by \$3.4 million during the 2015-16 fiscal year. The District issued General Obligation Bonds, Series of 2015 and 2016 during the fiscal year to refund existing debt at a lower interest rate.

NAZARETH AREA SCHOOL DISTRICT
Management's Discussion and Analysis

In governmental funds, total fund balance increased \$1,070,352. The general fund balance increased by \$2,640,047. This was due in part to a commercial tax settlement resulting in over \$1 million dollars of revenue to the District. The capital project fund balance decreased by \$1,569,695. The general fund reported a positive fund balance of \$15.7 million, or 19.3 percent of the 2016-17, \$81.2 million operating budget. The 2016-17 operating budget includes a \$600,000 transfer to the capital projects fund. This is funded by a \$600,000 appropriation from the fund balance. The budget includes a \$300,000 transfer to the capital projects fund for facilities capital projects, and \$300,000 transfer to the capital project funds for technology capital projects. In accordance with Board policy, and GASB Statement #54, \$383,808 of fund balance is nonspendable for inventory and prepaid expenses, \$61,546 is restricted to donation from private sources, \$7.8 million is committed for compensated absences and other post-employment payments under GASB 45. \$6.4 million, or 8.0% percent of the 2016-17 \$81.2 million operating budget, is unassigned.

Overview of the Financial Statements

This annual report consists of the Management Discussion and Analysis, the basic financial statements, and required supplementary information. These statements are organized so that the reader can understand Nazareth Area School District as an entire entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

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

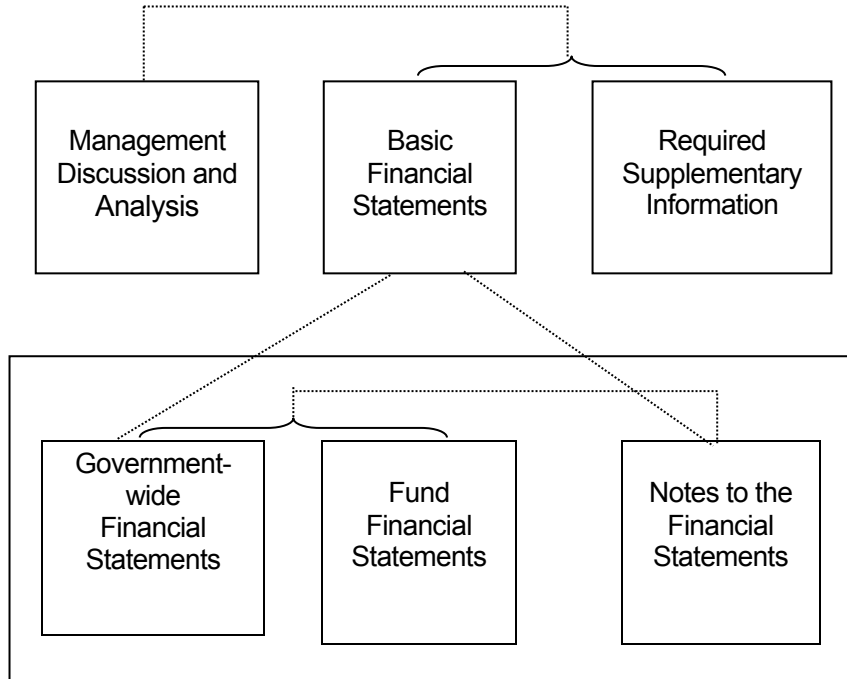
The remaining statements are fund financial statements that focus on individual parts of the District's operations in more detail than the government-wide statements. The governmental funds statements tell how basic services such as regular and special education were financed in the short term as well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

The financial statements also include notes that explain some of the information in the statements, as well as provide more detailed data. The statements also include a statement that further explains and supports the general fund with a comparison of the District's budget for the year.

**NAZARETH AREA SCHOOL DISTRICT
Management's Discussion and Analysis**

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

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



**NAZARETH AREA SCHOOL DISTRICT
Management's Discussion and Analysis**

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

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

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as education, administration and community services	Activities the District operates similar to private business – Food Services	Instances in which the District is the trustee or agent to someone else's resources – Scholarship Funds and Agency Funds
Required financial statements	Statement of net position Statement of activities	Balance Sheet Statement of revenues, expenditures, and changes in fund balance	Statement of net position Statement of revenues, expenses and changes in net position Statement of cash flows	Statement of fiduciary net position Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow-outflow information	All revenues and expenses during year, regardless of when cash is 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 payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

NAZARETH AREA SCHOOL DISTRICT
Management's Discussion and Analysis

Government-wide Statements

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

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

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

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

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

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

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

Fund Financial Statements

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

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

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

NAZARETH AREA SCHOOL DISTRICT
Management's Discussion and Analysis

type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows.

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A comparative analysis of fiscal year 2015-16 to 2014-15 with internal balances included follows:

Table A-1
Fiscal Year ended June 30, 2016
Net Position

	2015-16			2014-15		
	Govern- mental Activities	Business-type Type Activities	Total	Govern- mental Activities	Business-type Type Activities	Total
Current and other assets	\$ 31,248,909	\$ 473,898	\$ 31,722,807	\$ 29,404,145	\$ 434,967	\$ 29,839,112
Non current assets	111,320,974	232,599	111,553,573	111,818,859	230,177	112,049,036
Deferred Outflow of Resources	22,019,157	304,370	22,323,527	18,872,634	239,026	19,111,660
Total Assets & Deferred Outflow of Resources	\$ 164,589,040	\$ 1,010,867	\$ 165,599,907	\$ 160,095,638	\$ 904,170	\$ 160,999,808
Current and other liabilities	12,897,415	67,858	12,965,273	12,339,660	63,487	12,403,147
Long-term liabilities	200,175,840	2,677,559	202,853,399	189,721,942	2,394,089	192,116,031
Deferred Inflow of Resources	1,101,412	30,109	1,131,521	7,970,092	173,008	8,143,100
Total Liabilities & Deferred Inflow of Resources	214,174,667	2,775,526	216,950,193	210,031,694	2,630,584	212,662,278
Net Position						
Net Investment in Capital Assets	31,646,514	232,599	31,879,113	29,463,279	230,177	29,693,456
Restricted	3,908,692	-	3,908,692	5,369,013	-	5,369,013
Unrestricted	(85,140,833)	(1,997,258)	(87,138,091)	(84,768,348)	(1,956,591)	(86,724,939)
Total Net Position	\$ (49,585,627)	\$ (1,764,659)	\$ (51,350,286)	\$ (49,936,056)	\$ (1,726,414)	\$ (51,662,470)

Most of the District's net position is invested in capital assets (buildings, land, and equipment). The remaining unrestricted net position is combined of designated and undesignated amounts. The designated balances are amounts set-aside to fund future purchases or capital projects as planned by the district. The significant change in the unrestricted net position is due to the new reporting requirements under GASB Statement No. 68, which is explained under the Financial Highlights section of the Analysis.

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

**NAZARETH AREA SCHOOL DISTRICT
Management's Discussion and Analysis**

THE DISTRICT FUNDS

At June 30, 2016, the District governmental funds reported a combined fund balance of \$20,274,313.

General Fund Budgetary Highlights

The General Fund balance increased by \$2.6 million due to local revenue and a commercial tax settlement. The actual expenditures are under budget by \$978,312, including budget reserve and transfers out. The revenue is \$2.3 million over budget, when you include the budget item for transfers in.

The local tax revenue provides approximately three-fourths of the District's total revenues. These revenues are also the most difficult to budget for because of the current economy and several revenues do not have a consistent trend. The local revenues were \$1,790,371 or 3.2% over budget. State funding was \$399,150 or 2% over budget. Federal funding was \$111,893 or 24% under budget.

Capital Project Fund:

The District established this fund for planned capital projects each year and necessary emergencies. These funds will be used for facility projects, vehicle and equipment replacement, and technology projects. The District maintains a five year plan for facility projects and a five year plan for technology. These plans are reviewed and updated annually.

This past year, \$1,443,303 was transferred to this fund from the general fund for facility and technology projects. The District is planning to transfer funds from the general fund to this fund annually. We currently have a long-range capital project list of approximately \$25 million for facilities and technology. This list includes the replacement of several building roofs in the district.

NAZARETH AREA SCHOOL DISTRICT
Management's Discussion and Analysis

General Fund Budget

During the fiscal year, the Board of School Directors (The Board) authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the District. A statement showing the District's original and final budget amounts compared with amounts actually paid and received is provided.

Table A-2 takes the information from the Statement of Activities, rearranges it slightly, so you can see our total revenues for the 2015-16 year. This table also shows a comparative analysis of fiscal year 2015-16 to 2014-15.

Table A-2
Fiscal Year ended June 30, 2016
Changes in Net Position

	2015-16			2014-15		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Revenues						
Charges for services	\$ 274,448	\$ 1,277,860	\$ 1,552,308	\$ 257,734	\$ 1,268,966	\$ 1,526,700
Operating grants and contributions	10,419,109	685,726	11,104,835	9,070,489	663,231	9,733,720
Capital grants and contributions	388,021	-	388,021	539,192	-	539,192
<i>General revenues</i>						
Property taxes	50,166,332	-	44,374,851	46,707,784	-	44,374,851
Other taxes	7,548,406	-	6,245,852	6,843,459	-	6,245,852
Grants, subsidies and contributions, unrestricted	10,128,307	-	10,128,307	9,912,944	-	9,912,944
Other	(280,336)	4,912	(275,424)	446,980	5,733	452,713
Total Revenues	\$ 78,644,287	\$ 1,968,498	\$ 80,612,785	\$ 73,778,582	\$ 1,937,930	\$ 75,716,512
Expenses						
Instruction	\$ 47,920,917	\$ -	\$ 47,920,917	\$ 46,374,549	\$ -	\$ 46,374,549
Instructional student support	4,518,016	-	4,518,016	4,543,152	-	4,543,152
Administrative and financial support	7,135,584	-	7,135,584	6,931,908	-	6,931,908
Operation and maintenance of plant	7,864,131	-	7,864,131	7,445,884	-	7,445,884
Pupil transportation	3,807,640	-	3,807,640	3,733,640	-	3,733,640
Student activities	1,516,730	-	1,516,730	1,537,669	-	1,537,669
Community services	215,536	-	215,536	222,488	-	222,488
Interest on long-term debt	2,645,092	-	2,645,092	2,556,238	-	2,556,238
Unallocated depreciation expense	2,670,212	-	2,670,212	2,615,697	-	2,615,697
Food Services	-	2,006,743	2,006,743	-	1,991,332	1,991,332
Total Expenses	\$ 78,293,858	\$ 2,006,743	\$ 80,300,601	\$ 75,961,225	\$ 1,991,332	\$ 77,952,557
Increase (decrease) in net position	\$ 350,429	\$ (38,245)	\$ 312,184	\$ (2,182,643)	\$ (53,402)	\$ (2,236,045)

**NAZARETH AREA SCHOOL DISTRICT
Management's Discussion and Analysis**

Table A-3 shows the District's eight largest functions - instructional programs, instructional student support, administrative, operation and maintenance of plant, pupil transportation, student activities, community services, food service as well as each program's net cost (total cost less revenues generated by the activities). This table also shows the net costs offset by the other unrestricted grants, subsidies and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues. This table also shows a comparative analysis of fiscal year 2015-16 to 2014-15.

**Table A-3
Fiscal Year ended June 30, 2016
Governmental Activities**

Functions/Programs	2015-16		2014-15	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$ 47,920,917	\$ 40,082,978	\$ 46,374,549	\$ 39,651,886
Instructional student support	4,518,016	3,981,850	4,543,152	4,068,967
Administrative	7,135,584	6,568,219	6,931,908	6,452,335
Operation and maintenance	7,864,131	7,355,310	7,445,884	7,023,608
Pupil transportation	3,807,640	2,819,418	3,733,640	2,793,201
Student activities	1,516,730	1,290,830	1,537,669	1,284,480
Community services	215,536	186,392	222,488	186,590
Interest on long-term debt	2,645,092	2,257,071	2,556,238	2,017,046
Unallocated depreciation expense	2,670,212	2,670,212	2,615,697	2,615,697
Total governmental activities	\$ 78,293,858	\$ 67,212,280	\$ 75,961,225	\$ 66,093,810
Less:				
Unrestricted grants, subsidies		10,128,307		9,912,944
Total needs from local Taxes and other revenues		\$ 57,083,973		\$ 56,180,866

Table A-4 reflects the activities of the Food Service program, the only Business-type activity of the District. This table also shows a comparative analysis of fiscal year 2015-16 to 2014-15.

**Table A-4
Fiscal Year ended June 30, 2016
Business-type Activities**

Functions/Programs	2015-16		2014-15	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Food Services	\$ 2,006,743	\$ 43,157	\$ 1,991,332	\$ 59,135
Less:		-		-
Investment earnings and other		4,912		5,733
Total business-type activities		\$ 38,245		\$ 53,402

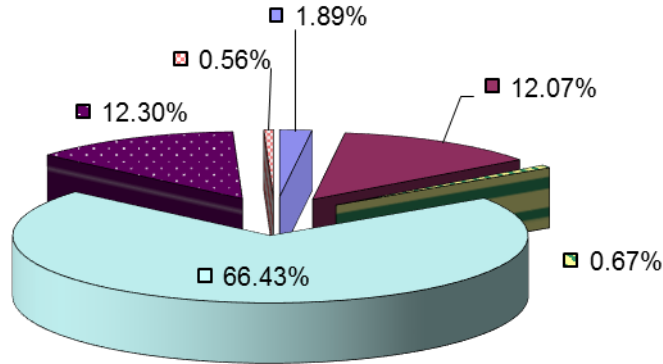
The Statement of Revenues, Expenses and Changes in Fund Net Position for this proprietary fund will further detail the actual results of operations.

**NAZARETH AREA SCHOOL DISTRICT
Management's Discussion and Analysis**

Figure A-3 through A-6 shows a break down of the various revenues and expenses for the two years.

Figure A-3

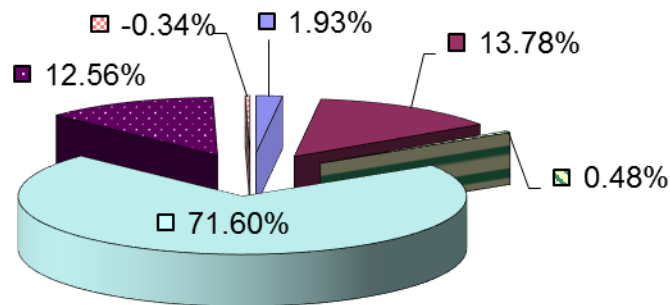
Revenues for Fiscal Year 2014-2015



Charges for Services	2.22%
Operating Grants & Contributions	11.73%
Capital Grants & Contributions	.57%
Property Taxes & Other Taxes Levied for General Purpose	71.84%
Grants, subsidies & contributions	13.62%
Other	.02%

Figure A-4

Revenue for Fiscal Year 2015-2016



Charges for Services	2.02%
Operating Grants & Contributions	12.86%
Capital Grants & Contributions	.71%
Property Taxes & Other Taxes Levied for General Purpose	70.73%
Grants, subsidies & contributions	13.09%
Other	.60%

**NAZARETH AREA SCHOOL DISTRICT
Management's Discussion and Analysis**

Figure A-5

Expenses for Fiscal Year 2014-2015

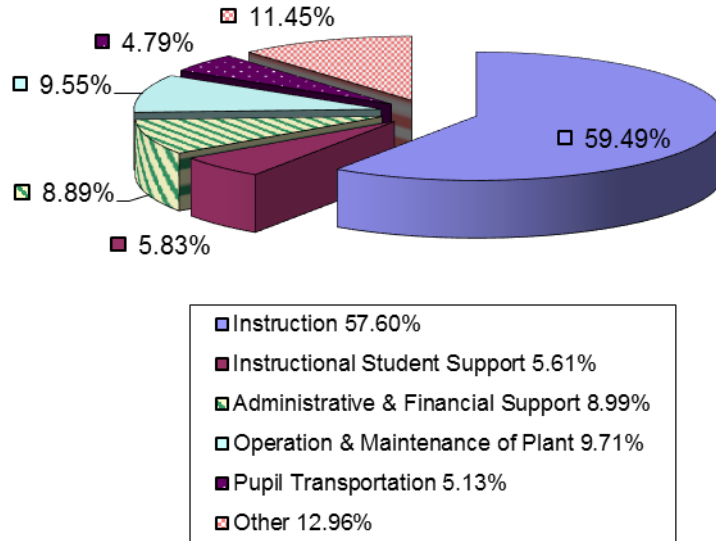
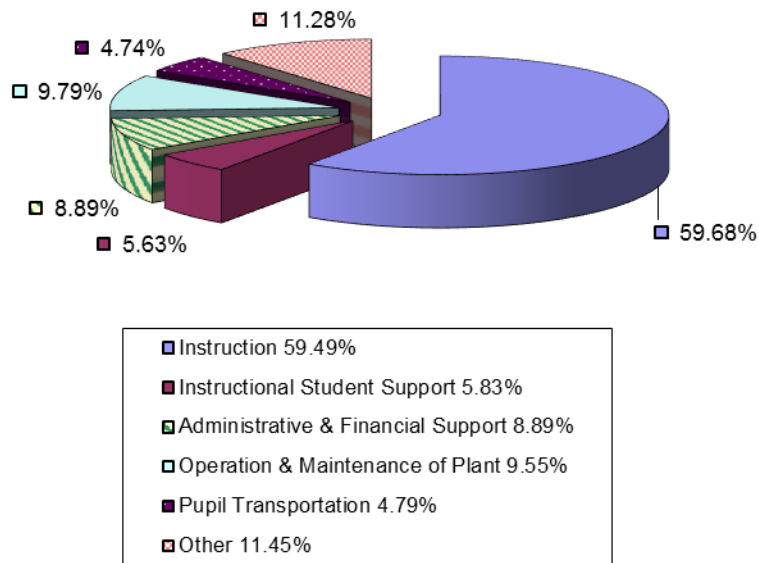


Figure A-6

Expenses for Fiscal Year 2015-2016



**NAZARETH AREA SCHOOL DISTRICT
Management's Discussion and Analysis**

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2016, the District had \$109,490,328 invested in a broad range of capital assets, including land, buildings, furniture, equipment, and vehicles. This amount represents a net decrease (including additions, deletions and depreciation) of \$309,065 or .03% from last year.

**Table A-5
Governmental and Business-Type Activities
Capital assets - Net of Depreciation**

	2015-16	2014-15
Land & Land Improvements	\$ 4,238,601	\$ 4,119,230
Buildings	102,621,854	102,039,534
Furniture, Equipment, & Vehicles	2,501,155	2,086,614
Construction In Progress	128,718	1,554,015

DEBT ADMINISTRATION

As of July 1, 2015, the District had total outstanding bond principal of \$83,410,000. The District made payments against principal of \$3,460,000. These transactions have resulted in an ending outstanding debt as of June 30, 2016 of \$79,950,000.

**Table A-6
Outstanding Debt**

	2015-16	2014-15
General Obligation Bonds:		
- Series A of 2004	\$ -	\$ -
- Series of 2006	-	65,000
-Series of 2008	-	2,225,000
-Series A of 2008	-	635,000
-Series of 2009	210,000	3,225,000
-Series of 2009 Notes	7,115,000	7,120,000
-Series of 2010	-	2,515,000
-Series of 2011 Notes	8,965,000	9,270,000
-Series A of 2012	2,100,000	2,760,000
-Series of 2013	9,740,000	9,825,000
-Series of 2014	9,060,000	9,365,000
-Series A of 2014	9,985,000	9,990,000
-Series of 2015 Notes	17,055,000	17,075,000
-Series of 2015	9,335,000	9,340,000
-Series of 2016	6,385,000	-
TOTAL	\$ 79,950,000	\$ 83,410,000

**NAZARETH AREA SCHOOL DISTRICT
Management's Discussion and Analysis**

Other obligations for the District include accrued vacation pay and sick leave for specific employees of the District. More detailed information about our long-term liabilities is included in Note 5 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's general obligation bond rating from Standard & Poor's is AA. With this rating, the District did not have to purchase bond insurance for its new debt that was issued during the 2015-16 year. Standard & Poor's cited the strong wealth and income indicators for the district residents and the district's strong financial profile.

The comparison of revenue and expenditure categories is as follows:

**Table A-7
Budgeted Expenditures**

	2015-16	2014-15
Instruction	59.5%	58.5%
Support Services	28.6%	28.5%
Non-Instruction/Community	2.1%	0.7%
Fund Transfers/Debt	9.8%	12.3%

	2015-16	2014-15
Local	74.0%	73.8%
State	25.3%	25.4%
Federal/Other	0.7%	0.8%

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Mr. Stuart Whiteleather, Business Administrator/Board Secretary at Nazareth Area School District, One Education Plaza, Nazareth, PA 18064, 610-759-1170.

BASIC FINANCIAL STATEMENTS

Nazareth Area School District
Statement of Net Position
As of June 30, 2016

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 23,273,494	\$ 404,486	\$ 23,677,980
Investments	990,000	-	990,000
Receivables, net	3,794,905	-	3,794,905
Internal Balances	207	9,489	-
Due From Other Governments	2,759,911	-	2,759,911
Other Receivables	46,584	-	46,584
Inventories	90,777	59,751	150,528
Prepaid Expenses	293,031	172	293,203
Other Current Assets	-	-	-
Total Current Assets	31,248,909	473,898	31,713,111
Non-Current Assets:			
Restricted Cash and Cash Equivalents	-	-	-
Long-term Receivables	2,063,245	-	2,063,245
Land	953,670	-	953,670
Site Improvements (net of depreciation)	3,284,931	-	3,284,931
Building and Bldg. Improvements (net of depreciation)	102,621,854	-	102,621,854
Furniture and Equipment (net of depreciation)	2,268,556	232,599	2,501,155
Construction in Progress	128,718	-	128,718
Total Non-Current Assets	111,320,974	232,599	111,553,573
TOTAL ASSETS	\$ 142,569,883	\$ 706,497	\$ 143,266,684
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charges on Bond Refundings, net	2,848,591	-	2,848,591
Deferred Outflow of Resources - Derivatives	810,609	-	810,609
Deferred Costs on Refunding Derivatives	4,726,573	-	4,726,573
Deferred Outflows of Resources - Change in Proportion of NPL	5,210,596	120,404	5,331,000
Deferred Outflows of Resources - Current Year Contributions	8,413,294	183,966	8,597,260
Deferred Outflows of Resources - Diff. btwn. Proportionate vs Actual - POS	9,494	-	9,494
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 164,589,040	\$ 1,010,867	\$ 165,590,211
LIABILITIES			
Current Liabilities:			
Internal Balances	\$ 9,489	\$ 207	\$ -
Due to other governments	147,975	-	147,975
Accounts Payable	590,792	4,843	595,635
Current Portion of Long-Term Obligations	4,143,439	-	4,143,439
Accrued Salaries and Benefits	5,150,506	16,328	5,166,834
Insurance Claims Payable	-	-	-
Prepayments	-	46,480	46,480
Other Current Liabilities	2,855,214	-	2,855,214
Total Current Liabilities	12,897,415	67,858	12,955,577
Non-Current Liabilities:			
Bonds and Notes Payable	76,999,155	-	76,999,155
Derivative Instrument Liability	5,252,833	-	5,252,833
Lease Purchase Obligations	-	-	-
Long-Term Portion of Compensated Absences	4,074,762	49,990	4,124,752
Authority Lease Obligations	-	-	-
Net Pension Liability	110,104,909	2,558,456	112,663,365
Net OPEB Obligations	3,744,181	69,113	3,813,294
TOTAL LIABILITIES	213,073,255	2,745,417	215,808,976
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources - Derivative Instruments	-	-	-
Deferred Inflows of Resources - Diff. in Projected vs Actual Invest. Earnings	220,020	9,980	230,000
Deferred Inflows of Resources - Diff. in Projected vs Actual Contributions	423,738	9,783	433,521
Deferred Inflows of Resources - Change in Proportion of NPL	-	-	-
Deferred Inflows of Resources - Diff. btwn. Expected vs Actual Experience	457,654	10,346	468,000
Unearned Revenue from Grants	-	-	-
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	214,174,667	2,775,526	216,940,497
NET POSITION			
Net Investment in Capital Assets	31,646,514	232,599	31,879,113
Restricted For:			
Retirement of Long-Term Debt	-	-	-
Capital Projects	3,908,692	-	3,908,692
Other Restrictions	-	-	-
Unrestricted (deficit)	(85,140,833)	(1,997,258)	(87,138,091)
TOTAL NET POSITION	(49,585,627)	(1,764,659)	(51,350,286)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 164,589,040	\$ 1,010,867	\$ 165,590,211

The Accompanying Notes are an integral part of these financial statements.

(1) Internal balances represent the amount owed to or from the two types of activities within the Primary Government. Since internal balances do not represent assets or liabilities of the total Primary Government, their balances are eliminated in the "total" column (GASB Statement No. 34, para. 58).

**Nazareth Area School District
Statement of Activities
For the Year Ended June 30, 2016**

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES:							
Instruction	\$ 47,920,917	\$ 111,673	\$ 7,726,266	\$ -	\$ (40,082,978)	\$ -	\$ (40,082,978)
Instructional Student Support	4,518,016	-	536,166	-	(3,981,850)	-	(3,981,850)
Admin. & Fin'l Support Services	7,135,584	-	567,365	-	(6,568,219)	-	(6,568,219)
Oper. & Maint. of Plant Svcs.	7,864,131	-	508,821	-	(7,355,310)	-	(7,355,310)
Pupil Transportation	3,807,640	-	988,222	-	(2,819,418)	-	(2,819,418)
Student activities	1,516,730	133,925	91,975	-	(1,290,830)	-	(1,290,830)
Community Services	215,536	28,850	294	-	(186,392)	-	(186,392)
Interest on Long-Term Debt	2,645,092	-	-	388,021	(2,257,071)	-	(2,257,071)
Unallocated Depreciation Expense	2,670,212	-	-	-	(2,670,212)	-	(2,670,212)
TOTAL GOVERNMENTAL ACTIVITIES	78,293,858	274,448	10,419,109	388,021	(67,212,280)	-	(67,212,280)
BUSINESS-TYPE ACTIVITIES:							
Food Services	2,006,743	1,277,860	685,726	-	-	(43,157)	(43,157)
Other Enterprise Funds	-	-	-	-	-	-	-
TOTAL PRIMARY GOVERNMENT	\$ 80,300,601	\$ 1,552,308	\$ 11,104,835	\$ 388,021	\$ (67,212,280)	\$ (43,157)	\$ (67,255,437)
GENERAL REVENUES:							
Property taxes. Levied for general purposes, net					\$ 50,166,332	\$ -	\$ 50,166,332
Taxes levied for specific purposes					7,548,406	-	7,548,406
Grants, subsidies, & contributions not restricted					10,128,307	-	10,128,307
Investment Earnings					(439,594)	612	(438,982)
Miscellaneous Income					170,408	4,300	174,708
Special item - Gain or (Loss) on sale of capital assets					(11,150)	-	(11,150)
Capital Contributions					-	-	-
Extraordinary Items					-	-	-
Transfers					-	-	-
TOTAL GENERAL REVENUES, SPECIAL ITEMS, EXTRAORDINARY ITEMS, AND TRANSFERS					67,562,709	4,912	67,567,621
CHANGES IN NET POSITION					350,429	(38,245)	312,184
NET POSITION - BEGINNING					(49,936,056)	(1,726,414)	(51,662,470)
NET POSITION - ENDING					\$ (49,585,627)	\$ (1,764,659)	\$ (51,350,286)

The Accompanying Notes are an integral part of these financial statements.

**Nazareth Area School District
Balance Sheet
Governmental Funds
As of June 30, 2016**

	<u>GENERAL</u>	<u>CAPITAL PROJECTS</u>	<u>NON-MAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 19,253,724	\$ 4,019,770	\$ -	\$ 23,273,494
Restricted Cash	-	-	-	-
Investments	990,000	-	-	990,000
Taxes Receivable, net	3,794,905	-	-	3,794,905
Due from other funds	4,032	-	636,269	640,301
Due from Other Governments	2,759,911	-	-	2,759,911
Other Receivables	36,937	-	-	36,937
Inventories	90,777	-	-	90,777
Prepaid Expenditures	293,031	-	-	293,031
Other Current Assets	-	-	-	-
TOTAL ASSETS	\$ 27,223,317	\$ 4,019,770	\$ 636,269	\$ 31,879,356
<u>DEFERRED OUTFLOWS OF RESOURCES</u>				
Deferred Charges on Refundings, net	-	-	-	-
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$ 27,223,317	\$ 4,019,770	\$ 636,269	\$ 31,879,356
<u>LIABILITIES</u>				
Due to Other Funds	\$ 650,027	\$ -	\$ -	\$ 650,027
Due to Other Governments	147,975	-	-	147,975
Accounts Payable	475,444	111,078	-	586,522
Current Portion of Long-Term Debt	398,439	-	-	398,439
Accrued Salaries and Benefits	5,150,506	-	-	5,150,506
Payroll Deductions and Withholdings	2,462,217	-	-	2,462,217
Prepayments	-	-	-	-
Other Current Liabilities	25,305	-	-	25,305
TOTAL LIABILITIES	9,309,913	111,078	-	9,420,991
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Unearned/Unavailable Property Taxes	2,184,052	-	-	2,184,052
TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES	11,493,965	111,078	-	11,605,043
FUND BALANCES:				
Nonspendable Fund Balance	383,808	-	-	383,808
Restricted Fund Balance	61,546	3,908,692	-	3,970,238
Committed Fund Balance	7,818,943	-	-	7,818,943
Assigned Fund Balance	1,050,000	-	636,269	1,686,269
Unassigned Fund Balance	6,415,055	-	-	6,415,055
TOTAL FUND BALANCES	15,729,352	3,908,692	636,269	20,274,313
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 27,223,317	\$ 4,019,770	\$ 636,269	\$ 31,879,356

The Accompanying Notes are an integral part of these financial statements.

**Nazareth Area School District
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
As of June 30, 2016**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 20,274,313

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$151,901,990 and the accumulated depreciation is \$42,644,261. 109,257,729

Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds 2,184,052

Additional receivables established that do not meet the availability criteria reflected in the fund financial statements. This amount represents the difference between the prior year receivables and the current year receivables established under the accrual basis of accounting. 2,069,066

This represents deferred outflows of resources resulting in deferred charges on refunding prior bond issues. 2,848,591

This amount represents the net deferred outflows (inflows) resulting in hedging derivative instruments that have passed the effectiveness tests required by generally accepted accounting principles and reported on the government-wide financial statements, not the government funds financial statements. 5,537,182

This represents deferred outflows of resources, net of deferred inflows of resources pertaining to the Net Pension Liability 12,531,972

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

Bonds payable	\$ (80,744,155)	
Accrued interest on the bonds	(367,692)	
Compensated absences	(4,074,762)	
Net Pension Liability	(110,104,909)	
Derivative Instrument Liability	(5,252,833)	
Net OPEB Obligation	(3,744,181)	<u>(204,288,532)</u>

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES **\$ (49,585,627)**

The Accompanying Notes are an integral part of these financial statements.

Nazareth Area School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2016

	<u>GENERAL</u>	<u>CAPITAL PROJECTS</u>	<u>NON-MAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES				
Local Sources	\$ 58,256,778	\$ 10,851	\$ -	\$ 58,267,629
State Sources	19,911,648	-	-	19,911,648
Federal Sources	577,681	-	-	577,681
TOTAL REVENUES	<u>78,746,107</u>	<u>10,851</u>	<u>-</u>	<u>78,756,958</u>
EXPENDITURES				
Instruction	45,319,549	597,862	-	45,917,411
Support Services	21,799,057	235,226	121,527	22,155,810
Operation of Non-Instructional Services	1,624,631	-	-	1,624,631
Capital Outlay	-	2,232,261	-	2,232,261
Debt Service	5,929,841	-	1,533	5,931,374
TOTAL EXPENDITURES	<u>74,673,078</u>	<u>3,065,349</u>	<u>123,060</u>	<u>77,861,487</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>4,073,029</u>	<u>(3,054,498)</u>	<u>(123,060)</u>	<u>895,471</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from Bond Issues	-	-	-	-
Proceeds from Refunding Bond Issues	-	-	6,385,000	6,385,000
Bond Premium	-	-	356,223	356,223
Bond Discount	-	-	-	-
Proceeds from Extended Term Financing	-	-	-	-
Termination Fee - Swap	-	-	-	-
Interfund Transfers In	-	1,443,303	-	1,443,303
Sale/Compensation for Fixed Assets	-	-	-	-
Payment to bond refunding escrow agent	-	-	(6,618,163)	(6,618,163)
Operating Transfers Out	(1,443,303)	-	-	(1,443,303)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,443,303)</u>	<u>1,443,303</u>	<u>123,060</u>	<u>123,060</u>
SPECIAL/EXTRAORDINARY ITEMS				
Special Items - Insurance Recoveries	10,321	41,500	-	51,821
Extraordinary Items	-	-	-	-
NET CHANGE IN FUND BALANCES	2,640,047	(1,569,695)	-	1,070,352
FUND BALANCES - BEGINNING	<u>13,089,305</u>	<u>5,478,387</u>	<u>636,269</u>	<u>19,203,961</u>
FUND BALANCES - ENDING	<u>\$ 15,729,352</u>	<u>\$ 3,908,692</u>	<u>\$ 636,269</u>	<u>\$ 20,274,313</u>

The Accompanying Notes are an integral part of these financial statements.

**Nazareth Area School District
Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balance
to the Statement of Activities
For the Year Ended June 30, 2016**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 1,070,352

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

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

Depreciation expense	\$ 3,040,955	
less - capital outlays	<u>2,740,617</u>	(300,338)

In the statement of activities, only the gain on the sale of the capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the cost of fixed assets sold. (11,150)

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred inflows of resources increased by this amount this year. 420,292

Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 3,405,000

In the statement of activities, certain operating expenses--compensated absences (vacations) and special termination benefits (early retirement)--are measured by the amounts earned during the year. In the governmental funds; however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used. (776,980)

In the statement of activities, certain operating revenues are recognized when earned versus the revenues using the modified accrual basis of accounting in the fund statements that are recognized when the funds are available. As such, the amount shown here represents the difference between earned revenues and revenues that are earned, but not available. (91,047)

SUB-TOTAL IN CHANGES BETWEEN BASIS OF ACCOUNTING **3,716,129**

**Nazareth Area School District
 Reconciliation of the Governmental Funds
 Statement of Revenues, Expenditures, and Changes in Fund Balance
 to the Statement of Activities
 For the Year Ended June 30, 2016**

**SUB-TOTAL IN CHANGES BETWEEN BASIS OF ACCOUNTING
 (CONT'D)** \$ 3,716,129

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. This would include accumulated interest accreted on capital appreciation bonds. The additional interest accrued in the statement of activities over the amount due is shown here. (118,717)

This amount represents the net change of deferred outflows (inflows) resulting in hedging derivative instruments that have passed the effectiveness tests required by generally accepted accounting principles and reported on the government-wide financial statements, not the government funds financial statements. (518,112)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Refunding bond issues becomes a use of current financial resources in governmental funds, but refundings represent payments of long-term debt in the statement of net position. This figure represents the difference between bond proceeds and refunding payments made to paying agents. (123,060)

The governmental funds use the purchase method of inventory, where all items purchased are charged to expenditures. However, the statement of activities is reflected on the consumption method of recording inventory type items; therefore, this adjustment reflects the inventory difference. -

The difference between current year pension expense reported on the governmental activities column of the government-wide financial statements and the pension contributions made this past year reported as expenditures in the governmental funds. (2,605,811)

CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 350,429**

The Accompanying Notes are an integral part of these financial statements.

**Nazareth Area School District
Statement of Fund Net Position
Proprietary Funds
As of June 30, 2016**

	FOOD SERVICE	NON-MAJOR FUNDS	TOTAL
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 404,486	\$ -	\$ 404,486
Investments	-	-	-
Due from other funds	9,489	-	9,489
Due From Other Governments	-	-	-
Other Receivables	-	-	-
Inventories	59,751	-	59,751
Prepaid expenses	172	-	172
Other Current Assets	-	-	-
TOTAL CURRENT ASSETS	473,898	-	473,898
NON-CURRENT ASSETS:			
Building & Bldg. Improvements (net)	-	-	-
Machinery & Equipment (net)	232,599	-	232,599
Other Long-Term Receivables	-	-	-
TOTAL NON-CURRENT ASSETS	232,599	-	232,599
TOTAL ASSETS	\$ 706,497	\$ -	\$ 706,497
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred Outflows of Resources - Change in Proportion of NPL	120,404	-	120,404
Deferred Outflows of Resources - Current Year Contributions	183,966	-	183,966
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$ 1,010,867	\$ -	\$ 1,010,867
<u>LIABILITIES</u>			
CURRENT LIABILITIES:			
Due to Other Funds	\$ 263	\$ -	\$ 263
Due to Other Governments	-	-	-
Accounts Payable	4,787	-	4,787
Current Portion of Long-Term Debt	-	-	-
Accrued Salaries and Benefits	16,328	-	16,328
Prepayments	46,480	-	46,480
Other Current Liabilities	-	-	-
TOTAL CURRENT LIABILITIES	67,858	-	67,858
NON-CURRENT LIABILITIES:			
Long-Term Portion of Compensated Absences	49,990	-	49,990
Net Pension Liability	2,558,456	-	2,558,456
Net OPEB Obligation	69,113	-	69,113
TOTAL NON-CURRENT LIABILITIES	2,677,559	-	2,677,559
TOTAL LIABILITIES	2,745,417	-	2,745,417
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred Inflows of Resources - Diff. in Projected vs Actual Invest. Earnings	9,980	-	9,980
Deferred Inflows of Resources - Diff. in Projected vs Actual Contributions	9,783	-	9,783
Deferred Inflows of Resources - Change in Proportion of NPL	-	-	-
Deferred Inflows of Resources - Diff. in Expected vs Actual Experience	10,346	-	10,346
TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES	2,775,526	-	2,775,526
<u>FUND NET POSITION</u>			
Net Investment in Capital Assets	232,599	-	232,599
Restricted for Legal Purposes	-	-	-
Unrestricted	(1,997,258)	-	(1,997,258)
TOTAL FUND NET POSITION	(1,764,659)	-	(1,764,659)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND NET POSITION	\$ 1,010,867	\$ -	\$ 1,010,867

The Accompanying Notes are an integral part of these financial statements.

Nazareth Area School District
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2016

	<u>FOOD SERVICE</u>	<u>NON-MAJOR FUNDS</u>	<u>TOTAL</u>
OPERATING REVENUES:			
Food Service Revenue	\$ 1,277,860	\$ -	\$ 1,277,860
Charges for Services	-	-	-
Other Operating Revenues	<u>4,300</u>	<u>-</u>	<u>4,300</u>
TOTAL OPERATING REVENUES	<u>1,282,160</u>	<u>-</u>	<u>1,282,160</u>
OPERATING EXPENSES:			
Salaries	718,684	-	718,684
Employee benefits	395,484	-	395,484
Purchased Professional and Technical Services	-	-	-
Purchased Property Service	13,397	-	13,397
Other Purchased Services	4,603	-	4,603
Supplies	853,641	-	853,641
Depreciation	17,562	-	17,562
Dues and Fees	382	-	382
Claims and Judgments	-	-	-
Other Operating Expenses	<u>2,990</u>	<u>-</u>	<u>2,990</u>
TOTAL OPERATING EXPENSES	<u>2,006,743</u>	<u>-</u>	<u>2,006,743</u>
OPERATING INCOME (LOSS)	<u>(724,583)</u>	<u>-</u>	<u>(724,583)</u>
NON-OPERATING REVENUES (EXPENSES)			
Earnings on investments	612	-	612
Contributions and Donations	-	-	-
Gain/Loss on Sale of Fixed Assets	-	-	-
State Sources	159,644	-	159,644
Federal Sources	526,082	-	526,082
Interest Expenses	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>686,338</u>	<u>-</u>	<u>686,338</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	<u>(38,245)</u>	<u>-</u>	<u>(38,245)</u>
Capital contributions	-	-	-
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>
CHANGES IN FUND NET POSITION	<u>(38,245)</u>	<u>-</u>	<u>(38,245)</u>
FUND NET POSITION - BEGINNING	<u>(1,726,414)</u>	<u>-</u>	<u>(1,726,414)</u>
FUND NET POSITION - ENDING	<u>\$ (1,764,659)</u>	<u>\$ -</u>	<u>\$ (1,764,659)</u>

The Accompanying Notes are an integral part of these financial statements.

**Nazareth Area School District
Statement of Cash Flows
Proprietary Funds
As of June 30, 2016**

	FOOD SERVICE	NON-MAJOR FUNDS	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Users	\$ 1,282,313	\$ -	\$ 1,282,313
Cash Received from Assessments made to Other Funds	-	-	-
Cash Received from Earnings on Investments	-	-	-
Cash Received from Other Operating Revenue	4,300	-	4,300
Cash Payments to Employees for Services	(1,034,145)	-	(1,034,145)
Cash Payments for Insurance Claims	-	-	-
Cash Payments to Suppliers for Goods and Services	(750,386)	-	(750,386)
Cash Payments to Other Operating Expenses	(3,372)	-	(3,372)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>(501,290)</u>	<u>-</u>	<u>(501,290)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Local Sources	-	-	-
State Sources	160,485	-	160,485
Federal Sources	419,910	-	419,910
Operating Transfers In (Out)	-	-	-
NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES	<u>580,395</u>	<u>-</u>	<u>580,395</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Facilities Acquisition/Const./Improvement Svcs.	(19,984)	-	(19,984)
Capital Contributions	-	-	-
Proceeds on Sale of Capital Assets	-	-	-
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(19,984)</u>	<u>-</u>	<u>(19,984)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Earnings on Investments	612	-	612
Purchase of Investment Securities/Deposits to Investment Pools	-	-	-
Withdrawals from Investment Pools	-	-	-
Proceeds from Sale and Maturity of Investment Securities	-	-	-
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u>612</u>	<u>-</u>	<u>612</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	59,733	-	59,733
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>344,753</u>	<u>-</u>	<u>344,753</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 404,486</u>	<u>\$ -</u>	<u>\$ 404,486</u>

**Nazareth Area School District
Statement of Cash Flows
Proprietary Funds
As of June 30, 2016**

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES

	<u>FOOD SERVICE</u>	<u>NON-MAJOR FUNDS</u>	<u>TOTAL</u>
OPERATING INCOME (LOSS)	\$ (724,583)	\$ -	\$ (724,583)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES			
Depreciation and Net Amortization	17,562	-	17,562
Provision for Uncollectible Accounts	-	-	-
Donated Commodities Used	112,011	-	112,011
CHANGE IN ASSETS AND LIABILITIES:			
(Increase) Decrease in Accounts Receivable	770	-	770
(Increase) Decrease in Advances to Other Funds	3,683	-	3,683
(Increase) Decrease in Inventories	9,669	-	9,669
(Increase) Decrease in Prepaid Expenses	-	-	-
(Increase) Decrease in Other Current Assets	-	-	-
(Increase) Decrease in Deferred Outflows of Resources - Change in Proportion of NPL	(34,707)	-	(34,707)
(Increase) Decrease in Deferred Outflows of Resources - Current Year Contributions	(30,637)	-	(30,637)
Increase (Decrease) in Accounts Payable	(1,368)	-	(1,368)
Increase (Decrease) in Accrued Salaries and Benefits	15,177	-	15,177
Increase (Decrease) in Net Pension Liability	273,256	-	273,256
Increase (Decrease) in Advances from Other Funds	(167)	-	(167)
Increase (Decrease) in Prepayments	943	-	943
Increase (Decrease) in Deferred Inflows of Resources - Diff. in Projected vs Actual Invest. Earnings	(154,169)	-	(154,169)
Increase (Decrease) in Deferred Inflows of Resources - Diff. in Projected vs Actual Contributions	924	-	924
Increase (Decrease) in Deferred Inflows of Resources - Change in Proportion of NPL	-	-	-
Increase (Decrease) in Deferred Inflows of Resources - Diff. in Expected vs Actual Experience	10,346	-	10,346
TOTAL ADJUSTMENTS	<u>223,293</u>	<u>-</u>	<u>223,293</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ (501,290)</u>	<u>\$ -</u>	<u>\$ (501,290)</u>

The Accompanying Notes are an integral part of these financial statements.

Nazareth Area School District
Statement of Net Position
Fiduciary Funds
As of June 30, 2016

	PRIVATE PURPOSE TRUST	PENSION AND OTHER EMPLOYEE BENEFIT TRUST	AGENCY FUNDS
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents	\$ 310,010	\$ -	\$ 124,966
Investments	-	-	-
Due from Other Funds	-	-	500
Other Receivables	-	-	3,774
Prepaid Expenses	-	-	-
Other Current Assets	-	-	-
TOTAL ASSETS	<u>\$ 310,010</u>	<u>\$ -</u>	<u>\$ 129,240</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charges on Refundings, net	-	-	-
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 310,010</u>	<u>\$ -</u>	<u>\$ 129,240</u>
LIABILITIES			
Accounts Payable	\$ -	\$ -	\$ 3,765
Intergovernmental Payables	-	-	-
Due to Other Funds	-	-	-
Due to Student Clubs	-	-	125,475
Net Pays	-	-	-
Other Current Liabilities	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>129,240</u>
DEFERRED INFLOWS OF RESOURCES			
Unearned Revenue	-	-	-
TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>129,240</u>
NET POSITION			
Restricted	-	-	-
Unrestricted	310,010	-	-
TOTAL NET POSITION	<u>\$ 310,010</u>	<u>\$ -</u>	<u>\$ -</u>

The Accompanying Notes are an integral part of these financial statements.

**Nazareth Area School District
Statement of Changes in Net Position
Fiduciary Funds
For the Year Ended June 30, 2016**

	PRIVATE PURPOSE TRUST FUND	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS
ADDITIONS		
Contributions	\$ 10,618	\$ -
Transfers from other funds	-	-
INVESTMENT EARNINGS:		
Interest and Dividends	305	-
Net increase (decrease) in fair value of investments	-	-
Less investment expense	-	-
TOTAL ADDITIONS	10,923	-
 DEDUCTIONS		
Transfers to other funds	-	-
Administrative charges	-	-
Scholarships	12,933	-
TOTAL DEDUCTIONS	12,933	-
 CHANGES IN NET POSITION	(2,010)	-
 NET POSITION - BEGINNING OF YEAR	312,020	-
 NET POSITION - END OF YEAR	\$ 310,010	\$ -

The Accompanying Notes are an integral part of these financial statements.

Nazareth Area School District
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual -
General Fund
For the Year Ended June 30, 2016

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH	BUDGET TO	ACTUAL
	ORIGINAL	FINAL	(BUDGETARY BASIS)	FINAL BUDGET POSITIVE (NEGATIVE)	GAAP DIFFERENCE	AMOUNTS GAAP BASIS
REVENUES						
Local Sources	\$ 56,469,784	\$ 56,466,407	\$ 58,256,778	\$ 1,790,371	\$ -	\$ 58,256,778
State Sources	19,509,121	19,512,498	19,911,648	399,150	-	19,911,648
Federal Sources	465,788	465,788	577,681	111,893	-	577,681
TOTAL REVENUES	76,444,693	76,444,693	78,746,107	2,301,414	-	78,746,107
EXPENDITURES						
Regular Instruction	34,283,498	33,997,334	33,906,806	90,528	-	33,906,806
Special Programs	9,284,014	9,304,203	9,277,853	26,350	-	9,277,853
Vocational Programs	1,489,050	1,470,050	1,411,049	59,001	-	1,411,049
Other Instructional Programs	150,662	140,662	116,303	24,359	-	116,303
Nonpublic School Programs	8,000	-	-	-	-	-
Adult Education Programs	4,000	-	-	-	-	-
Community/Junior College Ed. Programs	607,538	607,538	607,538	-	-	607,538
Pupil Personnel Services	2,296,234	2,366,379	2,358,038	8,341	-	2,358,038
Instructional Staff Services	1,256,994	1,281,732	1,092,815	188,917	-	1,092,815
Administrative Services	4,295,405	4,324,886	4,150,505	174,381	-	4,150,505
Pupil Health	801,151	824,551	812,895	11,656	-	812,895
Business Services	918,773	1,025,773	1,005,917	19,856	-	1,005,917
Operation & Maintenance of Plant Services	7,356,712	7,408,853	7,339,244	69,609	-	7,339,244
Student Transportation Services	3,786,252	3,929,252	3,805,097	124,155	-	3,805,097
Central Support Services	1,104,956	1,217,526	1,196,187	21,339	-	1,196,187
Other Support Services	37,500	38,500	38,359	141	-	38,359
Student Activities	1,504,892	1,418,601	1,409,095	9,506	-	1,409,095
Community Services	245,000	219,000	215,536	3,464	-	215,536
Facilities, Acquisition and Construction	-	-	-	-	-	-
Debt Service	6,034,832	5,934,832	5,929,841	4,991	-	5,929,841
TOTAL EXPENDITURES	75,465,463	75,509,672	74,673,078	836,594	-	74,673,078
Excess (deficiency) of revenues over expenditures	979,230	935,021	4,073,029	3,138,008	-	4,073,029
OTHER FINANCING SOURCES (USES)						
Proceeds From Extended Term Financing	-	-	-	-	-	-
Interfund Transfers in	-	-	-	-	-	-
Sale/Compensation for Fixed Assets	-	-	-	-	-	-
Fund Transfers out	(1,479,230)	(1,449,303)	(1,443,303)	6,000	-	(1,443,303)
Budgetary Reserve	(150,000)	(135,718)	-	135,718	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(1,629,230)	(1,585,021)	(1,443,303)	141,718	-	(1,443,303)
Special Items - Insurance Recoveries	-	-	10,321	10,321	-	10,321
Extraordinary Items	-	-	-	-	-	-
NET CHANGE IN FUND BALANCES	(650,000)	(650,000)	2,640,047	3,290,047	-	2,640,047
FUND BALANCE - JULY 1, 2015	14,347,892	14,347,892	13,089,305	(1,258,587)	-	13,089,305
FUND BALANCE - JUNE 30, 2016	\$ 13,697,892	\$ 13,697,892	\$ 15,729,352	\$ 2,031,460	\$ -	\$ 15,729,352

The Accompanying Notes are an integral part of these financial statements.

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

Note 1 - Description of the School District and Reporting Entity

School District

The Nazareth Area School District is located in Northampton County in eastern Pennsylvania, approximately ten miles to the north and west of Easton, the county seat of Northampton County. The School District is comprised of Nazareth, Tatamy, and Stockertown Boroughs, and Bushkill, Lower Nazareth, and Upper Nazareth Townships.

The Nazareth Area School District is a unit established, organized, and empowered by the Commonwealth of Pennsylvania for the express purpose of carrying out, on the local level, the Commonwealth's obligation to public education, as established by the constitution of the Commonwealth and by the School Law Code of the same (Article II; Act 150, July 8, 1968).

As specified under the School Law Code of the Commonwealth of Pennsylvania, this and all other school districts of the state "shall be and hereby are vested as, bodies corporate, with all necessary powers to carry out the provisions of this act." (Article II, Section 211).

Board of School Directors

The public school system of the Commonwealth shall be administered by a board of school directors, to be elected or appointed, as hereinafter provided. At each election of school directors, each qualified voter shall be entitled to cast one vote for each school director to be elected.

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

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

In order to establish, enlarge, equip, furnish, operate, and maintain any schools herein provided, or to pay any school indebtedness which the school district is required to pay, or to pay any indebtedness that may at any time hereafter be created by the school district, the board of school directors are 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.

Administration

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

The Business Administrator, recommended by the Superintendent and appointed by the Board of School Directors, shall supervise and coordinate all business aspects of the School District. In this capacity, he or she shall be responsible to insure that all work accomplished by him/her, or by persons under his/her supervision, is in the best interests of the Nazareth Area School District. The Business Administrator is directly responsible to the Superintendent.

Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Nazareth Area School District, this includes general operations, food service, and student related activities of the School District.

Nazareth Area School District is a municipal Corporation governed by an elected nine-member board. As required by accounting principles, generally accepted in the United States of America, these financial statements are to present Nazareth Area School District (the primary government) and organizations for which the primary government is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are financially dependent on the School District in that the School District approved the budget, the issuance of debt, or the levying of taxes. The Nazareth Area School District does not have any component units.

Joint Ventures

Career Institute of Technology

The School District is a participating member of the Career Institute of Technology (CIT). The CIT is run by a joint committee consisting of members from each participating district. No participating district appoints a majority of the joint committee. The board of directors of each participating district must approve the CIT's annual operating budget. Each participating district pays a pro-rata share of the CIT's operating costs based on the number of students attending the CIT for each District. The District's share of the CIT's operating costs for 2015-16 was \$1,411,049.

On dissolution of the Career Institute of Technology, the net position of CIT will be shared on a pro-rata basis of each participating district's current market value of taxable real property as certified by the Pennsylvania State Tax Equalization Board. However, the District does not have an equity interest in CIT as defined by GASB Statement No. 14, except a residual interest in the net position upon dissolution that should not be reflected on the basic financial statements. Complete financial statements for the CIT can be obtained from the CIT's administrative office at 5335 Kesslersville Rd., Easton, PA. 18040.

Northampton Community College

The District is a participating member of the Northampton Community College (NCC). The NCC is run by a Board of Trustees elected by the participating member districts' boards of directors. No participating district appoints a majority of the Board of Trustees. A vote of two-thirds of all member districts shall be required for approval of the NCC's annual operating budget. The amount of the annual operating costs of the NCC shall be apportioned among the member districts on the basis of the number of full-time equivalent students enrolled in NCC and residing in the respective geographical areas of each of the member districts. The District's share of NCC's operating costs for 2015-16 was \$607,538.

On dissolution of the Northampton Community College, the net position of NCC will be shared on a pro-rata basis of each member district's current market value of taxable real property as certified by the Pennsylvania State Tax Equalization Board. However, the District does not have an equity interest in NCC as defined by GASB Statement No. 14, except a residual interest in the net position upon dissolution that should not be reflected on the basic financial statements. Complete financial statements for the NCC can be obtained from the NCC's administrative office at 3835 Green Pond Rd., Bethlehem, PA 18020.

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

Jointly Governed Organizations

Colonial Intermediate Unit

The School District is a participating member of the Colonial Intermediate Unit (CIU). The CIU is run by a joint committee consisting of members from each participating district. No participating district appoints a majority of the joint committee. The board of directors of each participating district must approve the CIU's annual operating budget. The CIU is a self-sustaining organization that provides services for fees to participating districts. As such, the District has no on-going financial interest or financial responsibility in the CIU. The CIU contracts with participating districts to supply special education services, computer services, and acts as a conduit for certain federal programs.

Note 2 - Summary of significant accounting policies

The financial statements of the District have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. On June 15, 1987, the GASB issued a codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced. GASB Statement No. 62 was issued to include all prior Financial Accounting Standards Board's statements and interpretations, along with predecessors' statements and interpretations pertaining to governments into the hierarchy of the Governmental Accounting Standards Board's jurisdiction.

A. Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a statement of net position, a statement of activities, and fund financial statements which provide a more detailed level of financial information.

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

The statement of net position presents the financial condition of the governmental and business-type activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities and for one business-type activity of the School District. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business activity or governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental and enterprise fund financial

Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016

statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

B. Fund Accounting

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Deferred outflows of resources is recorded in a particular governmental fund where costs are spent for a future period. Current Liabilities are assigned to the governmental fund from which they will be paid. Deferred inflows of resources is recorded in a particular governmental fund that has received resources for a future period. The difference between the sum of assets and deferred outflows of resources minus the sum of liabilities and deferred inflows of resources is reported as fund balance. The following are the School District's major governmental funds:

General Fund

The general fund should be used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Fund

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term proceeds of specific revenue sources establish that one or more specific restricted or committed revenues should be the foundation for a special revenue fund. The restricted or committed proceeds of specific revenue sources should be expected to continue to comprise a substantial portion of the inflows reported in the fund. Other resources also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund.

Under this definition, the District does not have any special revenue funds.

Capital Projects Fund

Capital project funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital project funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

The District has the following Capital Project Funds:

Capital Project Fund

This fund was created to make improvements to various facilities within the District.

Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016

Capital Reserve Fund

This fund was created in accordance with Section 1432 of the Municipal Code. The Municipal Code restricts how the resources are spent within this fund.

Proprietary Funds Proprietary funds focus on the determination of changes in net position, financial position, and cash flows and are classified as enterprise funds.

Enterprise Funds Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The School District's major enterprise fund is:

Food Service Fund - This fund accounts for the financial transactions related to the food service operations of the School District.

Fiduciary Funds Fiduciary funds reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's only trust fund is a private purpose trust. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of the District are included on the statement of net position.

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet, along with deferred outflows of resources or deferred inflows of resources required to be reported. The statement of revenues, expenditures, and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation's with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all enterprise funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities, including required deferred outflows of resources or required deferred inflows of resources, associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses, and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its enterprise activities.

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows of resources, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-Exchange Transactions. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

E. Budgetary Process

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

In accordance with Act 1 of 2006, the Board shall annually, but not later than the first business meeting of January, decide the budget option to be used for the following fiscal year. The Board shall approve either the Accelerated Budget Process Option or the Board Resolution Option.

Accelerated Budget Process Option

Under this option, a preliminary budget must be prepared 150 days prior to the primary election. Under this Option, the preliminary budget must be available for public inspection at least 110 days prior to the primary election. The Board shall give public notice of its intent to adopt the preliminary budget at least 10 days prior to the adoption. The adoption must occur at least 90 days prior to the primary election.

If the preliminary budget exceeds the increase authorized by the Index, an application for an exception may be filed with either a Court of Common Pleas with jurisdiction or PDE and made available for public inspection. The Board may opt to forego applying for an exception by submitting a referendum question seeking voter approval for a tax increase, in accordance with Act 1.

The final budget shall include any necessary changes from the adopted preliminary budget. Any reduction required as the result of the failure of referendum shall be clearly stated. The final budget shall be made available for public inspection at least 20 days prior to final adoption. The Board shall annually adopt the final budget by a majority vote of all members of the Board prior to June 30.

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

Board Resolution Option

Under the Board Resolution Option, the Board shall adopt a resolution that it will not raise the rate of any tax for the following fiscal year by more than the Index. Such resolution shall be adopted no later than 110 days prior to the primary election. At least 30 days prior to adoption of the final budget the Board shall prepare a proposed budget. The proposed budget shall be available for public inspection at least 20 days prior to adoption of the budget. The Board shall give public notice of its intent to adopt at least 10 days prior to adoption of the proposed budget. The Board shall annually adopt the final budget by a majority vote of all members of the Board by June 30.

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the PDE 2028 when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all 2015-16 budget transfers.

F. Use of Estimates

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

G. Changes in Accounting Principles

During the 2015-16 fiscal year the District implemented the following new generally accepted accounting principles:

- GASB Statement No. 72 (*Fair Value Measurement and Application*), which establishes fair value reporting for governments. Fair value is described as an exit price. To determine a fair value measurement, a government should consider the unit of account, which refers to the level at which an asset or a liability is aggregated or disaggregated for measurement. This Statement requires a government to use valuation techniques using one of the following approaches: the market approach, the cost approach, or the income approach. This Statement establishes a hierarchy of inputs for valuation techniques used to measure fair values.
- 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 portion of this Statement applying to this government pertains to Amendments to GASB Statement 68. These Amendments clarify the application of Statement 68 as follows: (1) Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported; (2) Accounting and financial reporting for separately financed specific liabilities of individual employers for defined benefit pensions; and (3) Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation.

Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016

- GASB Statement No. 76 (The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments). This Statement establishes two categories of hierarchy: Category A consists of Governmental Accounting Standards Board Statements, including GASB interpretations. Category B consists of GASB Technical Bulletins; GASB Implementation Guides, and literature of the AICPA cleared by the GASB.
- GASB Statement No. 79 (Certain External Investment Pools and Pool Participants). This Statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools.

H. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System and additions to/deductions from the Public School Employees' Retirement System's fiduciary net position have been determined on the same basis as they are reported by the Public School Employees' Retirement System. 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.

I. Assets, Liabilities, and Net Position

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Proprietary Fund type considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents.

Investments

In accordance to GASB Statement No. 72, investments generally are to be measured at fair value. An investment is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has the present service capacity based solely on its ability to generate cash or to be sold to generate cash. Investments not measured at fair value continue to include, for example, money market investments, 2a7-like external investment pools, investments in life insurance contracts, common stock meeting the criteria for applying the equity method, unallocated insurance contracts, and synthetic guaranteed investment contracts.

A government is permitted in certain circumstances to establish the fair value of an investment that does not have a readily determinable fair value by using the net asset value per share of the investment.

This Statement requires measurement at acquisition value (an entry price) for donated capital assets, donated works of art, historical treasures, and similar assets. These assets were previously required to be measured at fair value.

Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016

Fair Value is measured using a hierarchy of inputs using valuation techniques. The hierarchy has three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices, that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs.

The valuation techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts (such as cash flows or income and expenses) to a single current (discounted) amount.

Receivables and Payables

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

Property Tax Levy

Property taxes, which were levied during the fiscal year ended June 30, 2016, are recognized as revenue in the fund financial statements when received by the District during the fiscal year and also estimated to be received by the District within sixty (60) days after the fiscal year ended.

Property taxes that were levied during the current fiscal year, which are not estimated to be received within sixty (60) days after the fiscal year-end, are recorded as receivable and deferred inflows of resources in the fund financial statements.

In the government-wide financial statements, all property taxes levied during the fiscal year are recognized as revenue, net of estimated uncollectible amount.

Inventories

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis, and are expensed when used. A physical inventory taken at June 30, 2016 reflects \$90,777 in the governmental activities column and \$59,751 in the business-type activities column.

Inventory type items in governmental funds utilize the consumption method, that is, they are charged to expenditures when used. A physical inventory was taken as of June 30, 2016; therefore, there is \$90,777 of inventory and nonspendable fund balance in the General Fund.

Inventory type items in Proprietary Funds use the consumption method, in which items are purchased for inventory and charged to expenses when used. The only Proprietary Fund of the District is the Food Service Fund. Inventory within this fund consists of donated commodities, which are valued at U.S.D.A.'s approximate costs, and purchased food.

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

Inventories on hand at June 30, 2016, consist of:

Purchased Food	\$	55,338
Donated Commodities		4,413
TOTAL	\$	59,751

Prepaid Expenses

In both the government-wide and fund financial statements, prepaid expenses are recorded as assets in the specific governmental fund in which future benefits will be derived.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements. Capital assets utilized by the enterprise funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their acquisition values as of the date received. The School District maintains a capitalization threshold of two thousand-five hundred (\$2,500) dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets utilized by the enterprise funds is also capitalized.

All reported capital assets except land, certain land improvements, and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

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

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings and Improvements	20 - 50 years	20 - 50 years
Furniture and Equipment	5 - 20 years	5 - 20 years
Vehicles	8 years	N/A

Compensated Absences

The School District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means.

Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. In enterprise funds, the entire amount of compensated absences is reported as a fund liability.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, 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 and discounts, and deferred amounts on refundings are deferred and amortized over the life of the bonds using modification of the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Any deferred amount on refundings are reported as deferred outflows of resources and amortized over the life of the bond issue. Bond issuance costs are expensed in the year they are incurred.

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 and premiums on debt issuances are reported as other financing uses and other financing sources, respectively. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as support service expenditures.

Reclassification

Certain amounts have been reclassified to conform to the June 30, 2016, presentation of government-wide financial statements on the accrual basis of accounting versus the governmental fund financial statements reported on the modified accrual basis of accounting.

Net Position

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net Investment in Capital Assets component of Net Position is comprised of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. In addition, any deferred outflows of resources and/or deferred inflows of resources related to such capital assets or liabilities associated with the capital assets should also be added to or deducted from the overall Net Investment in Capital Assets. The restricted component of Net Position is used when there are limitations imposed on their use either through the enabling legislation adopted by a higher governmental authority or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining component of Net Position is unrestricted.

The School District applies restricted resources first when an expense is incurred for purposes for which both the restricted and unrestricted components of net position are available.

Fund Balance Categories

Fund balance for governmental funds should be reported in classifications that compromise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Below are the potential

Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016

categories of fund balance the government may use with their definitions, the actual categories used is explained in Note 7 to the financial statements.

Nonspendable Fund Balance

This category includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance

Fund balance should be reported as restricted when constraints placed on the use of resources are externally imposed by creditors, grantors, contributors, or other governmental laws or regulations, or the constraint is imposed by enabling legislation or constitutional provisions.

Committed Fund Balance

This category pertains to amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. The committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action.

This government's governing body is the School Board and the formal action taken to commit resources is done by resolution.

Assigned Fund Balance

This category includes all remaining amounts that are reported in governmental funds, except the general fund, that are not classified in one of the above-mentioned categories. In the general fund, this category represents the District's intent to use resources for a specific purpose, which does not require formal action by the governing body. The District's policy dictates the Superintendent or his/her designee is responsible to make these assignments.

Unassigned Fund Balance

This category of fund balance represents the residual classification for the general fund after segregating resources used in the other categories listed above. Unassigned fund balance will only be shown in other governmental funds if those governmental funds have a negative net fund balance.

The District's policy on fund balance does not dictate which category of unrestricted fund balance is spent first, when resources are available to be spent in various categories. As such, committed amounts will be reduced first, followed by assigned amounts, and then unassigned amounts. The District's policy also does not dictate whether restricted (nonspendable or restricted) or unrestricted (committed, assigned, and unassigned) is spent first when resources are available in both categories. As such, in these circumstances, restricted will be assumed to have been spent first followed by the unrestricted categories.

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction. The proprietary funds did not receive any contributions during this fiscal year.

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

Note 3 - Reconciliation of government-wide and fund financial statements

A. *Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.*

The governmental fund balance sheet includes reconciliation between "fund balance - total governmental funds" and "net position - governmental activities" as reported in the government-wide statement of net position. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds". The details of this \$204,288,532 difference are:

Bonds payable	\$ 79,950,000
Less: Issuance discount (to be amortized as interest expense)	(72,172)
Add: Issuance premium (to be amortized as a contra to interest expense)	866,327
Net Pension Liability	110,104,909
Accrued interest payable	367,692
Derivative Instrument Liability	5,252,833
Compensated absences	4,074,762
Net OPEB Obligation	3,744,181
Net adjustment to reduce "fund balance - total governmental funds" to arrive at "net position - governmental activities"	\$ 204,288,532

B. *Explanation of Differences between Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Statement of Activities*

Due to the differences in the measurement focus and basis of accounting used on the government fund statements and district-wide statements certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. Differences between the governmental funds statement of revenues, expenditures, and changes in fund balance and the statement of activities fall into one of three broad categories. The amounts shown in the columns on the following page represent:

- a) Long-term revenue differences arise because governmental funds report revenues only when they are considered "available", whereas the statement of activities reports revenues when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis whereas the accrual basis of accounting is used on the statement of activities. The long-term expenses reported below recognize the change in vested employee benefits.
- b) Capital related differences include (1) the difference between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets as reported on the statement of activities, and (2) the difference between recording an expenditure for the purchase of capital items in the governmental fund statements, and capitalization and recording of depreciation expense on those items as recorded in the statement of activities.
- c) Long-term debt transaction differences occur because long-term debt proceeds are recorded as revenue and both interest and principal payments are recorded as expenditures in the governmental

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

fund statements. In the statement of activities, long-term debt proceeds are recorded as a liability; principal payments are recorded as a reduction of liabilities.

	TOTAL GOVERN- MENTAL FUNDS	LONG-TERM REVENUES/ EXPENSES	CAPITAL RELATED ITEMS	LONG-TERM DEBT TRANS- ACTIONS	TOTAL FOR STATEMENT OF ACTIVITIES
REVENUES AND OTHER SOURCES					
LOCAL SOURCES:					
Property Taxes	\$ 49,746,040	\$ 420,292	\$ -	\$ -	\$ 50,166,332
Taxes levied for specific purposes	7,548,406	-	-	-	7,548,406
Interest and investment earnings	92,540	(532,134)	-	-	(439,594)
Miscellaneous	123,419	-	10,321	-	133,740
Contributions and Donations	36,668	-	-	-	36,668
Charges for Services	274,448	-	-	-	274,448
Grants, subsidies & contributions not restricted	10,128,307	-	-	-	10,128,307
Transfers in	-	-	-	-	-
Bond Premiums	356,222	-	-	(356,222)	-
Proceeds from Refunding of Bonds	6,385,000	-	-	(6,385,000)	-
INTERMEDIATE SOURCES:					
Charges for Services	-	-	-	-	-
Operating grants and contributions	-	-	-	-	-
STATE SOURCES:					
Operating and Capital grants and contributions	9,783,341	-	-	-	9,783,341
FEDERAL SOURCES:					
Operating and Capital grants and contributions	1,023,789	-	-	-	1,023,789
SPECIAL AND EXTRAORDINARY ITEMS:					
Insurance Recoveries	51,821	-	(51,821)	-	-
Gain or (Loss) on disposal of assets	-	-	(11,150)	-	(11,150)
TOTAL REVENUES	85,550,001	(111,842)	(52,650)	(6,741,222)	78,644,287
EXPENDITURES/EXPENSES					
Instruction	45,917,412	2,500,527	(497,022)	-	47,920,917
Instructional Student Support	4,263,748	251,837	2,431	-	4,518,016
Admin. & Fin'l Support Services	6,726,089	338,869	70,626	-	7,135,584
Oper. & Maint. Of Plant Svcs.	7,360,874	312,548	190,709	-	7,864,131
Pupil Transportation	3,805,097	2,228	315	-	3,807,640
Student activities	1,409,095	53,805	53,830	-	1,516,730
Community Services	215,536	-	-	-	215,536
Capital Outlay	2,232,262	-	(2,232,262)	-	-
Debt Service	12,549,537	-	-	(9,904,445)	2,645,092
Transfers Out	-	-	-	-	-
Depreciation - unallocated	-	-	2,670,212	-	2,670,212
TOTAL EXPENDITURES/EXPENSES	84,479,650	3,459,814	258,839	(9,904,445)	78,293,858
NET CHANGE FOR THE YEAR	\$ 1,070,351	\$ (3,571,656)	\$ (311,489)	\$ 3,163,223	\$ 350,429

Note 4 - Stewardship, Compliance, and Accountability

A. Compliance with finance related legal and contractual provisions

The District has no material violations of finance related legal and contractual provisions.

B. Deficit fund balance or net position of individual funds

No individual fund contains a deficit fund balance or net position at June 30, 2016, except the governmental activities and business-type activities (Food Service Fund) have \$49,585,627 and \$1,764,659 deficits, respectively.

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

C. Excess of expenditures over appropriations in individual funds

The General Fund, which is the only fund with a legally adopted budget and did not have an excess of expenditures over appropriations.

D. Budgetary compliance

The District's only legally adopted budget is for the General Fund. All budgetary transfers were made within the last nine months of the fiscal year. The District cancels all purchase orders open at year-end; therefore, it does not have any outstanding encumbrances at June 30, 2016. In addition, the District includes a portion of the prior year's fund balance represented by unappropriated liquid assets remaining in the fund as budgeted revenue in the succeeding year. The results of operations on a GAAP basis do not recognize the fund balance allocation as revenue as it represents prior period's excess of revenues over expenditures.

Note 5 - Detailed notes on all funds and account groups

Assets

Cash

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2016, \$1,311,724, of the District's bank balance of \$3,076,760 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$	-
Collateralized with securities held by the pledging financial institution		-
Uninsured and collateral held by the pledging bank's trust department not in the District's name		1,311,724
TOTAL	\$	1,311,724

Reconciliation to Financial Statements

Uncollateralized Amount Above	\$	1,311,724
Plus: Insured Amount		1,765,036
Less: Outstanding Checks		(602,892)
Carrying Amount - Bank balances		2,473,868
Plus: Petty Cash		973
Deposits in Investment Pools Considered Cash Equivalents		22,628,115
Deposits in Money Market Mutual Funds Considered Cash Equivalents		-
Less: Certificates of Deposit considered Investment by School Code		(990,000)
Total Cash Per Financial Statements	\$	24,112,956

Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016

Investments

Permitted investments for Nazareth Area School District are defined in the Public School Code of 1949, as amended by Act 10 of 2016 as:

5. United States Treasury Bills;
6. Short-term obligations of the United States Government or its agencies or instrumentalities;
7. Deposits in savings accounts or time deposits or share accounts of institutions insured by the F.D.I.C; and,
8. Obligations of the United States of America or any of its agencies or instrumentalities, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities or any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities.
9. Obligations, participations or other instruments of any Federal Agency, instrumentality or United States government sponsored enterprise, including those issued or fully guaranteed as the principal and interest by Federal agencies, instrumentalities or United States government sponsored enterprises, if the debt obligations are rated at least "A" or its equivalent by at least two nationally recognized statistical ratings organizations.
10. Repurchase agreements with respect to United States Treasury bills or obligations, participations or other instruments of or guaranteed by the United States or any Federal agency, instrumentality or United States government sponsored enterprise.
11. Negotiable certificates of deposit or other evidences of deposit, with a remaining maturity of three years or less, issued by a nationally or State-chartered bank, a Federal or State savings and loan association or a State-licensed branch of a foreign bank. For obligations with a maturity of one year or less, the debt obligations of the issuing institution or its parent must be rated in the top short-term rating category by at least two nationally recognized statistical ratings organizations. For obligations with a maturity in excess of one year, the senior debt obligations of the issuing institution or its parent must be rated at least "A" or its equivalent by at least two nationally recognized statistical ratings organizations.
12. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances, if the bankers' acceptances do not exceed 180 days maturity and the accepting bank is rated in the top short-term category by at least two nationally recognized statistical ratings organizations.
13. Commercial paper issued by corporations or other business entities organized in accordance with Federal or State law, with a maturity not to exceed 270 days, if the paper is rated in the top short-term category by at least two nationally recognized statistical ratings organizations.
14. Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933 and, if all of the following conditions are met:
 - The investments of the company are the authorized investments listed above.

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

- The investment company is managed in accordance with 17 CFR 270.2a-7 (related to money market funds).
 - The investment company is rated in the highest category by a nationally recognized rating agency.
- 15. Savings or demand deposits placed in accordance with the following conditions:**
- The money is initially deposited and invested through a federally insured institution having a place of business in this Commonwealth, which is selected by the public corporation or municipal authority.
 - The selected institution arranges for the redeposit of the money in savings or demand deposits in one or more financial institutions insured by the Federal Deposit Insurance Corporation, for the account of the public corporation or municipal authority.
 - The full amount of principal and any accrued interest of each such deposit is insured by the Federal Deposit Insurance Corporation.
 - On the same date that the money is redeposited pursuant to above, the selected institution receives an amount of deposits from customers of other financial institutions equal to or greater than the amount of money initially invested through the selected institution by the public corporation or municipal authority.

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

<i>Investment</i>	Maturities	Fair Value
PA Local Government Investment Trust		\$ 15,181,188
PA Local Government Investment Trust-Term Investment		990,000
PA School District Liquid Asset Fund		7,446,927
KNBT		427,191
TOTAL		\$ 24,045,306

Interest Rate Risk

The District does have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2016, the District's investments in the Pa. School Liquid Asset Fund was rated AAA by Standard & Poor's. The District's investment in Pa. Local Government Investment Trust was rated AAA by Standard & Poor's.

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer. Of the General Fund's investments, 7.83% are held in Certificates of Deposits with PLGIT. For all Governmental Activities, 5.94% of investments are in PLGIT Certificates of Deposit. For the entire Entity, 5.81% of all investments are in PLGIT Certificates of Deposit.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The District has no investments subject to custodial credit risk.

Reconciliation to Financial Statements

Total Investments Above	\$ 24,045,306
Less: Deposits in Investment Pool Considered Cash Equivalents	(22,628,115)
Deposits in Money Market Funds Considered Cash Equivalents	<u>(427,191)</u>
Total Investments Per Financial Statements	<u>\$ 990,000</u>

Fair Value Reporting

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District did not have any recurring fair value investments at June 30, 2016. The District did have Cash Equivalents in 2a7-like external investment pools, which GASB Statement No. 72 allows to be recorded at amortized cost as provided in paragraph 16 of GASB Statement No. 31.

Property Taxes

Property taxes are levied on July 1, on the assessed value listed, as of that date, for all taxable real property located in the District. Assessed values are established by the County Board of Assessments. All taxable real property was assessed at \$981,299,700. In accordance with Act 1 of 2006, the District received \$1,597,976 in property tax reduction funds for the 2015-16 fiscal year. The tax rate for the year was \$5.108 per \$100 of assessed valuation or 51.08 mills.

The property tax calendar is:

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

- July 1 - Full year tax assessed for current year.
- July 1 - September 11 - Discount period during which a 2% discount is allowed.
- September 12 - November 11 - Face amount of tax is due.
- November 12 - February 11 - A 10% penalty is added to all payments.
- April 24 - All unpaid taxes become delinquent and are turned over to the County Tax Claim Bureau for collection.

The School District, in accordance with GAAP, recognized the delinquent and unpaid taxes receivable reduced by an allowance for uncollectible taxes as determined by the administration. A portion of the net amount estimated to be collectible, which was measurable and available within 60 days, was recognized as revenue and the balance deferred in the fund financial statements.

Receivables

Receivables as of year end for the government's individual major funds and non-major and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are:

	GENERAL FUND	CAPITAL PROJECTS FUND	FOOD SERVICE FUND	NON- MAJOR FUNDS	FIDUCIARY FUNDS	TOTAL
RECEIVABLES:						
Interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	3,794,905	-	-	-	-	3,794,905
Accounts	36,937	-	-	-	3,774	40,711
Intergovernmental	2,759,911	-	-	-	-	2,759,911
GROSS RECEIVABLES	6,591,753	-	-	-	3,774	6,595,527
Less: Allowance for Uncollectibles	-	-	-	-	-	-
NET RECEIVABLES	\$ 6,591,753	\$ -	\$ -	\$ -	\$ 3,774	\$ 6,595,527

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred inflows of resources reported in the governmental funds were:

Schedule on Deferred Inflows of Resources - Unavailable and Unearned

	UNAVAILABLE	UNEARNED
Delinquent Property Taxes - General Fund	\$ 2,184,052	\$ -
Grant drawdowns prior to meeting eligibility requirements	-	-
TOTAL	\$ 2,184,052	\$ -

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

Capital Assets

Capital asset balances and activity for the year ending June 30, 2016, were:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
GOVERNMENTAL ACTIVITIES:				
Capital Assets not being depreciated:				
Land	\$ 953,670	\$ -	\$ -	\$ 953,670
Construction in Progress	1,554,015	2,064,254	(3,489,551)	128,718
Total Capital Assets not being depreciated	<u>2,507,685</u>	<u>2,064,254</u>	<u>(3,489,551)</u>	<u>1,082,388</u>
Capital Assets being depreciated:				-
Site Improvements	5,711,582	334,914	-	6,046,496
Buildings and Bldg. Improvements	136,308,121	3,057,264	-	139,365,385
Furniture and Equipment	4,675,588	773,737	(41,604)	5,407,721
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>146,695,291</u>	<u>4,165,915</u>	<u>(41,604)</u>	<u>150,819,602</u>
Less accumulated depreciation for:				
Site Improvements	(2,546,022)	(215,543)	-	(2,761,565)
Buildings and Bldg. Improvements	(34,268,587)	(2,474,944)	-	(36,743,531)
Furniture and Equipment	(2,819,151)	(350,468)	30,454	(3,139,165)
TOTAL ACCUMULATED DEPRECIATION	<u>(39,633,760)</u>	<u>(3,040,955)</u>	<u>30,454</u>	<u>(42,644,261)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED NET OF ACCUMULATED DEPRECIATION	<u>107,061,531</u>	<u>1,124,960</u>	<u>(11,150)</u>	<u>108,175,341</u>
 GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION	 <u>\$ 109,569,216</u>	 <u>\$ 3,189,214</u>	 <u>\$ (3,500,701)</u>	 <u>\$ 109,257,729</u>
 BUSINESS-TYPE ACTIVITIES:				
Capital Assets being depreciated:				
Furniture and Equipment	\$ 1,189,298	\$ 19,984	\$ -	\$ 1,209,282
Less accumulated depreciation	(959,121)	(17,562)	-	(976,683)
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION	<u>\$ 230,177</u>	<u>\$ 2,422</u>	<u>\$ -</u>	<u>\$ 232,599</u>

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

***DEPRECIATION EXPENSE WAS CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:**

Regular Instruction	\$ 112,513
Special Instruction	1,500
Vocational Instruction	18,824
Other Instruction	-
Adult Instruction	-
Community College Instruction	-
Pupil Services	281
Instructional Staff Svcs.	2,150
Administrative Services	3,551
Health Services	-
Business Services	221
Operation & Maintenance of Plant Svcs.	69,548
Pupil Transportation	315
Central Services	96,450
Other Support Services	-
Student Activities	65,390
Community Services	-
Depreciation - unallocated	<u>2,670,212</u>
TOTAL DEPRECIATION FOR GOVERNMENTAL ACTIVITIES	<u>\$ 3,040,955</u>

The Governmental activities disposed of \$41,604 of obsolete equipment during the year. \$30,454 of depreciation was recaptured, leaving a loss of \$11,150 from disposition of equipment.

Commitments

Encumbrances

Any encumbrances outstanding at year-end do not represent GAAP expenditures or liabilities but represent budgetary accounting controls. The General Fund Budget is maintained on the modified accrual basis of accounting, except that budgetary basis expenditures include any encumbrances issued for goods or services not received at year-end and not terminated.

The actual results of operations are presented in accordance with GAAP and the District's accounting policies do not recognize encumbrances as expenditures until the period in which the goods or services are actually received and a liability is incurred. If budgetary encumbrances exist at year-end, they are included in the fund financial statements to reflect actual revenues and expenditures on a budgetary basis consistent with the District's legally adopted budget.

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

Long-term construction commitments

The District has the following construction commitments in the Capital Projects Fund:

	<u>CONTRACT AMOUNT</u>	<u>EXPENDED TO 6/30/16</u>	<u>OUTSTANDING COMMITMENTS</u>
<u>HS CHILLER REPLACEMENT</u>			
JBM Mechanical	\$ 182,000	\$ 4,500	\$ 177,500
D'Huy Engineering - Fixed	16,150	13,728	2,422
SUB-TOTAL	<u>\$ 198,150</u>	<u>\$ 18,228</u>	<u>\$ 179,922</u>
<u>CARPET REPLACEMENT</u>			
Lehigh Valley Floor Covering	\$ 189,220	\$ 95,891	\$ 93,329
D'Huy Engineering - Fixed	16,150	13,728	2,422
SUB-TOTAL	<u>\$ 205,370</u>	<u>\$ 109,619</u>	<u>\$ 95,751</u>
GRAND TOTAL	<u>\$ 403,520</u>	<u>\$ 127,847</u>	<u>\$ 275,673</u>

Short-term debt

Interfund receivables and payables

The following interfund receivables and payables were in existence on June 30, 2016:

	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 4,032	650,027
Capital Project (Capital Reserve) Fund	-	-
Enterprise (Food Service) Fund	9,489	263
Debt Service (2007 Bond)	636,269	-
Agency (Activity) Fund	500	-
Private-Purpose Trust Funds	-	-
TOTAL	<u>\$ 650,290</u>	<u>\$ 650,290</u>

Interfund Transfers

The District also made the following interfund transfers during the year ended June 30, 2016.

	<u>TRANSFER IN</u>	<u>TRANSFER OUT</u>
General Fund	\$ -	\$ 1,443,303
Debt Service (2007 Bond) Fund	-	-
Capital Projects (Capital Reserve) Fund	1,443,303	-
TOTAL	<u>\$ 1,443,303</u>	<u>\$ 1,443,303</u>

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

Long-term liabilities

Long-term liability balances and activity for the year ended June 30, 2016, were:

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>ENDING BALANCE</u>	<u>AMOUNTS DUE WITHIN ONE YEAR</u>
GOVERNMENTAL ACTIVITIES:					
<i>General Obligation Debt:</i>					
<i>Bonds and notes payable:</i>					
Capital Projects	\$ 83,972,522	\$ 6,770,365	\$ 9,998,732	\$ 80,744,155	\$ 3,745,000
Other than capital projects	-	-	-	-	-
Capital Leases	-	-	-	-	-
Total general obligation debt	<u>83,972,522</u>	<u>6,770,365</u>	<u>9,998,732</u>	<u>80,744,155</u>	<u>3,745,000</u>
<i>Other liabilities:</i>					
<i>Vested employee benefits:</i>					
Vacation pay	466,715	25,134	-	491,849	151,134
Sick Pay/Years of Service	3,845,541	135,811	-	3,981,352	247,305
Net OPEB Obligations	3,148,397	595,784	-	3,744,181	-
Net Pension Liability	98,005,303	12,099,606	-	110,104,909	-
Derivative Instrument Liability	4,107,154	1,145,679	-	5,252,833	-
Total other liabilities	<u>109,573,110</u>	<u>14,002,014</u>	<u>-</u>	<u>123,575,124</u>	<u>398,439</u>
TOTAL GOVERNMENTAL ACTIVITY LONG-TERM LIABILITIES	<u>\$ 193,545,632</u>	<u>\$ 20,772,379</u>	<u>\$ 9,998,732</u>	<u>\$ 204,319,279</u>	<u>\$ 4,143,439</u>
BUSINESS-TYPE ACTIVITIES:					
<i>Other liabilities:</i>					
<i>Vested employee benefits:</i>					
Vacation Pay	\$ 15,418	\$ 1,925	\$ -	\$ 17,343	\$ -
Sick Pay/Years of Service	30,390	2,257	-	32,647	-
Net Pension Liability	2,285,200	273,255	-	2,558,455	-
Net OPEB Obligation	63,081	6,032	-	69,113	-
TOTAL BUSINESS-TYPE ACTIVITY LONG-TERM LIABILITIES	<u>\$ 2,394,089</u>	<u>\$ 283,469</u>	<u>\$ -</u>	<u>\$ 2,677,558</u>	<u>\$ -</u>

Payments on bonds and notes are made by the general fund. Vested employee benefits will be liquidated by governmental and proprietary funds. The School District currently does not have any bonds or notes payable in business-type activities.

Total Interest paid and accrued during the year:

	<u>EXPENSE</u>	<u>PAID</u>
GOVERNMENTAL ACTIVITIES:		
General obligation debt	\$ 2,645,092	\$ 2,526,374
Short-term borrowings	-	-
TOTAL INTEREST PAID BY GOVERNMENTAL ACTIVITIES	<u>\$ 2,645,092</u>	<u>\$ 2,526,374</u>

Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016

General Obligation Bonds – Series of 2006

On November 15, 2006, the District issued \$10,000,000 of General Obligation Bonds - Series of 2006. The purpose of this issue is to advance refund a portion of the General Obligation Bonds – Series A of 2004, and to pay the costs and expenses of issuing the bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from February 15, 2008 to February 15, 2030. Interest rates range from 3.75% to 4.25% with total interest indebtedness of \$8,356,979.38.

On June 16, 2014, the District refunded a portion of the Series of 2006 (\$9,675,000), with interest rates ranging from 3.875% to 4.25%, with new debt in the amount of \$9,995,000 with interest rates ranging from 1.00% to 3.25%. On March 29, 2016, the District refunded the remaining outstanding bonds of this issue. The refunding disclosures are shown under General Obligation Bonds – Series of 2009.

General Obligation Bonds – Series of 2008

On April 1, 2008, the District issued \$6,390,000 of General Obligation Bonds – Series of 2008. The purpose of this issue is to currently refund the General Obligation Bonds – Series of 1998, and to pay the costs and expenses of issuing the bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from August 15, 2008 to August 15, 2017. Interest rates range from 2.10% to 4.10% with total interest indebtedness of \$1,316,305.

On March 29, 2016, the District refunded the remaining outstanding bonds of this issue. The refunding disclosures are shown under General Obligation Bonds – Series of 2009.

General Obligation Bonds – Series of 2008A

On November 15, 2008, the District issued \$15,000,000 of General Obligation Bonds – Series A of 2008. The purpose of this issue is to be used to acquire, design construct, furnish, and equip capital improvements for facilities owned and operated by the District, and to pay the costs and expenses of issuing the bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from November 15, 2009 to November 15, 2034. Interest rates range from 3.00% to 5.375% with total interest indebtedness of \$13,591,987.50.

On May 15, 2013, the District refunded a portion of the Series A of 2008 (\$8,720,000), with interest rates ranging from 5.1% to 5.375%, with new debt in the amount of \$9,995,000 with interest rates ranging from 1.22% to 3.92%. On February 27, 2015 the District refunded \$5,190,000 of the Series A of 2008 bonds with interest rates of 4.00% to 5.10%, along with a portion of Series of 2009 bonds. The economic gain is shown after the Series of 2009 Bonds Note. On March 29, 2016, the District refunded the remaining outstanding bonds of this issue. The refunding disclosures are shown under General Obligation Bonds – Series of 2009.

General Obligation Bonds – Series of 2009

On May 1, 2009, the District issued \$7,800,000 of General Obligation Bonds – Series of 2009. The purpose of this issue is to be used to acquire, design construct, furnish, and equip capital improvements for facilities owned and operated by the District, and to pay the costs and expenses of issuing the bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from May 15, 2009 to November 15, 2034. Interest rates range from 2.00% to 5.00% with total interest indebtedness of \$13,506,101.18.

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

On February 27, 2015, the District refunded a portion of the Series A of 2008 (\$5,190,000), with interest rates ranging from 4.00% to 5.10%, and a portion (\$3,675,000) of Series of 2009 bonds with interest rates ranging from 4.55% to 5.00%, with new debt in the amount of \$9,500,000 with interest rates ranging from 2.00% to 3.00%.

On March 29, 2016, the District currently refunded the GOB Series of 2006, Series A of 2008, Series of 2010, and partial refunding of the GOB Series 2009, which are presently outstanding in the principal amount of \$6,440,000 with interest rates ranging from 2.375% to 4.55%, with new debt GOB Series of 2016 in the amount of \$6,385,000. Interest rates on the new debt range from 2.0% to 5.0%.

SOURCES

Gross Proceeds of Bonds	\$ 6,385,000
Plus: Accrued Interest	
Premium	356,222
Less: Original Issue Discount	-
Underwriter's Discount	(41,566)
TOTAL SOURCES	<u>\$ 6,699,656</u>

USES

Escrow Deposit	\$ 6,618,163
Issuance Costs	79,960
Sinking Fund Deposit	1,533
TOTAL USES	<u>\$ 6,699,656</u>

DIFFERENCE IN CASH FLOW REQUIREMENTS

Old Debt Service Cash Flows		\$ 7,393,923
Cash Flows From New Debt:		
New Debt Service Cash Flow	\$ 7,091,671	
Less: Sinking Fund Deposit	(1,533)	
Net Cash Flows From New Debt		<u>7,090,138</u>
Net Difference in Cash Flows		<u>\$ 303,785</u>

ECONOMIC GAIN/LOSS

Present Value of Old Debt Service Cash Flows		\$ 6,939,100
Present Value of New Debt Service Cash Flows	\$ 6,619,696	
Less: Sinking Fund Deposit	(1,533)	
TOTAL		<u>6,618,163</u>
ECONOMIC LOSS		<u>\$ 320,937</u>

The remaining debt service requirements at June 30, 2016, are:

<u>FISCAL YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
2016-17	\$ 210,000	\$ 13,150
SUB-TOTAL	\$ 210,000	<u>\$ 13,150</u>
Unamortized Premium		-
Unamortized Discount		(40)
TOTAL OUTSTANDING	<u>\$ 209,960</u>	

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

General Obligation Notes – Series of 2009

On May 1, 2009, the District issued \$7,150,000 of General Obligation Notes – Series of 2009. The purpose of this issue is to currently refund the General Obligation Bonds – Series of 2004, advance refund a portion of the General Obligation Bonds – Series A of 2004, and to pay the costs and expenses of issuing the Notes. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The Notes mature from November 15, 2009 to November 15, 2034. Interest rates range from 2.00% to 4.80% with total interest indebtedness of \$5,218,707.99. The outstanding debt service requirements at June 30, 2016, are:

FISCAL YEAR	PRINCIPAL	INTEREST
2016-17	\$ 5,000	\$ 307,630
2017-18	5,000	307,470
2018-19	220,000	303,648
2019-20	410,000	292,476
2020-21	440,000	276,795
2021-26	2,505,000	1,099,650
2026-31	3,530,000	462,164
SUB-TOTAL	\$ 7,115,000	\$ 3,049,833
Unamortized Premium	-	
Unamortized Discount	(66,965)	
TOTAL OUTSTANDING	\$ 7,048,035	

General Obligation Bonds – Series of 2010

On March 3, 2010, the District issued \$6,200,000 of General Obligation Bonds – Series of 2010. The purpose of this issue is to currently refund the General Obligation Bonds – Series of 2005, and to pay the costs and expenses of issuing the bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The Notes mature from November 15, 2010 to November 15, 2017. Interest rates range from .4% to 2.75% with total interest indebtedness of \$594,993.25. On March 29, 2016, the District refunded the remaining outstanding bonds of this issue. The refunding disclosures can be found under General Obligation Bonds – Series of 2009.

General Obligation Notes – Series of 2011

On December 29, 2011, the District issued \$9,995,000 of General Obligation Notes – Series of 2011. The purpose of this issue is to partially refund the outstanding General Obligation Bonds – Series of 2007, to make a payment to terminate a portion of a related Swap agreement, and to pay the related costs of issuance. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with a paying agent. The notes mature from May 15, 2012 to November 15, 2023, with interest rates ranging from .2% to 3.0% with a total interest indebtedness of \$2,594,658.89. The outstanding debt service requirements at June 30, 2016, are:

FISCAL YEAR	PRINCIPAL	INTEREST
2016-17	\$ 320,000	\$ 211,075
2017-18	325,000	203,825
2018-19	955,000	191,025
2019-20	1,645,000	165,025
2020-21	1,670,000	128,744
2021-25	4,050,000	142,369
SUB-TOTAL	\$ 8,965,000	\$ 1,042,063
Unamortized Bond discount	(5,168)	
TOTAL OUTSTANDING	\$ 8,959,832	

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

General Obligation Bonds – Series A of 2012

On August 20, 2012, the District issued \$7,635,000 of General Obligation Bonds – Series A of 2012. Proceeds of the Bonds will be used to currently refund all of the School District's outstanding General Obligation Bonds, Series A of 2007 and to currently refund all of the School District's outstanding General Obligation Bonds, Series A of 2005, and to pay the costs and expenses allocable to issuing the bonds in accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with a paying agent. The bonds mature from November 1, 2012 to November 1, 2018, with interest rates ranging from 1.5% to 3% with a total projected indebtedness of \$477,658. The outstanding debt service requirements at June 30, 2016, are:

FISCAL YEAR	PRINCIPAL	INTEREST
2016-17	\$ 680,000	\$ 52,800
2017-18	700,000	32,100
2018-19	720,000	10,800
SUB-TOTAL	\$ 2,100,000	\$ 95,700
Unamortized Premium	69,327	
TOTAL OUTSTANDING	\$ 2,169,327	

General Obligation Bonds – Series of 2013

On May 15, 2013, the District issued \$9,995,000 of General Obligation Bonds – Series of 2013. Proceeds of the Bonds will be used to advance refund a portion of the School District's outstanding General Obligation Bonds, Series A of 2008 and to pay the costs and expenses allocable to issuing the bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with a paying agent. The bonds mature from November 15, 2013 to November 15, 2034, with interest rates ranging from 1.22% to 3.92%, with a total interest indebtedness of \$6,062,805. The outstanding debt service requirements at June 30, 2016, are:

FISCAL YEAR	PRINCIPAL	INTEREST
2016-17	\$ 85,000	\$ 274,052
2017-18	90,000	272,303
2018-19	90,000	270,502
2019-20	90,000	268,703
2020-21	95,000	266,852
2021-25	865,000	1,300,204
2025-31	4,400,000	941,270
2031-35	4,025,000	247,614
SUB-TOTAL	\$ 9,740,000	\$ 3,841,500
Unamortized Premium	44,170	
TOTAL OUTSTANDING	\$ 9,784,170	

General Obligation Bonds – Series of 2014

On March 27, 2014, the District issued \$9,995,000 of General Obligation Bonds – Series of 2014. The proceeds of this bond issue is to partially refund the Series A of 2004 General Obligation Bonds of \$9,995,000, and to pay the costs and expenses allocable to issuing the bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with a paying agent. The bonds mature from February 15, 2015 to February 15, 2020, with interest rates ranging from 0.77% to 3.10%, with a total indebtedness of \$1,522,058. The outstanding debt service requirements at June 30, 2016, are:

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

FISCAL YEAR	PRINCIPAL	INTEREST
2016-17	900,000	243,230
2017-18	925,000	216,230
2018-19	1,135,000	179,230
2019-20	1,175,000	133,830
2020-21	1,200,000	110,330
2021-25	3,725,000	177,955
SUB-TOTAL	\$ 9,060,000	\$ 1,060,805
Unamortized Premium	247,368	
TOTAL OUTSTANDING	\$ 9,307,368	

General Obligation Bonds – Series A of 2014

On June 16, 2014, the District issued \$9,995,000 of General Obligation Bonds – Series A of 2014. The proceeds of this bond issue is to partially refund the Series of 2006 General Obligation Bonds of \$9,675,000, and to pay the costs and expenses allocable to issuing the bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with a paying agent. The bonds mature from February 15, 2014 to February 15, 2030, with interest rates ranging from 1.00% to 3.25%, with a total interest indebtedness of \$3,710,047. The outstanding debt service requirements at June 30, 2016, are:

FISCAL YEAR	PRINCIPAL	INTEREST
2016-17	\$ 50,000	\$ 284,872
2017-18	80,000	284,372
2018-19	100,000	283,172
2019-20	105,000	281,172
2020-21	105,000	279,072
2021-26	3,255,000	1,325,981
2026-30	6,290,000	497,294
SUB-TOTAL	\$ 9,985,000	\$ 3,235,935
Unamortized Premium	25,588	
TOTAL OUTSTANDING	\$ 10,010,588	

General Obligation Bonds – Series of 2015

On February 27, 2015, the District issued \$9,500,000 of General Obligation Bond – Series of 2015. Proceeds of the Bonds will be used to advance refund a portion of the General Obligation Bonds - Series A of 2008, currently outstanding in aggregate principal amount of \$5,825,000, of which \$5,190,000 shall be refunded, and advance refund a portion of the General Obligation Bonds - Series of 2009, currently outstanding in aggregate principal amount of \$6,900,000; of which \$3,675,000 shall be refunded and to pay the costs and expenses allocable to issuing the bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with a paying agent. The bonds mature from May 15, 2015 to November 15, 2034, with interest rates ranging from 2.0% to 3.0% with a total projected indebtedness of \$2,684,173. The outstanding debt service requirements at June 30, 2016, are:

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

FISCAL YEAR	PRINCIPAL	INTEREST
2016-17	\$ 5,000	\$ 224,790
2017-18	5,000	224,690
2018-19	725,000	217,390
2019-20	630,000	203,840
2020-21	635,000	191,190
2021-26	3,210,000	757,200
2026-31	1,975,000	465,352
2031-35	2,150,000	125,400
SUB-TOTAL	\$ 9,335,000	\$ 2,409,852
Unamortized Premium	140,235	
TOTAL OUTSTANDING	\$ 9,475,235	

General Obligation Notes – Series of 2015

On January 20, 2015, the District issued \$17,075,000 of General Obligation Bonds – Series of 2015. The purpose of this bond issue is to refund the remaining outstanding General Obligation Notes – Series of 2012, and to pay the related costs of issuance. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with a paying agent. The bonds mature from February 1, 2016 to February 1, 2031, with a variable interest rate reset weekly.

Interest Rate Swap

Objective of the interest rate swap. As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in November 15, 2007, the School District entered into an interest rate swap (floating-to-fixed) in connection with its \$25,000,000, Series of 2007 variable-rate general obligation bonds. The Series of 2007 issue has been partially refunded with the Series of 2011 General Obligation Notes. The remaining issue was refunded with the Series of 2012 General Obligation Notes, and subsequently refunded with the Series of 2015, General Obligation Notes, with the remaining portion of the fixed payer swap and CMS Swap, following the 2015 issue. The intention of the swap was to effectively change the School District's variable interest rate on the bonds to a synthetic fixed rate. In addition to this swap, the District also entered into a Constant Maturity Swap (CMS) to hedge their variable rate debt.

Terms. The bonds and the related swap agreement mature on February 1, 2031, and the swap's notional amount was \$25,000,000. The swap was entered into on May 22, 2006. Beginning on February 1, 2009, the notional value of the swap and the principal amount of the associated debt begin to decline. Under the interest rate swap, the School District pays the counterparty RBC (Royal Bank of Canada) a fixed payment of 4.0253% and receives a variable payment computed as 67% of the one month London Interbank Offered Rate (LIBOR). Conversely, the bond's variable-rate coupons are based on the Securities Industry and Financial Markets Association Index (SIFMA). In the basis swap, the District pays RBC 67% of 1 month Libor rate and receives 67% of the 10 year Libor rate less 39.03 BPS.

Fair Value. The swaps have a net negative fair value of \$5,252,833 as of June 30, 2016. The swap's negative fair value may be countered by a decrease in total interest payments required under the variable-rate bonds, creating a lower synthetic interest rate. Because the coupons on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated by the District's financial advisor.

Credit Risk. As of June 30, 2016, the School District was exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the School District would not be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated AA-by Moody's.

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

Basis Risk. The swap exposes the government to basis risk should the relationship between LIBOR and SIFMA converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate and the synthetic rate as of June 30, 2016. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. As of June 30, 2016, the floating to fixed swap's SIFMA rate was 4.0253%, whereas 67% of LIBOR was 0.3060%. As of June 30, 2016, the basis swap's Libor rate was 0.3060%, with the 10 year CMS rate at 0.7467%.

Termination Risk. The School District or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap may be terminated by the School District, if the counterparty's short-term debt credit rating is withdrawn or reduced to a rating below Moody's index that is below A-3. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the School District would be liable to the counterparty for a payment equal to the swap's fair value.

Swap payments and associated debt. Using rates as of June 30, 2016, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

The outstanding debt service requirements, including the related net swap payments, at June 30, 2016, are shown as follows:

FISCAL YEAR	INTEREST RATE SWAPS,			
	PRINCIPAL	INTEREST	NET	TOTAL
2016-17	\$ 20,000	\$ 141,646	\$ 550,971	\$ 712,617
2017-18	20,000	141,480	550,971	712,451
2018-19	20,000	141,314	550,971	712,285
2019-20	20,000	141,148	550,971	712,119
2020-21	20,000	140,982	550,971	711,953
2021-26	4,930,000	666,124	2,624,042	8,220,166
2026-31	12,025,000	332,626	1,341,792	13,699,418
SUB-TOTAL	\$ 17,055,000	\$ 1,705,320	\$ 6,720,689	\$ 25,481,009
Unamortized Premium		-		
TOTAL OUTSTANDING	\$ 17,055,000			

General Obligation Bond – Series of 2016

On March 29, 2016, the District issued \$6,385,000 of General Obligation Bond – Series of 2016. Proceeds of the Bonds will be used to (1) currently refund all of the GOB Series of 2006, currently outstanding in aggregate principal amount of \$20,000, (2) currently refund all of the District's outstanding GOB, Series of 2008, currently outstanding in the aggregate principal amount of \$1,515,000, (3) currently refund all of the District's outstanding GOB Series A of 2008 currently outstanding in the aggregate principal of which \$405,000, (4) advance refund a portion of the District's GOB Series of 2009, currently outstanding in the aggregate principal amount of \$3,015,000, of which \$2,805,000 was refunded, (5) currently refund all of the District's GOB Series of 2010, currently outstanding in the aggregate principal amount of \$1,695,000 and (6) pay the costs and expenses allocable to issuing the Bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with a paying agent. The bonds mature from November 15, 2016 to November 15, 2036, with interest rates ranging from 2.0% to 5.0% with a total projected indebtedness of 706,671. The outstanding debt service requirements at June 30, 2016, are:

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

FISCAL YEAR	PRINCIPAL	INTEREST
2016-17	\$ 1,470,000	\$ 220,700
2017-18	1,970,000	134,700
2018-19	280,000	78,450
2019-20	295,000	64,075
2020-21	310,000	48,950
2021-26	1,695,000	123,250
2026-31	<u>365,000</u>	<u>3,650</u>
SUB-TOTAL	\$ 6,385,000	<u>\$ 673,775</u>
Unamortized Premium	<u>339,640</u>	
TOTAL OUTSTANDING	<u>\$ 6,724,640</u>	

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

Combined Long-Term Debt

The combined general long-term debt obligations for subsequent years, except for compensated absences, are:

FISCAL YR	SUMMARY OF PRINCIPAL REQUIREMENTS										
	G.O.B. SERIES OF 2009	G.O.N. SERIES OF 2009	G.O.N. SERIES OF 2011	G.O.B. SERIES A OF 2012	G.O.B. SERIES OF 2013	G.O.B. SERIES OF 2014	G.O.B. SERIES A OF 2014	G.O.N. SERIES OF 2015	G.O.B. SERIES OF 2015	G.O.B. SERIES OF 2016	TOTAL PRIN. PAYMTS
2016-17	\$ 210,000	\$ 5,000	\$ 320,000	\$ 680,000	\$ 85,000	\$ 900,000	\$ 50,000	\$ 20,000	\$ 5,000	\$ 1,470,000	\$ 3,745,000
2017-18	-	5,000	325,000	700,000	90,000	925,000	80,000	20,000	5,000	1,970,000	4,120,000
2018-19	-	220,000	955,000	720,000	90,000	1,135,000	100,000	20,000	725,000	280,000	4,245,000
2019-20	-	410,000	1,645,000	-	90,000	1,175,000	105,000	20,000	630,000	295,000	4,370,000
2020-21	-	440,000	1,670,000	-	95,000	1,200,000	105,000	20,000	635,000	310,000	4,475,000
2021-26	-	2,505,000	4,050,000	-	865,000	3,725,000	3,255,000	4,930,000	3,210,000	1,695,000	24,235,000
2026-31	-	3,530,000	-	-	4,400,000	-	6,290,000	12,025,000	1,975,000	365,000	28,585,000
2031-35	-	-	-	-	4,025,000	-	-	-	2,150,000	-	6,175,000
TOTAL	210,000	7,115,000	8,965,000	2,100,000	9,740,000	9,060,000	9,985,000	17,055,000	9,335,000	6,385,000	79,950,000
LESS:											
PAYABLE WITHIN ONE YR	210,000	5,000	320,000	680,000	85,000	900,000	50,000	20,000	5,000	1,470,000	3,745,000
LONG-TERM PRINCIPAL DUE AFTER ONE YEAR	\$ -	\$ 7,110,000	\$ 8,645,000	\$ 1,420,000	\$ 9,655,000	\$ 8,160,000	\$ 9,935,000	\$ 17,035,000	\$ 9,330,000	\$ 4,915,000	\$ 76,205,000

SUMMARY OF PRINCIPAL AND INTEREST REQUIREMENT

FISCAL YR	G.O.N. SERIES OF 2008	G.O.N. SERIES OF 2009	G.O.N. SERIES OF 2011	G.O.B. SERIES A OF 2012	G.O.B. SERIES OF 2013	G.O.B. SERIES OF 2014	G.O.B. SERIES A OF 2014	G.O.N. SERIES OF 2015	G.O.B. SERIES OF 2015	G.O.B. SERIES OF 2016	TOTAL DEBT SVC. PAYMENTS
2016-17	\$ 213,150	\$ 312,630	\$ 531,075	\$ 732,800	\$ 359,052	\$ 1,143,230	\$ 334,872	\$ 161,646	\$ 229,790	\$ 1,690,700	\$ 5,708,945
2017-18	-	312,470	528,825	732,100	362,303	1,141,230	364,372	161,480	229,690	2,104,700	5,937,170
2018-19	-	523,648	1,146,025	730,800	360,502	1,314,230	383,172	161,314	942,390	358,450	5,920,531
2019-20	-	702,476	1,810,025	-	358,703	1,308,830	386,172	161,148	833,840	359,075	5,920,269
2020-21	-	716,795	1,798,744	-	361,852	1,310,330	384,072	160,982	826,190	358,950	5,917,915
2021-26	-	3,604,650	4,192,369	-	2,165,204	3,902,955	4,580,981	5,596,124	3,967,200	1,818,250	29,827,733
2026-31	-	3,992,164	-	-	5,341,270	-	6,787,294	12,357,626	2,440,352	368,650	31,287,356
2031-35	-	-	-	-	4,272,614	-	-	-	2,275,400	-	6,548,014
TOTAL	\$ 213,150	\$ 10,164,833	\$ 10,007,063	\$ 2,195,700	\$ 13,581,500	\$ 10,120,805	\$ 13,220,935	\$ 18,760,320	\$ 11,744,852	\$ 7,058,775	\$ 97,067,933

Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016

Derivative Instruments

In accordance with Governmental Accounting Standards Board Statement No. 53, any derivative instruments must be recorded on the government-wide financial statements at fair value for periods beginning on or after June 15, 2009. The District has two derivative instruments associated with its General Obligation Notes – Series of 2015. The fixed payor swap is designed to create a synthetic fixed rate on the variable bond issue by paying the counterparty a fixed rate of 4.0253% and receiving 67% of one month, LIBOR. The value of this derivative instrument embedded into the swap is a negative \$5,537,182, at June 30, 2016.

The constant maturity swap hedges the variable rate debt, in which the District pays the counterparty 67% of one month LIBOR, and receives 67% of ten year LIBOR less .3903%. The value of this derivative instrument is a positive \$284,349, at June 30, 2016. In accordance with the definition of a hedging derivative instrument in the standard, the CMS swap does not constitute a hedging derivative instrument because there is not a notional amount. As such, it is not eligible for hedge accounting treatment (explained below).

GASB Statement 53, requires the use of hedge accounting, which the net change in fair value represents a deferred inflows or outflows of the hedging derivative instrument reported on the government-wide Statement of Net Position. To be considered a hedging derivative instrument, the derivative instrument must pass an effectiveness test using one of the available methods (consistent critical terms, synthetic instrument, dollar-offset, and regression analysis). If none of the available methods result in the derivative instrument being effective, then the net change in fair value should flow to the government-wide Statement of Activities, and the instrument is considered an investment derivative.

The change of fair values occurring during this fiscal year will be charged to investment income in the Statement of Activities. If those same tests prove ineffective at both the start and end of this fiscal year, then the entire fair value of the derivative instrument will be charged to investment income for the current fiscal year. The effectiveness tests must be performed at the end of each future year in which the hedging derivative instrument exists.

Based upon the tests of effectiveness conducted by the District's financial advisor for this fiscal year, the above-mentioned hedging derivative instrument is considered effective for the end of the fiscal year. As such, \$810,609 is reflected as deferred outflows in the government-wide Statement of Net Position, \$518,111 reflected in the Statement of Activities as a change in fair value. In addition, as a result there is a deferred cost of refunding of \$4,726,573, which will eventually go to zero as the face values of the off-market swap and the at-the market swap goes to zero.

Compensated Absences

Sick-Pay

Under the District's various bargaining agreements and plans, professional and eligible support personnel accumulate unused sick days from year to year based on their classification. These accumulated sick days are vesting during the employee's tenure. Upon retirement, these employees are also eligible for remuneration for unused sick days under the following bargaining agreements:

- | | | |
|----|--|----------------|
| 1. | Nazareth Education Association Members | - \$40 per day |
| 2. | Teamsters Union Members | - \$25 per day |
| 3. | Support Personnel Members | - \$25 per day |
| 4. | Administrative Plan Members | - \$45 per day |

Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016

As an alternative to receiving remuneration for accumulated unused sick days, each eligible employee shall be entitled to a retirement severance payment calculated on criteria established in each member's respective contract based on years of service (as outlined) in the District. Each employee, per group, eligible under his/her respective agreement shall choose the option he or she wishes.

The District maintains records of each employee's accumulated sick days that are vested with employees who are eligible to retire and the number of eligible years in the second alternative. The District has recorded, as a compensated absence, the option that would result in the largest liability to the District. In accordance with GASB Statement No. 16, \$247,305 including fica tax (net of reimbursement), which will use currently available financial resources, has been recorded in the General Fund for governmental employees, and as a current liability in the governmental activities column of the government-wide statement of net position. The remaining sick leave termination benefit of \$3,734,047, including fica tax (net of reimbursement), is recorded as a long-term liability in the governmental activities column of the government-wide statement of net position.

The Food Service Fund and the business-type activities column of the government-wide financial statement of net position recorded \$32,647, including fica tax (net of disbursement) as a long term liability.

Vacation Leave

Unused vacation leave is paid upon an employee's termination. The District maintains records of each employee's accumulated vacation days. In accordance with GASB Statement No. 16, the portion of vacation pay earned at June 30, 2016, that will use currently available financial resources is \$151,134, including fica tax and retirement contributions (net of reimbursement), which has been recorded in the General Fund and as a current liability in the governmental activities column of the government-wide statement of net position. The Food Service (Enterprise) Fund has recorded \$17,343, including fica tax and retirement contributions (net of reimbursement). This amount is also shown as a long-term liability in the business type activities column of the government-wide statement of net position. The remaining vacation pay earned at June 30, 2016, of \$340,715, including fica tax and retirement contributions (net of reimbursement), is recorded as a long-term liability in the governmental activities column of the government-wide statement of net position.

Defined Benefit Pension Plan

The Government Accounting Standards Board (GASB) requires that state and local governmental employers disclose in their notes to financial statements, certain information about the public employee retirement systems to which they contribute.

General Information about the Pension Plan

Plan Description

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

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

Benefits provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and T-F members, the right to benefits is vested after ten years of service.

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

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

Contributions

Member Contributions:

Active members, who joined the System prior to July 22, 1983, contributed at 5.25 percent (Membership Class T-C) or at 6.50 percent (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 percent (Membership Class T-C) or at 7.50 percent (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.50 percent (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.

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

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 contributes at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions:

The school districts' contractually required contribution rate for fiscal year ended June 30, 2016 was 25.00% 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 \$8,597,260 for the year ended June 30, 2016.

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

At June 30, 2016, the District reported a liability of \$112,663,365 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, with rolling forward the System's total pension liability as of June 30, 2015. 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, 2015, the District's proportion was 0.2619 percent, which was a increase of 0.0073 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$11,268,084. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Sources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Proportionate Share vs Actual Paid Separately Finance Liabilities	\$ 9,494	\$ -
Changes in Assumptions	-	-
Net difference between projected and actual contributions made		433,521
Net difference between projected and actual earnings on pension plan investments	-	230,000
Difference between expected and actual experience		468,000
Changes in proportion of the Net Pension Liability	5,331,000	-
District contributions subsequent to the measurement date	<u>8,597,260</u>	<u>-</u>
Total	<u>\$ 13,937,754</u>	<u>\$ 1,131,521</u>

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

\$8,597,260 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:	<u>Amount</u>
2016	\$ 888,000
2017	762,084
2018	762,084
2019	1,843,084
2020	(46,279)
Thereafter	-
Total	<u>\$ 4,208,973</u>

Actuarial assumptions

The total pension liability as of June 30, 2015 was determined by rolling forward the System's total pension liability as of the June 30, 2013 actuarial valuation to June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement.

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

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

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

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

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public markets global equity	22.5%	4.8%
Private markets (equity)	15.0%	6.6%
Private real estate	12.0%	4.5%
Global fixed income	7.5%	2.4%
U.S. long treasuries	3.0%	1.4%
TIPS	12.0%	1.1%
High yield bonds	6.0%	3.3%
Cash	3.0%	0.7%
Absolute return	10.0%	4.9%
Risk parity	10.0%	3.7%
MLPs/Infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	<u>-14.0%</u>	1.1%
Total	100%	

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

For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 3.08%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

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

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50%, 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 (6.50%) or 1-percentage point higher (8.50%) than the current rate, using the net pension liability reported by PSERS before adjusting for differences on projected vs actual contributions made.

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Net Pension Liability	\$ 139,829,000	\$ 113,443,000	\$ 91,265,000

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Public School Employees' Retirement System's *Comprehensive Annual Financial Report* (CAFR) that includes financial statements and required supplementary information for the plan, which can be found at www.pfers.state.pa.us.

Other Post Employment Benefits

Plan Description. Nazareth Area School District has one single employer defined benefit plan as outlines as follows:

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

<u>Summary of Plan Provisions</u>			
Group	Eligibility	Coverage And Premium Sharing	Duration
<u>I. Former Superintendent</u>	N/A – Already retired	<ul style="list-style-type: none"> ● Coverage: Medical, Prescription Drug, Dental, and Vision ● Premium Sharing: The school district will pay the full 2 party premiums less the active co-pay for medical coverage for the member and spouse for up to 5 years (through July 31, 2017). The member must contribute the full premium for prescription drug, dental and vision coverage if elected. ● Dependents: Spouses included. 	Until the member reaches Medicare eligibility. If the spouse reaches Medicare eligibility prior to the member, spousal coverage will cease.
<u>II. Current Business Administrator</u>	Act 110/43	<ul style="list-style-type: none"> ● Coverage: Medical, Prescription Drug, Dental, and Vision ● Premium Sharing: If the member retires under superannuation, the school district will pay the full 2-party premium for medical, prescription drug, dental and vision coverage. ● If the member does not reach superannuation but does reach 30 years of PSERS service, the member and spouse may continue medical, prescription drug, dental, and vision coverage by paying the full premium as determined for the purpose of COBRA. ● Dependents: Spouses included. 	Until the member reaches Medicare eligibility.
<u>III. All Other Administrators</u>	Act 110/43 or 10 years of service with the District	<ul style="list-style-type: none"> ● Coverage: Medical, Prescription Drug, Dental, and Vision ● Premium Sharing: If the member reaches 10 years of PSERS service with the District, the school district will pay the full single premium for medical coverage for the member for up to 5 years. The member must contribute the full premium for prescription drug, dental, and vision coverage if elected. Spouses must pay the full premium as determined for the purpose of COBRA if coverage is elected. <p>If the member does not reach the requirements for the district subsidy, but does reach Act 110/43 requirements, the member and spouse may continue medical, prescription drug, dental, and vision coverage by paying the full premium as determined for the purpose of COBRA.</p> <ul style="list-style-type: none"> ● Dependents: Family Included. 	Same as 1A

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

<p><u>II. All Other Employers</u></p>	<p>Act 110/43 or 25 years of PSERS service and 15 years of Service with the District.</p>	<ul style="list-style-type: none"> ● Coverage: Medical, Prescription Drug, Dental, and Vision ● Premium Sharing: If the member reaches 25 years of PSERS service and 15 years of service with the school district, will pay the full single premium for medical coverage for the member for up to 3 years. The member must contribute the full premium for prescription drug, dental, and vision coverage if elected. Spouses must pay the full premium as determined for the purpose of COBRA if coverage is elected. <p>If the member does not reach the requirements for the district subsidy, but does reach Act 110/43 requirements, the member and spouse may continue medical, prescription drug, dental, and vision coverage by paying the full premium as determined for the purpose of COBRA.</p> <p>Dependents: Family Included</p>	<p>Same as 1A</p>
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Notes: Act 110/43 Benefit: All employees are eligible for this benefit upon retirement with 30 years of PSERS service or upon superannuation retirement

Act 110/43 Coverage and Premium Sharing: Retired employees are allowed to continue coverage for themselves and their dependents in the employer's group health plan until the retired employee reaches Medicare age. In order to obtain coverage, retired employees must provide payment equal to the premium determined for the purpose of COBRA.

PSERS Superannuation Retirement:

- 1) For individuals who were members of PSERS prior to July 1, 2011, an employee is eligible for PSERS superannuation retirement upon reaching age 60 with 30 years of PSERS service, age 62, with 1 year of service, or 35 years of service regardless of age.
- 2) For individuals who became members of PSERS on or after July 1, 2011, an employee is eligible for PSERS superannuation retirement upon reaching age 65 with 3 years of PSERS service or upon attainment of a total combination of age plus service equal to or greater than 92 with a minimum of 35 years of PSERS service.

Coordination with Medicare: District pays primary

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

Funding Policy and Annual OPEB Cost. This benefit is state mandated via the School Code statute. The District's annual other post-employment benefit (OPEB) cost (expense) for the plan 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 the normal cost, each year, and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The District's annual OPEB cost for the current year and the related information is as follows:

Contribution Rates:	OPEB Benefit Actuarially Determined
Interest Rate	4.5%
Plan Members	573
Annual Required Contribution	\$ 937,448
Interest on net OPEB obligation	144,517
Adjustment to annual required contribution	<u>(197,158)</u>
Annual OPEB cost	884,807
Contributions made	<u>(282,991)</u>
Increase in net OPEB obligation	601,816
Net OPEB obligation - beginning of year	<u>3,211,478</u>
Net OPEB obligation - end of year	<u><u>\$ 3,813,294</u></u>

The following table shows the benefit separated by the fund:

	Other Post Employment Benefit Plan		
	General Fund	Food Service Fund	Total
Demographic Information:			
Active Participants	529	5	534
Retired Participants	<u>39</u>	<u>0</u>	<u>39</u>
Total	<u><u>568</u></u>	<u><u>5</u></u>	<u><u>573</u></u>
Annual Payroll of Active Participants	\$31,223,676	\$205,980	\$31,429,656
Annual Required Contributions	\$ 929,079	\$ 8,369	\$ 937,448
Interest on Net OPEB Obligation	141,678	2,839	144,517
Adjustment to Annual Required Contribution	<u>(193,285)</u>	<u>(3,873)</u>	<u>(197,158)</u>
Annual OPEB Cost	877,472	-	7,335
Contributions made	<u>(281,688)</u>	<u>(1,303)</u>	<u>(282,991)</u>
Increase in Net OPEB Obligation	595,784	-	6,032
Net OPEB Obligation - beginning of year	<u>3,148,397</u>	<u>63,081</u>	<u>3,211,478</u>
Net OPEB Obligation - end of year	<u><u>\$ 3,744,181</u></u>	<u><u>\$ 69,113</u></u>	<u><u>\$ 3,813,294</u></u>

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation of the five fiscal years ending June 30th, for the benefits, were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2016	\$ 884,807	32.0%	\$ 3,813,294
6/30/2015	894,625	33.0%	3,211,478
6/30/2014	813,049	39.0%	2,612,507
6/30/2013	821,611	36.4%	2,116,370
6/30/2012	892,902	47.0%	1,593,961

Funding Status and Funding Process. The funded status of the benefits as of June 30, 2016, was as follows:

	<u>Healthcare Benefit Governmental Activity</u>	<u>Healthcare Benefit Business-Type Activity</u>
Actuarial accrued liability (a)	\$ 6,794,475	\$ 86,948
Actuarial value of plan assets (b)	-	-
Unfunded actuarial accrued liability (a) - (b)	<u>\$ 6,794,475</u>	<u>\$ 86,948</u>
Funded Ratio (b) / (a)	0.0%	0.0%
Covered payroll	\$ 31,223,676	\$ 205,980
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll.	21.8%	42.2%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the benefits and the annual required contributions of the employer are subject to continual revision, actual results are compared to past expectations, and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan Net Position is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016**

Actual Methods and Assumptions. Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the district and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

	Healthcare Benefit Governmental Activity	Healthcare Benefit Business-Type Activity
Actuarial accrued liability (a)	\$ 6,794,475	\$ 86,948
Actuarial value of plan assets (b)	-	-
Unfunded actuarial accrued liability (a) - (b)	<u>\$ 6,794,475</u>	<u>\$ 86,948</u>
Funded Ratio (b) / (a)	0.0%	0.0%
Covered payroll	\$ 31,223,676	\$ 205,980
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll.	21.8%	42.2%

Other Employee Benefits

Employee Medical Insurance

The Nazareth Area School District is one of ten members comprising the Employee Benefit Trust of Eastern Pennsylvania. Trustees, acting as representatives of the members, manage the schedule of benefits as determined by respective members, ensure the trust is adequately funded, review claims administration and obtain excess catastrophe insurance. The Trustees have appointed independent consultants to provide the administrative services for the Trust. The accountability for the Trust's fiscal 2016, remains with the Board of Trustees. The Trust owes \$2,063,245, to the District as of June 30, 2016, for excess premiums paid.

Note 6 - Risk Management

The District is subject to risk of loss from employee acts, property damage, personal injury auto accidents, theft, etc. The District covers those risks through the purchase of commercial insurance. The Nazareth Area School District is a participating member of a Workers' Compensation Consortium. The Consortium is comprised of 81 member School Districts which jointly self-assume their workers' compensation liabilities. Each District is required to make contributions to the Consortium based on formulae set forth in the contract. Each member School District individually retains sole liability up to a retention level, which is fixed annually by multiplying its Experience Modification Factor times the last audited fiscal year payroll of the member. The result is then multiplied by a contribution rate, which is the same for all members. Even though the member school districts contribute to a central fund, they remain individually liable for any workers' compensation claims.

Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016

Above the level of retention, the Consortium pays claims up to the level of coverage of \$100,000 for the year ended June 30, 2016, provided by an excess insurance policy. Claims above the maximum coverage of excess insurance are paid by the members of the Consortium through additional assessments against members.

The members of the Consortium are required to participate in deficiencies and are subject to periodic assessments by the Executive Committee, as required.

At June 30, 2016, the most recent available financial statements, the consortium did not have a deficit, in which the ultimate responsibility to pay for a deficit belongs to the member districts.

Note 7 - Fund Balance Allocations

Nonspendable Fund Balance

The General Fund had \$383,808, in nonspendable fund balance at June 30, 2016, comprised of \$90,777, of inventories on hand at year-end and \$293,031, of prepaid expenditures.

Restricted Fund Balance

The General Fund has \$61,546 restricted for contributions received, but not spent at year end.

The Capital Project Fund has restrictions on the use of the resources at year end. The Capital Reserve Fund's \$3,908,692 fund balance at year end is restricted because of enabling legislation under the Municipal Code in Pennsylvania. Section 1432 of this Code restricts the use of resources for limited purposes.

Committed Fund Balance

The governing body (Board of School Directors) has committed, of the General Fund's year end fund balance for the following purposes: Compensated Absences, \$4,074,762, and Other Post-Employment Benefits, \$3,744,181.

Assigned Fund Balance

The General Fund has \$1,050,000, assigned for balancing the 2016-17 budget.

The fund balance of \$636,269, in the 2007 Debt Service Fund is assigned for the purpose of the debt service fund.

Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016

Note 8 - Restricted Net Position

Net Investment in Capital Assets

The components of this restriction in the governmental activities column are total capital assets of \$109,257,729, with related debt of \$77,611,215, which includes unamortized bonds discounts, premiums, and deferred refunding charges. The governmental activities also has \$3,908,692, restricted for capital projects. The business-type activities column reflects \$232,599 invested in capital assets with no related debt.

Note 9 - Contingencies

Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and a condition specified in the grant agreements, and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund, or other applicable funds. However, in the opinion of management any such disallowed claims will not have a material adverse effect on the overall financial position of the School District as of June 30, 2016.

Litigation

In accordance with legal counsel, there are no legal matters that could materially affect the financial situation of the District as of June 30, 2016.

Note 10 – New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued the following standards, which have not yet been implemented:

- Statement No. 74, *Financial Reporting for Postemployment Benefits Other than Pension Plans* – The objective of this statement is to improve the usefulness of information about other postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This statement replaces the requirements of Statement No. 44, *Financial Reporting for Postemployment Benefits Other than Pension Plans*.
- Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* – This statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The scope of this statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures.

Nazareth Area School District
Notes To Basic Financial Statements
Fiscal Year Ended June 30, 2016

- Statement No. 77, *Tax Abatement Disclosures* – The requirements of this Statement enhances the disclosure of information about the nature and magnitude of tax abatements to make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government’s future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government’s financial position and economic condition.
- Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* – This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) provides benefits to governmental employees and non-governmental employees, and (3) has no predominant state or local governmental employer. This Statement, at present, will not apply to this government.
- Statement No. 80, *Blending Requirements for Certain Component Units* – This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion, in this Statement, requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.
- Statement No. 81, *Irrevocable Split-Interest Agreements* – The purpose of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement, at present, will not apply to this government.
- Statement No. 82, *Pension Issues (an amendment of GASB Statements No. 67, No. 68, and No. 73)* – This Statement addresses certain issues that have been raised on previous issued Statements pertaining to Pension Plans. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

R E Q U I R E D
S U P P L E M E N T A L I N F O R M A T I O N

**Nazareth Area School District
Schedule of Funding Progress
Fiscal Year Ended June 30, 2016**

Healthcare Benefit							
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Unit Credit (b)	Unfunded AAL (UALL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)	
7/1/2014	\$ -	\$ 6,881,423	\$ 6,881,423	0.0%	\$ 31,429,656	21.89%	
7/1/2012	-	5,864,718	5,864,718	0.0%	29,316,507	20.00%	
7/1/2010	-	6,037,776	6,037,776	0.0%	28,191,996	21.42%	

**NAZARETH AREA SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
CUMULATIVE TEN FISCAL YEARS REPORT
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>2015-16</u>	<u>2014-15</u>
District's proportion of the net pension liability (asset)	0.2619%	0.2546%
District's proportionate share of the net pension liability (asset)	\$ 113,443,000	\$ 100,773,000
District's covered employee payroll	\$ 34,389,042	\$ 33,834,159
District's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	30.31%	33.57%
Plan fiduciary net position as a percentage of the total pension liability	54.36%	57.24%

NAZARETH AREA SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
CUMULATIVE TEN FISCAL YEARS REPORT
FOR THE YEAR ENDED JUNE 30, 2016

	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14</u>	<u>2012-13</u>	<u>2011-12</u>	<u>2010-11</u>	<u>2009-10</u>	<u>2008-09</u>	<u>2007-08</u>	<u>2006-07</u>
Contractually required contribution	\$ 8,597,260	\$ 6,936,003	\$ 5,054,899	\$ 3,482,875	\$ 2,374,754	\$ 1,482,098	\$ 1,143,167	\$ 988,008	\$ 1,517,971	\$ 1,436,533
Contributions in relation to the contractually required contribution	<u>8,597,260</u>	<u>6,936,003</u>	<u>5,054,899</u>	<u>3,482,875</u>	<u>2,374,754</u>	<u>1,482,098</u>	<u>1,143,167</u>	<u>988,008</u>	<u>1,517,971</u>	<u>1,436,533</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 34,389,042	\$ 33,834,159	\$ 31,593,119	\$ 30,285,866	\$ 29,684,428	\$ 29,641,968	\$ 28,579,184	\$ 24,700,189	\$ 23,570,982	\$ 25,114,211
Contributions as a percentage of covered employee payroll	25.00%	20.50%	16.00%	11.50%	8.00%	5.00%	4.00%	4.00%	6.44%	5.72%

**Nazareth Area School District
Notes To Required Supplementary Information
Fiscal Year Ended June 30, 2016**

Public School Employees' Retirement System

Changes of benefit terms

None

Changes in assumptions

None

Methods and assumptions used in calculations of actuarially determined contributions

The actuarially determined contributions are calculated as of the June 30 preceding the fiscal year in which contributions are made. The following methods and assumptions were used to determine contribution rates reported:

- Investment return – 7.50%, includes inflation at 3.00%.
- Salary increases – Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real growth rate of 1%, and merit or seniority increases of 1.50%.
- Benefit payments – no postretirement benefit increases assumed in the future.
- Multiple decrement tables – mortality, vesting, retirement age, and withdrawal estimates are based upon tables provided by the actuary.

Proportionate Share of the Net Pension Liability

The amount reported as the District's proportionate share of the net pension liability (asset) does not include the adjustment for the difference between projected vs actual contributions made.

S U P P L E M E N T A L I N F O R M A T I O N S E C T I O N

**Nazareth Area School District
Combining Balance Sheet
All Capital Project Funds
For the Year Ended June 30, 2016**

	CAPITAL RESERVE FUND	CAPITAL PROJECTS FUND	TOTAL CAPITAL PROJECT FUNDS
<u>ASSETS</u>			
Cash and cash equivalents	\$ 4,019,770	\$ -	\$ 4,019,770
Restricted Cash	-	-	-
Investments	-	-	-
Other Receivables	-	-	-
Due from other funds	-	-	-
Receivables from other governments	-	-	-
Prepaid Expenditures	-	-	-
TOTAL ASSETS	\$ 4,019,770	\$ -	\$ 4,019,770
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred Charges on Refundings, net	-	-	-
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$ 4,019,770	\$ -	\$ 4,019,770
<u>LIABILITIES</u>			
Accounts Payable	\$ 111,078	\$ -	\$ 111,078
Due to other funds	-	-	-
Due to Other Governments	-	-	-
Interest Payable	-	-	-
Prepayments	-	-	-
TOTAL LIABILITIES	111,078	-	111,078
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Unearned/Unavailable Revenue	-	-	-
TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES	111,078	-	111,078
<u>FUND BALANCES</u>			
Nonspendable Fund Balance	-	-	-
Restricted Fund Balance	3,908,692	-	3,908,692
Committed Fund Balance	-	-	-
Assigned Fund Balance	-	-	-
TOTAL FUND BALANCES	3,908,692	-	3,908,692
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, & FUND BALANCES	\$ 4,019,770	\$ -	\$ 4,019,770

Nazareth Area School District
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
All Capital Project Funds
For the Year Ended June 30, 2016

	CAPITAL RESERVE FUND	CAPITAL PROJECTS FUND	TOTAL CAPITAL PROJECT FUNDS
REVENUES			
Local Sources	\$ 10,828	\$ 23	\$ 10,851
State Sources	-	-	-
Federal Sources	-	-	-
TOTAL REVENUES	<u>10,828</u>	<u>23</u>	<u>10,851</u>
EXPENDITURES			
Instruction	597,862	-	597,862
Support Services	235,226	-	235,226
Operation of Non-Instructional Services	-	-	-
Capital Outlay	2,122,864	109,397	2,232,261
Debt Service	-	-	-
TOTAL EXPENDITURES	<u>2,955,952</u>	<u>109,397</u>	<u>3,065,349</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(2,945,124)</u>	<u>(109,374)</u>	<u>(3,054,498)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds of long-term capital-related debt	-	-	-
Proceeds from Refunding Bond Issues	-	-	-
Bond Premium	-	-	-
Bond Discount	-	-	-
Payment to bond refunding escrow agent	-	-	-
Sale/Compensation for Fixed Assets	-	-	-
Insurance Recoveries	41,500	-	41,500
Transfers in	1,443,303	-	1,443,303
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES AND USES	<u>1,484,803</u>	<u>-</u>	<u>1,484,803</u>
NET CHANGE IN FUND BALANCES	(1,460,321)	(109,374)	(1,569,695)
FUND BALANCES - BEGINNING	<u>5,369,013</u>	<u>109,374</u>	<u>5,478,387</u>
FUND BALANCES - ENDING	<u>\$ 3,908,692</u>	<u>\$ -</u>	<u>\$ 3,908,692</u>

**Nazareth Area School District
Combining Balance Sheet
All Non-Major Governmental Funds
For the Year Ended June 30, 2016**

	DEBT SERVICE FUNDS	DEBT SERVICE FUNDS	TOTAL DEBT SERVICE FUNDS
	2007 BOND FUND	2016 BOND FUND	
<u>ASSETS</u>			
Cash and cash equivalents	\$ -	\$ -	\$ -
Investments	-	-	-
Other Receivables	-	-	-
Due from other funds	636,269	-	636,269
Receivables from other governments	-	-	-
Prepaid Expenditures	-	-	-
TOTAL ASSETS	\$ 636,269	\$ -	\$ 636,269
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred Charges on Refundings, net	-	-	-
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$ 636,269	\$ -	\$ 636,269
<u>LIABILITIES</u>			
Accounts Payable	\$ -	\$ -	\$ -
Due to other funds	-	-	-
Due to Other Governments	-	-	-
Interest Payable	-	-	-
Deferred revenue	-	-	-
TOTAL LIABILITIES	-	-	-
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Unearned/Unavailable Revenue	-	-	-
TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES	-	-	-
<u>FUND BALANCES</u>			
Nonspendable Fund Balance	-	-	-
Restricted Fund Balance	-	-	-
Committed Fund Balance	-	-	-
Assigned Fund Balance	636,269	-	636,269
TOTAL FUND BALANCES	636,269	-	636,269
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, & FUND BALANCES	\$ 636,269	\$ -	\$ 636,269

Nazareth Area School District
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
All Non-Major Governmental Funds
For the Year Ended June 30, 2016

	<u>DEBT SERVICE FUNDS</u>		<u>TOTAL DEBT SERVICE FUNDS</u>
	<u>2007 BOND FUND</u>	<u>2016 BOND FUND</u>	
REVENUES			
Local Sources	\$ -	\$ -	\$ -
State Sources	-	-	-
Federal Sources	-	-	-
TOTAL REVENUES	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES			
Instruction	-	-	-
Support Services	-	121,527	121,527
Operation of Non-Instructional Services	-	-	-
Capital Outlay	-	-	-
Debt Service	-	1,533	1,533
TOTAL EXPENDITURES	<u>-</u>	<u>123,060</u>	<u>123,060</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>(123,060)</u>	<u>(123,060)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds of long-term capital-related debt	-	-	-
Proceeds from Refunding Bond Issues	-	6,385,000	6,385,000
Bond Premium	-	356,223	356,223
Bond Discount	-	-	-
Payment to bond refunding escrow agent	-	(6,618,163)	(6,618,163)
Termination Fee - Swap	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES AND USES	<u>-</u>	<u>123,060</u>	<u>123,060</u>
NET CHANGE IN FUND BALANCES	-	-	-
FUND BALANCES - BEGINNING	<u>636,269</u>	<u>-</u>	<u>636,269</u>
FUND BALANCES - ENDING	<u>\$ 636,269</u>	<u>\$ -</u>	<u>\$ 636,269</u>

Nazareth Area School District
Combining Statement of Fiduciary Net Position
Private Purpose Trust Funds
For the Year Ended June 30, 2016

	SHERMAN MEMORIAL	SUSAN B. KICHLINE MEMORIAL	GREENE MEMORIAL	T. MAHER MEMORIAL	PETER TRUMBOWER FOUNDATION	RED, WHITE, AND BLUE SCHOLARSHIP	DR. LESKY AWARD	DAVIDSON MEMORIAL	GERNETT MEMORIAL	TOTAL
ASSETS & DEFERRED OUTFLOWS OF RESOURCES										
Cash	\$ 2	\$ 159,807	\$ 16,753	\$ 685	\$ -	\$ -	\$ -	\$ -	\$ 132,763	\$ 310,010
Investments	-	-	-	-	-	-	-	-	-	-
Due from Other Funds	-	-	-	-	-	-	-	-	-	-
TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$ 2	\$ 159,807	\$ 16,753	\$ 685	\$ -	\$ -	\$ -	\$ -	\$ 132,763	\$ 310,010
LIABILITIES & DEFERRED INFLOWS OF RESOURCES										
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interfund Payables	-	-	-	-	-	-	-	-	-	-
TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES	-	-	-	-	-	-	-	-	-	-
NET POSITION										
Held in Trust for future recipients	\$ 2	\$ 159,807	\$ 16,753	\$ 685	\$ -	\$ -	\$ -	\$ -	\$ 132,763	\$ 310,010

Combining Statement of Changes in Fiduciary Net Position
Private Purpose Trust Funds
For the Year Ended June 30, 2016

	SHERMAN MEMORIAL	SUSAN B. KICHLINE MEMORIAL	GREENE MEMORIAL	T. MAHER MEMORIAL	PETER TRUMBOWER FOUNDATION	RED, WHITE, AND BLUE SCHOLARSHIP	DR. LESKY AWARD	DAVIDSON MEMORIAL	GERNETT MEMORIAL	TOTAL
ADDITIONS:										
Contributions	\$ -	\$ -	\$ 8,618	\$ -	\$ -	\$ 1,000	\$ 1,000	\$ -	\$ -	\$ 10,618
Transfers In	-	-	-	-	-	-	-	-	-	-
INVESTMENT EARNINGS:										
Interest and dividends	-	157	17	1	-	-	-	-	130	305
TOTAL ADDITIONS	-	157	8,635	1	-	1,000	1,000	-	130	10,923
DEDUCTIONS:										
Administrative Charges	-	-	-	-	-	-	-	-	-	-
Transfers Out	-	-	-	-	-	-	-	-	-	-
Awards	-	10,000	500	300	-	1,000	1,000	-	133	12,933
TOTAL DEDUCTIONS	-	10,000	500	300	-	1,000	1,000	-	133	12,933
CHANGES IN NET POSITION	-	(9,843)	8,135	(299)	-	-	-	-	(3)	(2,010)
NET POSITION - BEG. OF THE YEAR	2	169,650	8,618	984	-	-	-	-	132,766	312,020
NET POSITION - END OF THE YEAR	\$ 2	\$ 159,807	\$ 16,753	\$ 685	\$ -	\$ -	\$ -	\$ -	\$ 132,763	\$ 310,010

**Nazareth Area School District
General Fund - Schedule on Tax Collectors' Receipts
For the Year Ended June 30, 2016**

	BUSHKILL TOWNSHIP	LOWER NAZARETH TOWNSHIP	NAZARETH BOROUGH	UPPER NAZARETH TOWNSHIP	TATAMY BOROUGH	STOCKERTOWN BOROUGH	TOTAL
CURRENT REAL ESTATE TAXES							
Assessed Value	\$ 262,612,400	\$ 368,478,800	\$ 124,384,800	\$ 169,448,800	\$ 30,391,200	\$ 25,983,700	\$ 981,299,700
Millage Rate	0.05108	0.05108	0.05108	0.05108	0.05108	0.05108	0.05108
TOTAL ASSESSED TAX	<u>13,414,241</u>	<u>18,821,897</u>	<u>6,353,576</u>	<u>8,655,445</u>	<u>1,552,382</u>	<u>1,327,247</u>	<u>50,124,788</u>
Less: Act 1 Deduction	<u>518,861</u>	<u>388,474</u>	<u>230,999</u>	<u>349,326</u>	<u>65,132</u>	<u>44,399</u>	<u>1,597,191</u>
TOTAL TAXABLE DUPLICATE	<u>12,895,380</u>	<u>18,433,423</u>	<u>6,122,577</u>	<u>8,306,119</u>	<u>1,487,250</u>	<u>1,282,849</u>	<u>48,527,597</u>
PLUS: - Additions	5,952	-	-	1,026,243	-	-	1,032,195
- Penalties	33,130	35,687	12,888	18,033	2,506	3,200	105,444
- Prior Yr. Unpaid Adds	(2)	-	-	-	-	-	(2)
- Duplicate Payments	-	-	-	294	-	-	294
CURRENT REAL ESTATE TAXES TO BE COLLECTED	<u>12,934,460</u>	<u>18,469,110</u>	<u>6,135,465</u>	<u>9,350,689</u>	<u>1,489,756</u>	<u>1,286,049</u>	<u>49,665,528</u>
LESS: - Discounts	180,083	264,040	83,195	131,294	21,292	20,483	700,387
- Reductions	10,548	100,173	853	10,987	-	1,171	123,732
- Refunds	16,467	18,664	77,461	604	1	-	113,197
- Returned to County	347,430	282,700	211,341	136,186	20,671	36,497	1,034,825
- Unpaid	-	-	-	-	-	-	-
- Exonerations	12,780	-	2,401	-	-	-	15,181
NET CURRENT REAL ESTATE TAXES COLLECTED	<u>\$ 12,367,152</u>	<u>\$ 17,803,533</u>	<u>\$ 5,760,214</u>	<u>\$ 9,071,618</u>	<u>\$ 1,447,792</u>	<u>\$ 1,227,898</u>	<u>\$ 47,678,206</u>
CURRENT INTERIM REAL ESTATE TAXES COLLECTED	<u>\$ 72,985</u>	<u>\$ 481,465</u>	<u>\$ 20,385</u>	<u>\$ 107,247</u>	<u>\$ 226</u>	<u>\$ 2,268</u>	<u>\$ 684,576</u>

Nazareth Area School District
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget vs Actual
For the Year Ended June 30, 2016

<u>6000 - Revenue from Local Sources</u>		<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
6111	Current Real Estate Taxes	\$ 46,345,316	\$ 47,678,206	\$ 1,332,890
6112	Interim Real Estate Taxes	550,000	664,576	114,576
6113	Public Utility	65,500	62,040	(3,460)
6114	Payment in Lieu of Taxes	17,000	16,299	(701)
6151	Earned Income Tax	5,850,000	6,457,450	607,450
6153	Real Estate Transfer Tax	745,000	1,010,075	265,075
6411	Delinquent Real Estate Taxes	2,000,000	1,403,258	(596,742)
6420	Delinquent Per Capita Taxes - 511	400	241	(159)
6441	Delinquent Per Capita Taxes - 679	400	241	(159)
6452	Delinquent Occupation Taxes	10,000	2,060	(7,940)
6510	Interest	50,000	81,689	31,689
6710	Admissions	54,000	48,691	(5,309)
6740	Fees	64,600	75,436	10,836
6790	Other Student Activity Income	9,000	9,798	798
6832	I/U Services - Federal	425,191	446,108	20,917
6910	Rentals	30,000	28,865	(1,135)
6920	Contributions	15,000	36,668	21,668
6941	Regular Day School Tuition	30,000	22,261	(7,739)
6942	Summer School	25,000	20,560	(4,440)
6944	Receipts from Other LEA's - Education	55,000	68,852	13,852
6980	Revenue from Community Service Activities	40,000	28,850	(11,150)
6990	Miscellaneous	-	201	201
6991	Refunds of Prior Yr. Expenditures	60,000	68,977	8,977
6999	Other Revenues Not Specified Above	25,000	25,376	376
TOTAL REVENUE FROM LOCAL SOURCES		\$ 56,466,407	\$ 58,256,778	\$ 1,790,371
<u>7000 - Revenue from State Sources</u>				
7110	Basic Subsidy - ESBE	8,320,255	8,530,331	210,076
7160	Orphan Tuition	65,000	76,067	11,067
7271	Special Education	1,913,559	1,983,292	69,733
7311	Transportation (Regular and Additional)	975,000	834,196	(140,804)
7312	Transportation (Nonpublic and Charter School)	-	150,150	150,150
7320	Rentals	414,031	388,021	(26,010)
7330	Health Services	88,500	88,624	124
7340	State Property Tax Reduction Allocation	1,601,353	1,597,976	(3,377)
7505	Ready to Learn Grant	372,162	476,529	104,367
7810	FICA Revenue	1,317,356	1,355,171	37,815
7820	Retirement Revenue	4,445,282	4,431,291	(13,991)
TOTAL REVENUE FROM STATE SOURCES		19,512,498	19,911,648	399,150
<u>8000 - Revenue from Federal Sources</u>				
8514	Title I	296,440	282,884	(13,556)
8515	Title II	69,348	68,541	(807)
8810	Medical Assistance Reimbursements (Access)	80,000	223,339	143,339
8820	Medical Assistance Reimbursement for Health-Related	20,000	2,917	(17,083)
TOTAL REVENUE FROM FEDERAL SOURCES		465,788	577,681	111,893
<u>9000 - Other Financing Sources</u>				
9120	Proceeds from Extended Term Financing	-	-	-
9400	Sale of Fixed Assets	-	-	-
TOTAL OTHER FINANCING SOURCES		-	-	-
TOTAL REVENUES AND OTHER FINANCING SOURCES		\$ 76,444,693	\$ 78,746,107	\$ 2,301,414

Nazareth Area School District
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget vs Actual
For the Year Ended June 30, 2016

<u>1000 - Instruction</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
1110 Regular Programs - Elem./Secondary	\$ 33,599,348	\$ 33,555,675	\$ 43,673
1190 Federally Funded Regular Programs	397,986	351,131	46,855
1221 Deaf or Hearing Impaired Support	122,938	121,057	1,881
1225 Speech & Language Impaired	497,256	481,087	16,169
1230 Emotional Support	562,915	561,350	1,565
1241 Learning Support - Public	4,737,290	4,733,298	3,992
1243 Gifted Support	560,628	559,183	1,445
1270 Multi-Handicapped Support	93,135	92,713	422
1280 Early Intervention Support	7,000	6,344	656
1290 Other Support	2,723,041	2,722,821	220
1390 Other Vocational Education Programs	1,470,050	1,411,049	59,001
1400 Other Instructional Programs - Elementary/Secondary	3,000	2,204	796
1420 Summer School	66,530	65,641	889
1430 Homebound Instruction	11,132	6,488	4,644
1442 Alternative Education Program	60,000	41,970	18,030
1700 Community College Programs	607,538	607,538	-
Total Instruction	45,519,787	45,319,549	200,238
<u>2000 - Support Services</u>			
2111 Supervision of Student Services	220,803	214,305	6,498
2120 Guidance Services	1,430,144	1,429,985	159
2130 Attendance Services	52,030	51,914	116
2140 Psychological Services	583,479	582,065	1,414
2170 Student Accounting Services	79,923	79,769	154
2200 Support Services - Instructional Staff	7,000	-	7,000
2250 School Library Services	775,811	648,178	127,633
2260 Instructional & Curriculum Dev. Services	452,134	398,751	53,383
2271 Instructional Staff Development	46,787	45,886	901
2310 Board Services	95,871	74,966	20,905
2320 Board Treasurer Services	800	744	56
2330 Tax Assessment & Collection Services	328,788	244,641	84,147
2340 Staff Relations	20,000	18,941	1,059
2350 Legal Services	162,000	161,728	272
2360 Office of the Superintendent Services	689,520	679,194	10,326
2380 Office of the Principal Services	2,743,343	2,686,703	56,640
2390 Other Administration Services	284,564	283,588	976
2420 Medical Services	13,400	6,969	6,431
2430 Dental Services	250	80	170
2440 Nursing Services	789,684	786,257	3,427
2450 Non-Public Health Services	21,217	19,589	1,628
2511 Supervision of Fiscal Services	307,734	306,435	1,299
2512 Budgeting Services	102,438	101,819	619
2513 Receiving and Disbursing Funds	147,846	147,318	528
2514 Payroll Services	81,923	80,749	1,174
2515 Financial Accounting Services	126,364	126,025	339
2519 Other Fiscal Services	257,468	242,495	14,973
2540 Printing, Publishing and Duplication Svcs.	2,000	1,076	924
2611 Supervision of Operation and Maintenance of Plant	230,092	210,038	20,054
2619 Supervision of Operation and Maintenance of Plant - Other	207,441	180,810	26,631
2620 Operation of Buildings Services	6,352,386	6,351,979	407
2630 Care and Upkeep of Grounds Services	88,000	74,567	13,433
2640 Care and Upkeep of Equipment Services	1,000	322	678
2650 Vehicle Operation and Maint. Services	118,100	117,331	769
Sub-Total on Support Services	16,820,340	16,355,217	465,123

Nazareth Area School District
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget vs Actual
For the Year Ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Sub-Total on Support Services (carried forward)	\$ 16,820,340	\$ 16,355,217	\$ 465,123
2660 Security Services	411,834	404,197	7,637
2711 Supervision of Student Transportation Services - Head	53,307	46,610	6,697
2719 Student Transportation Services	1,000	242	758
2720 Vehicle Operation Services	2,741,095	2,740,772	323
2750 Non-Public Transportation	1,118,850	1,002,628	116,222
2790 Other Student Transportation Services	15,000	14,845	155
2820 Information Services	103,770	102,781	989
2821 Supervision of Information Services	174,553	165,913	8,640
2824 Management Information Services	118,446	117,742	704
2829 Other Support Services	519,748	518,426	1,322
2831 Supervision of Staff Services	179,831	177,215	2,616
2834 Staff Development Services - Non-Instructional, Certified	10,974	5,691	5,283
2836 Staff Development	16,922	15,335	1,587
2844 Operation Services	93,282	93,084	198
2900 Other Support Services	<u>38,500</u>	<u>38,359</u>	<u>141</u>
Total Support Services	22,417,452	21,799,057	618,395
<u>3000 - Operation of Non-Instructional Services</u>			
3200 Student Activities	-	-	-
3210 School Sponsored Student Activities	264,930	261,838	3,092
3250 School Sponsored Athletics	1,153,671	1,147,257	6,414
3300 Community Services	54,000	53,555	445
3390 Other Community Services	<u>165,000</u>	<u>161,981</u>	<u>3,019</u>
Total Non-Instructional Services	1,637,601	1,624,631	12,970
<u>4000 - Facilities Acquisition, Construction, and Improvement Svcs.</u>			
4200 Existing Site Improvement Services	-	-	-
4600 Existing Building Improvement Services	<u>-</u>	<u>-</u>	<u>-</u>
Total Facilities Acquisition, Construction, and Improve. Svcs.	-	-	-
<u>5000 - Other Expenditures and Financing Uses</u>			
5110 Debt Service	5,879,382	5,874,984	4,398
5130 Refund of Prior Year Revenues/Receipts	55,450	54,857	593
5230 Capital Projects Funds Transfers Out	1,449,303	1,443,303	6,000
5900 Budgetary Reserve	<u>135,718</u>	<u>-</u>	<u>135,718</u>
Total Other Expenditures and Financing Uses	<u>7,519,853</u>	<u>7,373,144</u>	<u>146,709</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	\$ 77,094,693	\$ 76,116,381	\$ 978,312

**Nazareth Area School District
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget vs Actual
For the Year Ended June 30, 2016**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	\$ 76,444,693	\$ 78,746,107	\$ 2,301,414
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>77,094,693</u>	<u>76,116,381</u>	<u>978,312</u>
NET REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(650,000)	2,629,726	3,279,726
Special Items - Insurance Recoveries	-	10,321	10,321
Extraordinary Items	<u>-</u>	<u>-</u>	<u>-</u>
NET REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES AFTER SPECIAL ITEMS AND EXTRAORDINARY ITEMS	(650,000)	2,640,047	3,290,047
FUND BALANCE - JULY 1, 2015	<u>14,347,892</u>	<u>13,089,305</u>	<u>(1,258,587)</u>
FUND BALANCE - JUNE 30, 2016	<u>\$ 13,697,892</u>	<u>\$ 15,729,352</u>	<u>\$ 2,031,460</u>

**Nazareth Area School District
Capital Reserve Fund
Statement of Revenues and Expenditures
For the Year Ended June 30, 2016**

FUND BALANCE - JULY 1, 2015 \$ 5,369,013

REVENUES

Interest	\$ 10,828	
Insurance Recoveries	41,500	
Transfer from Capital Project Fund	-	
Transfer from General Fund	1,443,303	1,495,631
TOTAL FUNDS AVAILABLE	6,864,644	6,864,644

EXPENDITURES

INSTRUCTIONAL SERVICES:

Supplies	-	
Repairs and Maintenance	-	
Equipment	597,862	

SUPPORT SERVICES:

Professional Services	30,747	
Advertising	-	
Repairs and Maintenance	6,099	
Supplies	47,193	
Equipment	150,857	
Dues and Fees	330	

NON-INSTRUCTIONAL SERVICES

Professional Services	-	
Software	-	
Equipment	-	

CAPITAL OUTLAY:

Advertising	1,841	
Professional Services	53,407	
Transportation	2,623	
Rentals	4,476	
Construction	2,019,596	
Supplies	20,773	
Equipment	19,709	
Dues and Fees	439	2,955,952
	439	2,955,952

FUND BALANCE - JUNE 30, 2016 **\$ 3,908,692**

Nazareth Area School District
Food Service Fund
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Year Ended June 30, 2016

REVENUES

Student Lunches	\$ 715,774	
Al a Carte - Adults	17,650	
Al a Carte - Students	488,040	
Snacks	-	
Special Events	45,769	
Misc. Income	1,288	
Vending Machines	10,627	
Rebates	3,012	
Interest	612	
State Subsidies	159,644	
Federal Subsidies	411,701	
Donated Commodities	114,381	
Capital Contributions	-	
Gain or (Loss) on Disposition of Capital Assets	-	
Transfer from General Fund	-	
TOTAL REVENUES	\$ 1,968,498	

COST OF FOOD AND COMMODITIES

Beginning Inventory	67,050	
Purchases	668,549	
Donated Commodities	114,381	
Ending Inventory	(59,751)	
TOTAL COST OF FOOD SOLD	790,229	

GROSS PROFIT

1,178,269

OPERATING EXPENSES

Salaries	718,684	
Fringe Benefits	395,484	
Advertising	-	
Supplies	61,271	
Technical Services	-	
Repairs and Maintenance	10,368	
Rentals	29	
Extermination Services	3,000	
Insurance	3,168	
Communications	575	
Travel	860	
Miscellaneous	-	
Gasoline	2,141	
Printing and Binding	-	
Depreciation	17,562	
Dues and Fees	382	
Equipment	2,990	
	1,216,514	

CHANGES IN FUND NET POSITION

(38,245)

FUND NET POSITION - JULY 1, 2015

(1,726,414)

FUND NET POSITION - JUNE 30, 2016

\$ (1,764,659)

**Nazareth Area School District
2007 Bond Fund
Statement of Revenues and Expenditures
For the Year Ended June 30, 2016**

FUND BALANCE - JULY 1, 2015		\$	636,269
 REVENUES AND OTHER FINANCING SOURCES			
Proceeds from Refunding Bond Issue	\$	-	
Bond Premium		-	
Transfer from General Fund		-	-
TOTAL FUNDS AVAILABLE		<u>-</u>	<u>636,269</u>
 EXPENDITURES AND OTHER FINANCING USES			
Support Services:			
Professional Services		-	
Other Financing Uses:			
Payment to Refunding Bonds Escrow Agent		-	
Transfer to General Fund		-	-
		<u>-</u>	<u>-</u>
 FUND BALANCE - JUNE 30, 2016		 \$	 <u>636,269</u>

**2016 GOB Bond Fund
Statement of Revenues and Expenditures
For the Year Ended June 30, 2016**

FUND BALANCE - JULY 1, 2015		\$	-
 REVENUES AND OTHER FINANCING SOURCES			
Proceeds from Refunding Bond Issue	\$	6,385,000	
Bond Premium		356,223	
Transfer from General Fund		-	6,741,223
TOTAL FUNDS AVAILABLE		<u>-</u>	<u>6,741,223</u>
 EXPENDITURES AND OTHER FINANCING USES			
Support Services:			
Professional Services		119,840	
Printing		1,687	
Other Financing Uses:			
Payment to Refunding Bonds Escrow Agent		6,618,163	
Termination Fee - Swap		-	
Bond Discount		-	
Debt Service - Interest		1,533	6,741,223
		<u>1,533</u>	<u>6,741,223</u>
 FUND BALANCE - JUNE 30, 2016		 \$	 <u>-</u>

**Nazareth Area School District
Capital Projects Fund
Statement of Revenues and Expenditures
For the Year Ended June 30, 2016**

FUND BALANCE - JULY 1, 2015		\$ 109,374
<u>REVENUES AND OTHER FINANCING SOURCES</u>		
Proceeds from Bond Issues	\$ -	
Earnings on Investments	23	
Gain or (Loss) on Sale of Investments	-	23
TOTAL FUNDS AVAILABLE		109,397
<u>EXPENDITURES AND OTHER FINANCING USES</u>		
INSTRUCTIONAL SERVICES:		
Professional Services	-	
Supplies	-	
Educational Software	-	
Equipment and Tech Improvements	-	
SUPPORT SERVICES:		
Professional Services	-	
Disposal Services	-	
Water-Sewage	-	
Repairs and Maintenance	-	
Rentals	-	
Supplies	-	
Equipment	-	
NON-INSTRUCTIONAL SERVICES:		
Supplies	-	
Equipment	-	
CAPITAL OUTLAY:		
Professional Services	109,397	
Advertising/Printing	-	
Insurance	-	
Disposal Services	-	
General Construction	-	
Land	-	
Supplies	-	
Equipment	-	
Dues and Fees	-	
OTHER FINANCING USES:		
Transfer to Other Funds	-	109,397
FUND BALANCE - JUNE 30, 2016		\$ -

Schedule on General Obligation Notes - Series of 2009
Dated as of May 1, 2009
For the Year Ended June 30, 2016

<u>FISCAL YEAR</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2016-17	3.100%	\$ 307,630	\$ 5,000
2017-18	3.300%	307,470	5,000
2018-19	3.400%	303,648	220,000
2019-20	3.625%	292,476	410,000
2020-21	3.750%	276,795	440,000
2021-22	3.875%	259,632	460,000
2022-23	4.000%	241,220	475,000
2023-24	4.100%	221,470	500,000
2024-25	4.250%	200,170	520,000
2025-26	4.350%	177,158	550,000
2026-27	4.500%	152,144	580,000
2027-28	4.550%	125,104	615,000
2028-29	4.650%	96,116	645,000
2029-30	4.800%	64,680	685,000
2030-31	4.800%	24,120	1,005,000
TOTAL OUTSTANDING		\$ 3,049,833	\$ 7,115,000

Schedule on General Obligation Notes - Series of 2011
Dated as of December 29, 2011
For the Year Ended June 30, 2016

<u>FISCAL YEAR</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2016-17	2.500%	\$ 211,075	\$ 320,000
2017-18	2.000%	203,825	325,000
2018-19	2.000%	191,025	955,000
2019-20	2.000%	165,025	1,645,000
2020-21	2.375%	128,744	1,670,000
2021-22	2.500%	87,538	1,710,000
2022-23	2.750%	43,956	1,615,000
2023-24	3.000%	10,875	725,000
TOTAL OUTSTANDING		\$ 1,042,063	\$ 8,965,000

Nazareth Area School District
Schedule on General Obligation Bonds - Series A of 2012
Dated as of August 20, 2012
For the Year Ended June 30, 2016

<u>FISCAL YEAR</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2016-17	3.000%	\$ 52,800	\$ 680,000
2017-18	3.000%	32,100	700,000
2018-19	3.000%	10,800	720,000
TOTAL OUTSTANDING		<u>\$ 95,700</u>	<u>\$ 2,100,000</u>

Schedule on General Obligation Bonds - Series of 2013
Dated as of May 15, 2013
For the Year Ended June 30, 2016

<u>FISCAL YEAR</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2016-17	2.000%	\$ 274,052	\$ 85,000
2017-18	2.000%	272,303	90,000
2018-19	2.000%	270,502	90,000
2019-20	2.000%	268,703	90,000
2020-21	2.000%	266,852	95,000
2021-22	2.050%	264,929	95,000
2022-23	2.050%	262,930	100,000
2023-24	2.050%	260,880	100,000
2024-25	2.050%	258,830	100,000
2025-26	2.200%	252,635	470,000
2026-27	2.300%	237,920	830,000
2027-28	3.000%	215,550	855,000
2028-29	3.000%	189,600	875,000
2029-30	3.000%	162,900	905,000
2030-31	3.000%	135,300	935,000
2031-32	3.000%	106,800	965,000
2032-33	3.000%	77,475	990,000
2033-34	3.000%	47,326	1,020,000
2034-35	3.050%	16,013	1,050,000
TOTAL OUTSTANDING		<u>\$ 3,841,500</u>	<u>\$ 9,740,000</u>

Nazareth Area School District
Schedule on General Obligation Bonds - Series of 2014
Dated as of March 27, 2014
For the Year Ended June 30, 2016

<u>FISCAL YEAR</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2016-17	3.000%	\$ 243,230	\$ 900,000
2017-18	4.000%	216,230	925,000
2018-19	4.000%	179,230	1,135,000
2019-20	2.000%	133,830	1,175,000
2020-21	2.000%	110,330	1,200,000
2021-22	2.100%	86,330	1,230,000
2022-23	2.350%	60,500	1,250,000
2023-24	2.500%	31,125	1,245,000
TOTAL OUTSTANDING		\$ 1,060,805	\$ 9,060,000

Schedule on General Obligation Bonds - Series A of 2014
Dated as of June 16, 2014
For the Year Ended June 30, 2016

<u>FISCAL YEAR</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2016-17	1.000%	\$ 284,872	\$ 50,000
2017-18	1.500%	284,372	80,000
2018-19	2.000%	283,172	100,000
2019-20	2.000%	281,172	105,000
2020-21	2.050%	279,072	105,000
2021-22	2.050%	276,920	105,000
2022-23	2.300%	274,767	110,000
2023-24	2.300%	272,238	145,000
2024-25	2.500%	268,904	1,430,000
2025-26	2.700%	233,152	1,465,000
2026-27	3.000%	193,598	1,505,000
2027-28	3.000%	148,448	1,550,000
2028-29	3.050%	101,948	1,595,000
2029-30	3.250%	53,300	1,640,000
TOTAL OUTSTANDING		\$ 3,235,935	\$ 9,985,000

Nazareth Area School District
Schedule on General Obligation Notes - Series of 2015
Dated as of January 20, 2015
For the Year Ended June 30, 2016

<u>FISCAL YEAR</u>	<u>VARIABLE INTEREST RATE</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2016-17	0.8305%	\$ 141,646	\$ 20,000
2017-18	0.8305%	141,480	20,000
2018-19	0.8305%	141,314	20,000
2019-20	0.8305%	141,148	20,000
2020-21	0.8305%	140,982	20,000
2021-22	0.8305%	140,816	20,000
2022-23	0.8305%	140,650	165,000
2023-24	0.8305%	139,279	1,105,000
2024-25	0.8305%	130,102	1,785,000
2025-26	0.8305%	115,277	1,855,000
2026-27	0.8305%	99,871	1,935,000
2027-28	0.8305%	83,800	1,995,000
2028-29	0.8305%	67,231	2,085,000
2029-30	0.8305%	49,915	2,180,000
2030-31	0.8305%	31,809	3,830,000
TOTAL OUTSTANDING		\$ 1,705,320	\$ 17,055,000

Schedule on General Obligation Bonds - Series of 2015
Dated as of February 27, 2015
For the Year Ended June 30, 2016

9335000

<u>FISCAL YEAR</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2016-17	2.00%	\$ 224,790	\$ 5,000
2017-18	2.00%	224,690	5,000
2018-19	2.00%	217,390	725,000
2019-20	2.00%	203,840	630,000
2020-21	2.00%	191,190	635,000
2021-22	2.00%	178,390	645,000
2022-23	2.00%	165,390	655,000
2023-24	2.00%	152,090	675,000
2024-25	2.00%	137,390	795,000
2025-26	2.50%	123,940	440,000
2026-27	3.00%	116,865	105,000
2027-28	3.00%	108,090	480,000
2028-29	2.85%	93,836	495,000
2029-30	2.85%	79,657	500,000
2030-31	2.85%	66,904	395,000
2031-32	2.85%	54,079	505,000
2032-33	2.85%	39,330	530,000
2033-34	2.85%	23,940	550,000
2034-35	2.85%	8,051	565,000
TOTAL OUTSTANDING		\$ 2,409,852	\$ 9,335,000

Nazareth Area School District
Schedule on General Obligation Bonds - Series of 2016
Dated as of March 29, 2016
For the Year Ended June 30, 2016

<u>FISCAL YEAR</u>	<u>INTEREST RATE</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2016-17	5.00%	\$ 220,700	\$ 1,470,000
2017-18	5.00%	134,700	1,970,000
2018-19	5.00%	78,450	280,000
2019-20	5.00%	64,075	295,000
2020-21	5.00%	48,950	310,000
2021-22	2.00%	38,000	320,000
2022-23	2.00%	31,500	330,000
2023-24	2.00%	24,850	335,000
2024-25	2.00%	18,000	350,000
2025-26	2.00%	10,900	360,000
2026-27	2.00%	3,650	365,000
TOTAL OUTSTANDING		\$ 673,775	\$ 6,385,000

S I N G L E A U D I T S E C T I O N

NAZARETH AREA SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2016

FEDERAL GRANTOR PROJECT TITLE	SOURCE CODE	FEDERAL CFDA NO.	PASS THROUGH GRANTOR NUMBER	GRANT PERIOD	AWARD AMOUNT	TOTAL RECEIVED	ACCRUED OR (DEFERRED) 7/1/15	REVENUE	EXPEND.	ACCRUED OR (DEFERRED) 6/30/16	FOOTNOTES
<u>U.S. DEPT. OF EDUCATION</u>											
<u>PASSED THROUGH THE PDE</u>											
ESEA - TITLE IA - IMPROVING BASIC PROGRAMS	I	84.010	013-15-0276 A	7/1/14-9/30/15	\$ 297,063	\$ 42,972	\$ 36,328	\$ 6,644	\$ 6,644	\$ -	2
ESEA - TITLE IA - IMPROVING BASIC PROGRAMS	I	84.010	013-16-0276 A	7/1/15-9/30/16	\$ 276,240	257,202	-	276,240	276,240	19,038	
TOTAL TITLE IA PROGRAM						300,174	36,328	282,884	282,884	19,038	
<u>PASSED THROUGH THE PDE</u>											
ESEA - TITLE IIA - IMPROVING TEACHER QUALITY	I	84.367	020-15-0276 A	7/1/14-9/30/15	\$ 69,322	(26)	(26)	-	-	-	2
ESEA - TITLE IIA - IMPROVING TEACHER QUALITY	I	84.367	020-16-0276 A	7/1/15-9/30/16	\$ 68,541	68,541	-	68,541	68,541	-	5
TOTAL TITLE IIA PROGRAM						68,515	(26)	68,541	68,541	-	
<u>PASSED THROUGH THE COLONIAL I.U.</u>											
IDEA	I	84.027	N/A	7/1/14-6/30/15	\$ 429,847	55,073	55,073	-	-	-	2
IDEA	I	84.027	N/A	7/1/15-6/30/16	\$ 443,421	280,945	-	443,421	443,421	162,476	1
IDEA SECTION 619	I	84.173	N/A	7/1/15-6/30/16	\$ 2,687	-	-	2,687	2,687	2,687	1
TOTAL IDEA CLUSTER						336,018	55,073	446,108	446,108	165,163	
TOTAL U. S. DEPARTMENT OF EDUCATION						704,707	91,375	797,533	797,533	184,201	
<u>U. S. DEPARTMENT OF HEALTH & HUMAN SERVICES</u>											
<u>PASSED THROUGH THE PA.</u>											
<u>DEPARTMENT OF PUBLIC WELFARE</u>											
ESEA - TITLE 19 MEDICAL REIMBURSEMENT	I	93.778	N/A	10/1/15-9/30/16	N/A	2,069	343	2,917	2,917	1,190	2
TOTAL U. S. DEPARTMENT OF HEALTH & HUMAN SERVICES						2,069	343	2,917	2,917	1,190	
<u>U. S. DEPARTMENT OF AGRICULTURE</u>											
<u>PASSED THROUGH THE PA DEPT.</u>											
<u>OF EDUCATION:</u>											
NATIONAL SCHOOL LUNCH	I	10.555	N/A	7/1/14-6/30/15	N/A	8,209	8,209	-	-	-	2
NATIONAL SCHOOL LUNCH	I	10.555	N/A	7/1/15-6/30/16	N/A	411,701	-	411,701	411,701	-	
<u>PASSED THROUGH THE PA DEPT.</u>											
<u>OF AGRICULTURE:</u>											
NATIONAL SCHOOL LUNCH - U.S.D.A. COMMODITIES	I	10.555	N/A	7/1/15-6/30/16	N/A	114,381	(2,044)	112,011	112,011	(4,413)	2
TOTAL CHILD NUTRITION CLUSTER						534,291	6,165	523,712	523,712	(4,413)	3,4
TOTAL U.S. DEPARTMENT OF AGRICULTURE						534,291	6,165	523,712	523,712	(4,413)	
TOTAL FEDERAL FINANCIAL AWARDS						\$ 1,241,067	\$ 97,883	\$ 1,324,162	\$ 1,324,162	\$ 180,978	

SOURCE: D -DIRECT; I -INDIRECT

Nazareth Area School District
Notes to the Schedule of Expenditures and Federal Awards
Fiscal Year Ended June 30, 2016

Note 1 - Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting for all federal awards charged to governmental funds and on the accrual basis of accounting for all federal awards charged to proprietary funds, as contemplated by accounting principles, generally accepted in the United States of America.

Note 2 - Organization and Scope

The District recognized 1.0% of its total general fund revenue in federal awards, and 26.6% of its total enterprise fund revenue.

Note 3 – Indirect Costs

The District did not charge any indirect costs to any of their federal grants and programs during this fiscal year. As such, the District did not use the 10% de minimus cost rate.

Note 4 - Program Disclosure – Footnotes

1. The federal awards passed through the Colonial Intermediate Unit, under the U.S. Department of Education heading, is part of a consortium of participating school districts. In accordance with directions from the Commonwealth of Pennsylvania, these awards are reported on the basic financial statements as local source revenue.
2. The Federal Grants were passed through the following entities in the totals below:

<u>Passed through</u>	<u>Total Awards</u>	<u>Total Expenditures</u>
PA Department of Education	\$ 711,166	\$ 763,126
Colonial I.U. #20	875,955	446,108
PA Department of Public Welfare	N/A	2,917
PA Department of Agriculture	N/A	112,011
Totals	\$ 1,587,121	\$ 1,324,162

3. The District received non-monetary assistance from the U.S. Department of Agriculture of \$114,381, in the form of commodities. These commodities are valued at U.S.D.A.'s approximate costs. During the 2015-16 fiscal-year, the District used \$112,011 in commodities and established a year-end inventory of \$4,413 at June 30, 2016.
4. The amount recognized as revenue in the Schedule of Expenditures of Federal Awards, under the U.S. Department of Agriculture heading, represents the commodities used, versus the commodities received, which are recognized as revenue in the basic financial statements.
5. The Pennsylvania Department of Education (PDE) over-paid the District \$26 for the Title II program. This amount was owed back to PDE as of June 30, 2015.

Nazareth Area School District
Notes to the Schedule of Expenditures and Federal Awards
Fiscal Year Ended June 30, 2016

FINANCIAL STATEMENT RECONCILIATION

General Fund Federal Source Revenues	\$ 577,681
Federal Grants in Local Sources	446,108
Food Service Fund Federal Revenue	<u>526,082</u>
Total Federal Revenue, per financial statements	1,549,871
Less - Medical Access Reimbursement	(223,339)
Plus: Change in Donated Commodities	<u>(2,370)</u>
Total Federal Revenue Reported on SEFA	<u>\$ 1,324,162</u>



GORMAN & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Members of
American Institute of Certified Public Accountants
Pennsylvania Institute of Certified Public Accountants
Florida Institute of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT UNDER GOVERNMENT AUDITING STANDARDS

Board of School Directors
Nazareth Area School District
One Education Plaza
Nazareth, PA 18064-2397

We have audited, in accordance with the auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the budgetary comparison statement of the general fund of the Nazareth Area School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Nazareth Area School District's basic financial statements, and have issued our report thereon dated December 13, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,



December 13, 2016



**INDEPENDENT AUDITOR'S REPORT
UNDER UNIFORM GUIDANCE**

Board of School Directors
Nazareth Area School District
One Education Plaza
Nazareth, PA 18064-2397

Report on Compliance for Each Major Federal Program

We have audited Nazareth Area School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement that could have a direct and material effect on each of Stroudsburg Area School District's major federal programs for the year ended June 30, 2016*. Stroudsburg Area School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Nazareth Area School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Nazareth Area School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Nazareth Area School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

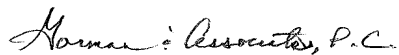
Management of Nazareth Area School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Nazareth Area School District's internal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

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

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

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

Respectfully submitted,



December 13, 2016

**Nazareth Area School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016**

Section I - Summary of Auditor Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) Identified? yes no
- Significant Deficiencies identified that are not considered to be material weaknesses? yes none reported
- Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) Identified? yes no
- Significant Deficiencies identified that are not considered to be material weaknesses? yes none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 200.516 of the Uniform Guidance? yes no

Identification of major program:

CFDA Number(s)	Name of Federal Program or Cluster
10.555	Child Nutrition Cluster

Percentage of programs tested to total awards 39.6%

Dollar threshold used to distinguish between type A and type B program: \$ 750,000
Auditee qualified as low-risk auditee? yes no

**Nazareth Area School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016**

Section II - Financial Statement Findings

There are no findings discovered relating to the financial statements, which are required to be reported in accordance with generally accepted government auditing standards.

Section III - Findings and Questioned Costs for Federal Awards

We did not discover any findings or questioned costs on federal awards, in accordance with Uniform Guidance Section 200.516.

Audit Follow-Up Procedures

We did not perform any follow-up procedures on last year findings, since there were no prior year findings to report.