

**ALLENTOWN, PENNSYLVANIA**

**AUDIT REPORT**

**JUNE 30, 2016**

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ALLENTOWN SCHOOL DISTRICT

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## INDEPENDENT AUDITOR'S REPORT

January 30, 2017

Board of School Directors  
Allentown School District  
Allentown, Pennsylvania

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Allentown School District ("the District"), Allentown, Pennsylvania, 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 fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*. 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate

Board of School Directors  
Allentown School District

in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Allentown School District, Allentown, Pennsylvania, as of June 30, 2016, and the respective changes in its financial position, and, where applicable, cash flows thereof, and the budgetary comparison statement of the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### Change in Accounting Principle

As described in Note 1 to the financial statements, in fiscal year 2016, the District adopted new accounting guidance, GASB Statement No. 72, "Fair Value Measurement and Application." This statement addresses accounting and financial reporting issues related to fair value measurements. Our opinion is not modified with respect to this matter.

#### Other Matters

##### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 15, the schedule of the District's and Library's proportionate share of the net pension liability on page 58 and the schedule of District and Library contributions on page 59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Board of School Directors  
Allentown School District

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining nonmajor governmental fund financial statements on pages 60 and 61 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards on pages 70 - 73 is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and also is not a required part of the basic financial statements.

The combining nonmajor governmental fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Barbacane, Thornton & Company LLP*

BARBACANE, THORNTON & COMPANY LLP

**ALLENTOWN SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED**  
**JUNE 30, 2016**

**INTRODUCTION**

The discussion and analysis of the financial performance of the Allentown School District ("the District") 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 financial performance as a whole; however, readers also should review the notes to the basic financial statements to enhance their understanding of the District's financial performance.

The Management's Discussion and Analysis ("MD&A") is a component of the reporting model adopted by the Governmental Accounting Standards Board ("GASB") in its Statement No. 34, "Basic Financial Statements - and the Management's Discussion and Analysis - for State and Local Governments." Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

**MISSION STATEMENT AND VISION**

- Mission – To provide safe, rigorous, and engaging educational experiences that prepare all students to excel in learning and life.
- Vision – The Allentown School District's Pathways to Success vision provides every student in the Allentown School District with an individualized academic plan that leads to graduation and success in post-secondary education or a job paying a family-sustaining wage.

**FINANCIAL HIGHLIGHTS**

As of June 30, 2016, the District's General Fund reported a positive accumulated fund balance in the amount of \$31,347,291, or 11.79 percent of the District's General Fund total expenditure budget for 2015-2016, down from 14.44 percent for the previous year.

The District's total entity-wide revenues during the fiscal year ended June 30, 2016 were \$281,186,205. Of this total, combined taxes, general subsidies, and other general revenues accounted for \$210,364,737, or 74.81 percent, and program-specific revenues in the form of charges for services and grants accounted for \$70,821,468, or the remaining 25.19 percent.

The District had \$267,065,369 in expenses related to governmental activities; \$60,147,164 of these expenses were offset by program-specific revenues for services and operating grants.

The District did not receive state and federal funding until the second half of the fiscal year due to the Pennsylvania state budget impasse. In order to ensure the continuous operation of the District, the District entered into an agreement for a Tax and Revenue Anticipation Note ("TRAN"), Series of 2015, available in one or more drawdowns up to a maximum aggregate principal amount of \$50,000,000. The only drawdown occurred on the signing date of the agreement, December 15, 2015, in the amount of \$1,000,000. This amount was paid back in January 2016 when the District received its first installment of funds from the state. The TRAN was terminated in January 2016.

**ALLENTOWN SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTD)**  
**JUNE 30, 2016**

**FINANCIAL STATEMENTS**

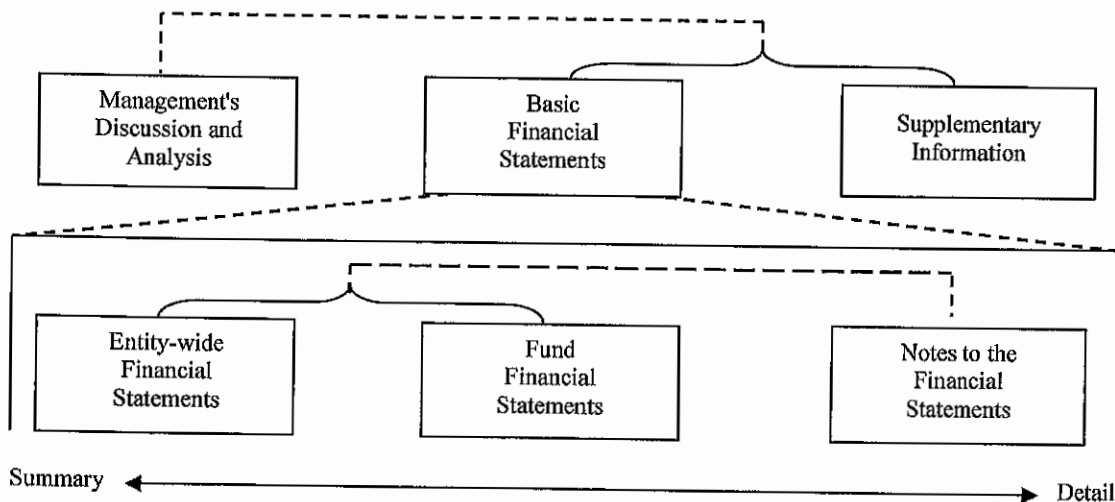
This annual report consists of a series of financial statements that are organized so that the reader can understand the District as a financial whole and, also, as an entire operating entity. The financial statements consist of three parts: 1) Management's Discussion and Analysis; 2) basic financial statements; and 3) supplementary information. The basic financial statements include two kinds of statements that present different views of the District. The first two statements are entity-wide financial statements – the Statement of Net Position and the Statement of Activities. These statements 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 entity-wide statements. The governmental funds statements tell how generally the District's services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column. In the case of the District, the General Fund is by far the most significant fund. Proprietary fund statements offer short-term and long-term financial information about the activities that the District operates like a business. For the District, this is its 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, to whom the resources in question belong. For the District, this is its Student Activities Fund, the IRC Section 125 Fund, and the Private-Purpose Trust Fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of supplementary information that further explains and reports the financial statements.

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 Allentown School District's**  
**Financial Report**





**ALLENTOWN SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTD)**  
**JUNE 30, 2016**

Figure A-2 summarizes the major features of the financial statements, including the portion of the program they cover and the types of information they contain. The remainder of this overview section of the MD&A explains the structure and contents of each of the statements.

**Figure A-2**  
**Major Features of Allentown School District's**  
**Entity-wide and Fund Financial Statements**

Fund Statements				
	Entity-wide 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 and Student Activity Funds.
Required financial statements	Statement of Net Position; Statement of Activities.	Balance Sheet; Statement of Revenues, Expenditures, and Changes in Fund Balances.	Statement of Fund Net Position; Statement of Revenues, Expenses, and Changes in Fund 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 information	All assets and deferred outflows and liabilities and deferred inflows, both financial and capital, and short-term and long-term.	Only assets and deferred outflows expected to be used up, and liabilities and deferred inflows that come due during the year or soon thereafter; no capital assets included.	All assets and deferred outflows and liabilities and deferred inflows, 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 the year, regardless of when cash is received or paid.	All revenues and expenses during the year, regardless of when cash is received or paid.

ALLENTOWN SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)  
JUNE 30, 2016

**OVERVIEW OF FINANCIAL STATEMENTS**

**Entity-wide Statements**

The entity-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 two entity-wide statements report the District's net position and how it has changed. Net position, the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, is one way to measure the District's financial health or position.

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

To assess the overall health of the District, the reader needs to consider additional factors, such as projected growth in the District's property values due to the extensive downtown development, as well as the future riverfront projects, and the projected changes in enrollment of students.

The entity-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. Local tax revenues, 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 defray the costs of the food service operation.

***Impact of GASB Statements No. 68 and No. 71***

During the 2014-2015 fiscal year, the District implemented Government Accounting Standards Board ("GASB") Statement No. 68, "Accounting and Financial Reporting for Pensions," and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68." The purpose of these statements is to improve the transparency, consistency, and comparability of the pension information reported by state and local governments (e.g. school districts).

The adoption of GASB Statements No. 68 and No. 71 has had, and will continue to have, a profound effect on the financial statements and net position of school districts and governments not only in Pennsylvania, but across the nation. By recognizing the impact of any unfunded liability faced by defined benefit pension plans, plan administrators (at the direction of elected officials) and participants will be required to evaluate the cost of providing these benefits as compared to the benefit to be derived through providing for certain retirement benefits to the work force.

**ALLENTOWN SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**  
**JUNE 30, 2016**

More specifically, the District contributes to the Pennsylvania Public School Employees' Retirement System ("PSERS"), a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. In cost-sharing multiple-employer plans, the plan assets and liabilities are shared. Plan assets can be used to pay the pensions of the employees of any employer that provides pensions through the plan. The new standards have shifted pension reporting from a funding-based approach, in which the District reported only its contributions to the plan, to an accounting-based approach. Under this new approach, the District reports its proportionate share of the net pension liability on the Statement of Net Position of the government-wide and proprietary fund financial statements. Reporting in the governmental fund statements is not affected by the implementation of these statements.

The net pension liability is the difference between the market value of pension fund assets and the actuarial present value of projected benefit payments at the measurement date. Included in the calculation are projected employer and employee contributions as well as the expectation that the assets will grow at the long-term assumed rate of return on plan investments.

While the net pension liability is significant to the District's financial statements, it is a liability the District has limited control over. Over the last five years, the PSERS employer contribution rate has risen significantly, from 5.6 percent in 2010-2011 to 25.84 percent in 2015-2016. These increases are expected to improve the plan's funding level, which will reduce net position in future years. This rate is anticipated to continue to increase to a level of over 30 percent in future years.

#### **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. They are reported using the modified accrual accounting method, which measures cash and all other financial assets that can be converted readily 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 Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances) and governmental funds is reconciled in the financial statements.
- *Proprietary Funds* – These funds are used to account for the District's 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 generally are reported in proprietary

**ALLENTOWN SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**  
**JUNE 30, 2016**

funds. The Food Service Fund is the District's proprietary fund and is the same as the business-type activities reported in the entity-wide statements, but provides more detail and additional information, such as cash flows.

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

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Net Position**

The District's total net deficit as of June 30, 2016 was \$(294,287,425). The deficit is a direct result of Governmental Accounting Standards Board ("GASB") Statements No. 68 and No. 71, as noted above. Table A-1 summarizes the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (deficit) of the District.

**Table A-1**  
**June 30, 2015 and 2016**  
**Condensed Statement of Net Position**

	Governmental Activities		Business-type Activities		Totals	
	2015	2016	2015	2016	2015	2016
<b>Assets:</b>						
Current and other assets	\$ 72,109,914	\$ 81,169,829	\$ 861,321	\$ 1,257,667	\$ 72,971,235	\$ 82,427,496
Noncurrent assets	187,250,851	184,149,011	125,330	196,300	187,376,181	184,345,311
Deferred outflows of resources	40,211,306	50,187,427	477,193	603,815	40,688,499	50,791,242
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$299,572,071</b>	<b>\$315,506,267</b>	<b>\$ 1,463,844</b>	<b>\$ 2,057,782</b>	<b>\$301,035,915</b>	<b>\$317,564,049</b>
<b>Liabilities:</b>						
Current and other liabilities	\$ 33,534,526	\$ 42,786,778	\$ 381,892	\$ 327,757	\$ 33,916,418	\$ 43,114,535
Long-term liabilities	507,975,928	523,275,872	7,267,649	7,695,732	515,243,577	530,971,604
Deferred inflows of resources	51,039,626	37,241,835	880,789	523,500	51,920,415	37,765,335
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>592,550,080</b>	<b>603,304,485</b>	<b>8,530,330</b>	<b>8,546,989</b>	<b>601,080,410</b>	<b>611,851,474</b>
<b>Net Position (Deficit):</b>						
Net investment in capital assets	6,454,355	9,952,559	125,330	196,300	6,579,685	10,148,859
Restricted for debt service	3,985,110	5,578,212	-	-	3,985,110	5,578,212
Unrestricted (deficit)	(303,417,474)	(303,328,989)	(7,191,816)	(6,685,507)	(310,609,290)	(310,014,496)
<b>Total Net Deficit</b>	<b>(292,978,009)</b>	<b>(287,798,218)</b>	<b>(7,066,486)</b>	<b>(6,489,207)</b>	<b>(300,044,495)</b>	<b>(294,287,425)</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Net Deficit</b>	<b>\$299,572,071</b>	<b>\$315,506,267</b>	<b>\$ 1,463,844</b>	<b>\$ 2,057,782</b>	<b>\$301,035,915</b>	<b>\$317,564,049</b>

**ALLENTOWN SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**  
**JUNE 30, 2016**

**Changes in Net Deficit**

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 factored in to determine the final amount of the District's activities that are supported by other general revenues.

Table A-2 takes the information from that statement and rearranges it slightly, so the reader can compare the District's total revenues for the 2014-2015 and 2015-2016 fiscal years.

**Table A-2**  
**Fiscal Years Ended June 30, 2015 and 2016**  
**Condensed Statement of Activities**

	Governmental Activities		Business-type Activities		Totals	
	2015	2016	2015	2016	2015	2016
<b>REVENUES</b>						
Program revenue:						
Charges for services	\$ 297,770	\$ 225,184	\$ 71,571	\$ 274,016	\$ 369,341	\$ 499,200
Operating grants and contributions	55,235,288	59,921,980	8,805,511	10,400,288	64,040,799	70,322,268
Capital grants and contributions	1,492,248	-	-	-	1,492,248	-
General revenue:						
Property taxes	80,673,638	85,910,089	-	-	80,673,638	85,910,089
Other taxes	8,992,071	10,411,802	-	-	8,992,071	10,411,802
Grants, subsidies and contributions	107,586,142	112,287,301	-	-	107,586,142	112,287,301
Investment income	513,783	1,239,156	21,917	16,741	535,700	1,255,897
Transfers	1,750,000	1,750,000	(1,750,000)	(1,750,000)	-	-
Other	2,146,813	499,648	-	-	2,146,813	499,648
<b>TOTAL REVENUES</b>	<b>258,687,753</b>	<b>272,245,160</b>	<b>7,148,999</b>	<b>8,941,045</b>	<b>265,836,752</b>	<b>281,186,205</b>
<b>EXPENSES</b>						
Instruction	177,171,232	188,275,579	-	-	177,171,232	188,275,579
Instructional student support	17,832,987	18,967,986	-	-	17,832,987	18,967,986
Administrative and financial support services	20,020,206	21,677,255	-	-	20,020,206	21,677,255
Operation and maintenance of plant services	15,029,760	15,306,304	-	-	15,029,760	15,306,304
Pupil transportation	8,876,464	8,722,331	-	-	8,876,464	8,722,331
Student activities	1,622,958	1,932,513	-	-	1,622,958	1,932,513
Community services	1,528,356	1,644,132	-	-	1,528,356	1,644,132
Interest on long-term debt	10,607,597	10,539,269	-	-	10,607,597	10,539,269
Food service	-	-	8,119,673	8,363,766	8,119,673	8,363,766
<b>TOTAL EXPENSES</b>	<b>252,689,560</b>	<b>267,065,369</b>	<b>8,119,673</b>	<b>8,363,766</b>	<b>260,809,233</b>	<b>275,429,135</b>
<b>INCREASE (DECREASE) IN NET POSITION</b>	<b>\$ 5,998,193</b>	<b>\$ 5,179,791</b>	<b>\$ (970,674)</b>	<b>\$ 577,279</b>	<b>\$ 5,027,519</b>	<b>\$ 5,757,070</b>

**ALLENTOWN SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**  
**JUNE 30, 2016**

The increase in property taxes collected is primarily due to an increase in taxable assessed value as the millage rate remained the same as the previous year. Revenues received for operating grants, general grants and subsidies, and contributions increased from the previous year; these increases are driven by the growing costs to operate the District.

Expenses for instruction and administrative costs increased primarily due to the increases in wages and retirement costs as well as increased charter school costs.

The tables below present the expenses of both the governmental activities and the business-type activities of the District.

Table A-3 shows the District's largest functions – instructional programs, instructional student support, administrative and financial support services, operation of plant and maintenance services, pupil transportation, student activities, community services, and interest on long-term debt, as well as each program's net cost (total cost less revenues generated by the activities). This table shows the net costs offset by the charges for services, restricted operating grants and contributions, and restricted capital grants and contributions to show the remaining financial needs supported by local revenue and other miscellaneous revenues.

**Table A-3**  
**Fiscal Years Ended June 30, 2015 and 2016**  
**Net Cost of Governmental Activities**

	Total Cost of Services		% Change	Net Cost of Services		% Change
	2015	2016	2015-2016	2015	2016	2015-2016
Instruction	\$177,171,232	\$188,275,579	6.27%	\$127,629,488	\$135,107,625	5.86%
Instructional student support	17,832,987	18,967,986	6.36%	17,388,662	18,603,169	6.98%
Administrative and financial support services	20,020,206	21,677,255	8.28%	20,020,206	21,677,255	8.28%
Operation of plant and maintenance services	15,029,760	15,306,304	1.84%	13,537,512	15,306,304	13.07%
Pupil transportation	8,876,464	8,722,331	-1.74%	4,620,082	7,027,735	52.11%
Student activities	1,622,958	1,932,513	19.07%	1,380,112	1,738,366	15.18%
Community services	1,528,356	1,644,132	7.58%	1,528,356	1,644,132	7.58%
Interest on long-term debt	10,607,597	10,539,269	-0.64%	9,559,836	5,813,619	-39.19%
<b>Total</b>	<b>\$252,689,560</b>	<b>\$267,065,369</b>	<b>5.69%</b>	<b>\$195,664,254</b>	<b>\$206,918,205</b>	<b>5.68%</b>

**ALLENTOWN SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**  
**JUNE 30, 2016**

Table A-4 reflects the activities of the Food Service program, the only business-type activity of the District.

**Table A-4**  
**Fiscal Years Ended June 30, 2015 and 2016**  
**Net Cost of Business-type Activities**

Function/Program	Total Cost of Services		% Change	Net Cost (Revenue)		% Change
	2015	2016	2015-2016	from Services		2015-2016
				2015	2016	
Food service	\$ 8,119,673	\$ 8,363,766	3.01%	\$ (757,409)	\$ (2,310,538)	205.06%

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The District's budget is prepared in accordance with Pennsylvania law and is based on the modified accrual basis of accounting. The most significant budgeted fund is the General Fund.

During the fiscal year, the Board of School Directors may authorize revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the District.

The District frequently applies for and/or receives federal, state, and local grants during the fiscal year, which cannot always be anticipated during the preliminary budgeting process. Budget revenues may be increased accordingly as a result of these additionally approved grants. Conversely, budgeted expenditures also may be increased by the same amounts to offset these additional grant revenues. No budget revisions were made to the final 2015-2016 budget which affected total revenues or total expenses. However, budgeted amounts were transferred between budgeted expense categories during the year to better align those with actual expenditures being incurred. The budget did not change in total but only changed expenses by category line items of expense. All such transfers are approved by the School Board at the regular School Board meetings.

The budgetary reserve includes amounts that may be transferred into expenditure accounts for planned expenditures upon approval of the Board of School Directors. These amounts will be appropriated into expenditure categories only when the expenditure is necessary for the operation of the District. Any budget reserve amount not appropriated during the year will become part of the unassigned accumulated fund balance and available for future years' budgeting, assuming some restrictions.

For 2016, actual revenues were more than the budgeted amount by \$10,707,833. Actual expenditures were more than the budgeted amount by \$6,003,633. This amount would be less when including the budgetary reserve expense amount noted above. The statement comparing the District's General Fund budget and actual results can be found on page 22.

**ALLENTOWN SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**  
**JUNE 30, 2016**

**REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS**

***Governmental Funds***

The District's governmental funds reported a combined fund balance of \$38,351,529, which is below last year's total of \$42,048,387. The schedule below indicates the fund balances and the total change in fund balances as of and between June 30, 2015 and 2016.

	Fund Balance June 30, 2015	Fund Balance June 30, 2016	Increase (Decrease)
General fund	\$ 36,782,649	\$ 31,347,291	\$ (5,435,358)
Capital reserve fund	1,026,244	1,080,190	53,946
Capital projects fund	29,047	29,169	122
Debt service fund	3,985,110	5,578,212	1,593,102
Other governmental funds	225,337	316,667	91,330
<b>TOTAL</b>	<b>\$ 42,048,387</b>	<b>\$ 38,351,529</b>	<b>\$ (3,696,858)</b>

The District's General Fund balance decrease is due primarily to expenditures exceeding revenues by \$4,509,407 and a refund of prior year revenue of \$1,761,143; offset by positive net transfers in of \$835,192. The District's General Fund experienced an increase from state funding of \$9,390,412 and an increase from federal funding of \$2,118,049. Total General Fund revenues increased 4.49 percent from the previous year. General Fund expenditures increased by \$19,990,684, or 7.94 percent from the previous year. The increase in expenditures was due primarily to increases in wages, pensions, and charter school costs.

The Capital Reserve and Capital Projects Fund balances increased slightly.

The Debt Service Fund increased due to transfers of \$884,808 from the general fund for required sinking fund payments and investment earnings of \$708,294.

**Proprietary Fund**

The Food Service Fund had a net increase in net position of \$577,279. The Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund on page 24 will further detail the actual results of operations.



**ALLENTOWN SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**  
**JUNE 30, 2016**

**Capital Assets**

On June 30, 2016, the District had \$184,007,261 in governmental activities and \$196,300 in business-type activities invested in a broad range of capital assets, including land, buildings, furniture, and equipment. These amounts represent a net decrease (including construction-in-progress and depreciation) of \$3,185,343 in governmental activities and a net increase of \$70,970 in business-type activities from June 30, 2015.

**Table A-5**  
**Governmental Activities**  
**Capital Assets (Net of Depreciation)**

	Governmental Activities		Business-type Activities		Totals		% Change 2015-2016
	2015	2016	2015	2016	2015	2016	
Land	\$ 3,906,216	\$ 3,906,216	\$ -	\$ -	\$ 3,906,216	\$ 3,906,216	0.00%
Land improvements	1,574,474	1,506,597	-	-	1,574,474	1,506,597	-4.31%
Construction-in-progress	8,424	734,452	-	-	8,424	734,452	8618.57%
Buildings and building improvements	175,811,185	172,027,444	-	-	175,811,185	172,027,444	-2.15%
Furniture and equipment	5,892,305	5,832,552	125,330	196,300	6,017,635	6,028,852	0.19%
<b>Total</b>	<b>\$187,192,604</b>	<b>\$184,007,261</b>	<b>\$ 125,330</b>	<b>\$ 196,300</b>	<b>\$187,317,934</b>	<b>\$184,203,561</b>	<b>-1.66%</b>

**Debt Administration**

Bond and Note Obligations – As of June 30, 2015 and 2016, the District had outstanding bond and note obligations of \$191,459,932 and \$189,060,868, respectively.

Other obligations include accrued sick leave and experience payments for specific employees of the District, accrued other post-employment benefits for retiree healthcare, and the amount of the net pension liability discussed in Notes 7, 9, and 12 of the financial statements.

During the fiscal year, the District issued General Obligation Bonds, Series of 2016 in the amount of \$34,550,000. The proceeds of the Bonds were used to advance refund \$24,955,000 principal amount representing the remaining outstanding principal of the Series A of 2008 Bonds and advance refund \$9,850,000 principal amount representing a portion of the outstanding principal of the Series of 2009 Bonds. The District realized a total savings of \$1,598,222, with a net present value savings (economic gain) of \$1,525,736.

**ALLENTOWN SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)**  
**JUNE 30, 2016**

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

**Act 1 – Taxpayer Relief Act**

Act 1 of Special Session 2006 created the Taxpayer Relief Act that utilizes gaming dollars and a local shift to an earned or personal income tax to fund the plan. Act 1 facilitates a tax reduction and possibly a tax shift but does not directly provide additional revenue to the District to fund academic programs.

**Other Factors**

Factors that will affect the future finances of the District are the continuing escalation of employee health benefits, increases in PSERS pension contributions, loss of students to charter schools, collective bargaining agreements with the District's professional and support staffs, the potential impact of indexing and back-end referendums associated with tax reform legislation, and the declining support in funding from the federal government. Additionally, the District's property values are expected to increase due to major downtown and riverfront revitalization projects presently underway. This stability depends upon general economic conditions, including the unemployment rate of the District's taxpayers. Lehigh County's economy, like the economy of the entire country, continues to be challenged by the slow recovery and volatility. The cost of operations is anticipated to continue to rise, and it will be funded through property taxes, state and federal subsidies, and grants.

**CONTACTING THE DISTRICT FINANCIAL MANAGEMENT**

This financial report is designed to provide citizens, taxpayers, parents, students, investors, and creditors with a general overview of the District's finances and to show the School Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact the Business Office, Allentown School District, 31 South Penn Street, Allentown, Pennsylvania 18105.

The District also includes a separate legal entity in its report – the Allentown Public Library. Although legally separate, the Library is important because the District is financially accountable for it and, therefore, it has been included as an integral part of the primary government. The Library is a discretely presented component unit and is reported in a separate column in the entity-wide financial statements to emphasize that it is legally separate from the government. Complete financial statements for the Library may be obtained at the Library's administrative offices at 31 South Penn Street, Allentown, Pennsylvania.

**ALLENTOWN SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2016**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>				
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 40,456,421	\$ 5,701,970	\$ 46,158,391	\$ 701,295
Cash and cash equivalents with fiscal agent	1,756	-	1,756	-
Investments	-	-	-	999,985
Investments - restricted	-	-	-	79,426
Investments with fiscal agent	5,576,456	-	5,576,456	-
Taxes receivable	9,683,625	-	9,683,625	-
Due from other governments	18,917,957	1,641,649	20,559,606	-
Due from Allentown School District	-	-	-	229,162
Internal balances	6,229,255	(6,229,255)	-	-
Other receivables	-	-	-	120,780
Prepaid expense	51,746	-	51,746	-
Inventories	252,613	143,303	395,916	-
<b>Total Current Assets</b>	<b>81,169,829</b>	<b>1,257,667</b>	<b>82,427,496</b>	<b>2,130,648</b>
<b>Noncurrent Assets:</b>				
Prepaid insurance costs	141,750	-	141,750	-
<b>Capital assets:</b>				
Land	3,906,216	-	3,906,216	209,941
Construction-in-progress	734,452	-	734,452	-
Land improvements, net	1,506,597	-	1,506,597	8,058
Buildings and building improvements, net	172,027,444	-	172,027,444	1,298,371
Furniture and equipment, net	5,832,552	196,300	6,028,852	20,058
<b>Total Noncurrent Assets</b>	<b>184,149,011</b>	<b>196,300</b>	<b>184,345,311</b>	<b>1,536,428</b>
<b>TOTAL ASSETS</b>	<b>265,318,840</b>	<b>1,453,967</b>	<b>266,772,807</b>	<b>3,667,076</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred charges on bond refunding	9,398,785	-	9,398,785	-
Deferred outflow - interest rate SWAP	14,517,786	-	14,517,786	-
Deferred pension contributions	25,665,947	589,900	26,255,847	316,207
Deferred pension	604,909	13,915	618,824	7,460
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>50,187,427</b>	<b>603,815</b>	<b>50,791,242</b>	<b>323,667</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$315,506,287</b>	<b>\$ 2,057,782</b>	<b>\$317,564,049</b>	<b>\$ 3,990,743</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET DEFICIT</b>				
<b>LIABILITIES</b>				
<b>Current Liabilities:</b>				
Accounts payable	\$ 10,770,904	\$ -	\$ 10,770,904	\$ 50,280
Accrued salaries	7,625,980	-	7,625,980	-
Accrued interest	2,304,075	-	2,304,075	-
Accrued benefits and payroll deductions	13,757,322	-	13,757,322	127,893
Unearned revenues	465,285	2,120	467,385	-
Other current liabilities	-	325,637	325,637	-
Due to Allentown Public Library	229,162	-	229,162	-
Bonds payable, net	4,399,570	-	4,399,570	-
Notes payable	3,234,500	-	3,234,500	-
<b>Total Current Liabilities</b>	<b>42,786,778</b>	<b>327,757</b>	<b>43,114,535</b>	<b>178,153</b>
<b>Noncurrent Liabilities:</b>				
Bonds payable, net	84,545,298	-	84,545,298	-
Notes payable	96,881,500	-	96,881,500	-
Compensated absences	1,117,932	-	1,117,932	-
Other post-employment benefits obligation	6,334,115	-	6,334,115	-
Net pension liability	334,397,027	7,695,732	342,092,759	4,126,241
<b>Total Noncurrent Liabilities</b>	<b>523,275,872</b>	<b>7,695,732</b>	<b>530,971,604</b>	<b>4,126,241</b>
<b>TOTAL LIABILITIES</b>	<b>566,062,650</b>	<b>8,023,489</b>	<b>574,086,139</b>	<b>4,304,394</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Derivative instrument - interest rate SWAP	14,517,786	-	14,517,786	-
Deferred pension	22,724,049	523,500	23,247,549	280,743
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>37,241,835</b>	<b>523,500</b>	<b>37,765,335</b>	<b>280,743</b>
<b>NET POSITION (DEFICIT)</b>				
Net investment in capital assets	9,952,559	196,300	10,148,859	1,536,428
Restricted for library	-	-	-	79,426
Restricted for debt service	5,578,212	-	5,578,212	-
Unrestricted (Deficit)	(303,328,989)	(6,685,507)	(310,014,496)	(2,210,248)
<b>TOTAL NET DEFICIT</b>	<b>(287,798,218)</b>	<b>(6,489,207)</b>	<b>(294,287,425)</b>	<b>(594,394)</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET DEFICIT</b>	<b>\$315,506,287</b>	<b>\$ 2,057,782</b>	<b>\$317,564,049</b>	<b>\$ 3,990,743</b>

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

**ALLENTOWN SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Deficit			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals	
<b>PRIMARY GOVERNMENT</b>								
<b>GOVERNMENTAL ACTIVITIES:</b>								
Instruction	\$ 188,275,579	\$ 34,938	\$ 53,133,016	\$ -	\$ (135,107,625)	\$ -	\$ (135,107,625)	\$ -
Instructional student support	18,967,986	-	364,817	-	(18,603,169)	-	(18,603,169)	-
Administrative and financial support services	21,677,255	-	-	-	(21,677,255)	-	(21,677,255)	-
Operation and maintenance of plant services	15,306,304	-	-	-	(15,306,304)	-	(15,306,304)	-
Pupil transportation	8,722,331	-	1,694,596	-	(7,027,735)	-	(7,027,735)	-
Student activities	1,932,513	190,246	3,901	-	(1,738,366)	-	(1,738,366)	-
Community services	1,644,132	-	-	-	(1,644,132)	-	(1,644,132)	-
Interest on long-term debt	10,539,269	-	4,725,650	-	(5,813,619)	-	(5,813,619)	-
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>267,065,369</b>	<b>225,184</b>	<b>59,921,980</b>	<b>-</b>	<b>(206,918,205)</b>	<b>-</b>	<b>(206,918,205)</b>	<b>-</b>
<b>BUSINESS-TYPE ACTIVITIES:</b>								
Food service	8,363,766	274,016	10,400,288	-	-	2,310,538	2,310,538	-
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>275,429,135</b>	<b>499,200</b>	<b>70,322,268</b>	<b>-</b>	<b>(206,918,205)</b>	<b>2,310,538</b>	<b>(204,607,667)</b>	<b>-</b>
<b>COMPONENT UNIT</b>	<b>2,856,767</b>	<b>115,287</b>	<b>1,044,399</b>	<b>16,969</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,680,112)</b>
<b>TOTAL PRIMARY GOVERNMENT AND COMPONENT UNIT</b>	<b>\$ 278,285,902</b>	<b>\$ 614,487</b>	<b>\$ 71,366,667</b>	<b>\$ 16,969</b>	<b>(206,918,205)</b>	<b>2,310,538</b>	<b>(204,607,667)</b>	<b>(1,680,112)</b>
<b>GENERAL REVENUES</b>								
Property taxes, levied for general purposes					85,910,089	-	85,910,089	1,503,855
Taxes levied for specific purposes					10,411,802	-	10,411,802	-
Grants, entitlements, and contributions not restricted to specific programs					112,287,301	-	112,287,301	-
Investment earnings					1,239,156	16,741	1,255,897	27,892
Transfers					1,750,000	(1,750,000)	-	-
Other					499,648	-	499,648	-
<b>TOTAL GENERAL REVENUES</b>					<b>212,097,996</b>	<b>(1,733,259)</b>	<b>210,364,737</b>	<b>1,531,747</b>
<b>CHANGE IN NET DEFICIT</b>					<b>5,179,791</b>	<b>577,279</b>	<b>5,757,070</b>	<b>(148,365)</b>
<b>NET DEFICIT, BEGINNING OF YEAR</b>					<b>(292,978,009)</b>	<b>(7,066,486)</b>	<b>(300,044,495)</b>	<b>(446,029)</b>
<b>NET DEFICIT, END OF YEAR</b>					<b>\$ (287,798,218)</b>	<b>\$ (6,489,207)</b>	<b>\$ (294,287,425)</b>	<b>\$ (594,394)</b>

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

**ALLENTOWN SCHOOL DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2016**

	General Fund	Capital Reserve Fund	Capital Projects Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
<b>ASSETS:</b>						
Cash and cash equivalents	\$ 38,967,772	\$ 1,080,190	\$ 78,769	\$ -	\$ 329,690	\$ 40,456,421
Cash and cash equivalents with fiscal agent	-	-	-	1,756	-	1,756
Investments with fiscal agent	-	-	-	5,576,456	-	5,576,456
Taxes receivable	9,683,625	-	-	-	-	9,683,625
Due from other funds	6,304,995	-	-	-	-	6,304,995
Due from other governments	18,631,915	-	-	-	-	18,631,915
Prepaid expenditure	51,746	-	-	-	-	51,746
Inventory	239,496	-	-	-	13,117	252,613
<b>TOTAL ASSETS</b>	<b><u>\$ 73,879,549</u></b>	<b><u>\$ 1,080,190</u></b>	<b><u>\$ 78,769</u></b>	<b><u>\$ 5,578,212</u></b>	<b><u>\$ 342,807</u></b>	<b><u>\$ 80,959,527</u></b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>						
<b>LIABILITIES:</b>						
Due to other funds	\$ -	\$ -	\$ 49,600	\$ -	\$ 26,140	\$ 75,740
Accounts payable	10,770,904	-	-	-	-	10,770,904
Accrued salaries	7,625,980	-	-	-	-	7,625,980
Accrued benefits and payroll deductions	13,757,322	-	-	-	-	13,757,322
Unearned revenues	465,265	-	-	-	-	465,265
Due to Allentown Public Library	229,162	-	-	-	-	229,162
<b>TOTAL LIABILITIES</b>	<b><u>32,848,633</u></b>	<b><u>-</u></b>	<b><u>49,600</u></b>	<b><u>-</u></b>	<b><u>26,140</u></b>	<b><u>32,924,373</u></b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>						
Unavailable revenues - property taxes	9,683,625	-	-	-	-	9,683,625
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b><u>9,683,625</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>9,683,625</u></b>
<b>FUND BALANCES:</b>						
Nonspendable	291,242	-	-	-	13,117	304,359
Restricted	-	-	29,169	5,578,212	-	5,607,381
Committed	4,400,000	-	-	-	-	4,400,000
Assigned	15,165,332	1,080,190	-	-	303,550	16,549,072
Unassigned	11,490,717	-	-	-	-	11,490,717
<b>TOTAL FUND BALANCES</b>	<b><u>31,347,291</u></b>	<b><u>1,080,190</u></b>	<b><u>29,169</u></b>	<b><u>5,578,212</u></b>	<b><u>316,667</u></b>	<b><u>38,351,529</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b><u>\$ 73,879,549</u></b>	<b><u>\$ 1,080,190</u></b>	<b><u>\$ 78,769</u></b>	<b><u>\$ 5,578,212</u></b>	<b><u>\$ 342,807</u></b>	<b><u>\$ 80,959,527</u></b>

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

**ALLENTOWN SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	General Fund	Capital Reserve Fund	Capital Projects Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
<b>REVENUES</b>						
Local sources	\$ 93,460,294	\$ 53,946	\$ 122	\$ 708,294	\$ 118,058	\$ 94,340,714
State sources	153,735,977	-	-	-	3,901	153,739,878
Federal sources	20,183,222	-	-	-	-	20,183,222
<b>TOTAL REVENUES</b>	<u>267,379,493</u>	<u>53,946</u>	<u>122</u>	<u>708,294</u>	<u>121,959</u>	<u>268,263,814</u>
<b>EXPENDITURES</b>						
Current:						
Instruction	186,203,630	-	-	-	-	186,203,630
Support services	65,938,988	-	-	-	-	65,938,988
Operation of noninstructional services	3,475,309	-	-	-	60,629	3,535,938
Debt service:						
Principal, interest, and fiscal agent fees	16,270,973	-	440,155	-	-	16,711,128
<b>TOTAL EXPENDITURES</b>	<u>271,888,900</u>	<u>-</u>	<u>440,155</u>	<u>-</u>	<u>60,629</u>	<u>272,389,684</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(4,509,407)</u>	<u>53,946</u>	<u>(440,033)</u>	<u>708,294</u>	<u>61,330</u>	<u>(4,125,870)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Refund of prior year revenues	(1,761,143)	-	-	-	-	(1,761,143)
Refunding bonds issued	-	-	34,550,000	-	-	34,550,000
Premium on refunding bonds issued	-	-	3,820,757	-	-	3,820,757
Payment to refunded bond escrow agent	-	-	(37,930,602)	-	-	(37,930,602)
Transfers in	1,750,000	-	-	884,808	30,000	2,664,808
Transfers out	(914,808)	-	-	-	-	(914,808)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(925,951)</u>	<u>-</u>	<u>440,155</u>	<u>884,808</u>	<u>30,000</u>	<u>429,012</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(5,435,358)</u>	<u>53,946</u>	<u>122</u>	<u>1,593,102</u>	<u>91,330</u>	<u>(3,696,858)</u>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>36,782,649</u>	<u>1,026,244</u>	<u>29,047</u>	<u>3,985,110</u>	<u>225,337</u>	<u>42,048,387</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 31,347,291</u>	<u>\$ 1,080,190</u>	<u>\$ 29,169</u>	<u>\$ 5,578,212</u>	<u>\$ 316,667</u>	<u>\$ 38,351,529</u>

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

**ALLENTOWN SCHOOL DISTRICT  
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (3,696,858)

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is capitalized and allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense of \$5,449,170 exceeded net capital outlays of \$2,263,827 in the period. (3,185,343)

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. Unavailable tax revenues increased by this amount this year. 3,992,793

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt. 6,084,931

Governmental funds report bond discounts and deferred amounts on bond refunding as other financing uses and bond premiums as other financing sources. However, these amounts are reported on the statement of net position as deferred charges and are amortized over the life of the debt. (911,105)

In the statement of activities, certain operating expenses—compensated absences (vacations and sick leave) and the other post-employment benefits obligation—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 (essentially, the amounts actually paid). This is the amount by which current period amounts earned exceeded current period compensated absences paid.

Compensated absences	\$ 411,900	
Other post-employment benefits obligation	<u>(179,787)</u>	232,113

Debt service subsidy reimbursements in the statement of activities differs from the amount reported in the governmental funds because debt service related payments are recognized as expenditures in the funds when they are due; therefore, the related subsidy reimbursement is recognized as the debt payment is accrued, regardless of when it is due. (305)

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, however, interest expense is recognized as the interest accrues, regardless of when it is due. 206,363

Pension expenses in the statement of activities differ from the amount reported in the governmental funds because pension expenses are recognized on the statement of activities based on the District's proportionate share of the expenses of the cost-sharing pension plan, whereas pension expenditures are recognized in the governmental funds when a requirement to remit contributions to the plan exists. 2,457,202

CHANGE IN NET DEFICIT OF GOVERNMENTAL ACTIVITIES \$ 5,179,791

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

**ALLENTOWN SCHOOL DISTRICT  
BUDGETARY COMPARISON STATEMENT - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Local sources	\$ 93,242,120	\$ 93,242,120	\$ 93,460,294	\$ 218,174
State sources	148,183,926	148,183,926	153,735,977	5,552,051
Federal sources	15,245,614	15,245,614	20,183,222	4,937,608
<b>TOTAL REVENUES</b>	<u>256,671,660</u>	<u>256,671,660</u>	<u>267,379,493</u>	<u>10,707,833</u>
<b>EXPENDITURES</b>				
Current:				
Instruction				
Regular programs, elementary/secondary	118,769,676	118,848,648	128,184,581	(9,335,933)
Special programs, elementary/secondary	37,382,630	37,825,185	43,578,495	(5,753,310)
Vocational education programs	9,750,522	9,749,838	9,689,793	60,045
Other instructional programs	7,909,309	7,909,309	3,064,356	4,844,953
Nonpublic school programs	86,897	86,897	177,424	(90,527)
Community/junior college programs	1,508,981	1,508,981	1,508,981	-
Total Instruction	<u>175,408,015</u>	<u>175,928,858</u>	<u>186,203,630</u>	<u>(10,274,772)</u>
Support Services				
Pupil personnel	9,136,824	9,132,480	10,384,149	(1,251,669)
Instructional staff	8,707,947	8,668,072	3,701,289	4,966,783
Administration	14,026,046	14,002,826	14,553,752	(550,926)
Pupil health	2,802,218	2,802,218	4,672,906	(1,870,688)
Business	2,116,629	2,116,629	1,715,787	400,842
Operation and maintenance of plant services	17,885,927	17,408,034	17,319,824	88,210
Student transportation services	9,686,757	9,686,757	8,722,331	964,426
Central	5,236,294	5,262,294	4,751,737	510,557
Other support services	125,000	125,000	117,213	7,787
Total Support Services	<u>69,723,642</u>	<u>69,204,310</u>	<u>65,938,988</u>	<u>3,265,322</u>
Operation of Noninstructional Services				
Student activities	1,664,408	1,662,777	1,831,177	(168,400)
Community services	2,119,373	2,119,493	1,644,132	475,361
Total Operation of Noninstructional Services	<u>3,783,781</u>	<u>3,782,270</u>	<u>3,475,309</u>	<u>306,961</u>
Debt Service				
Principal, interest, and fiscal agent fees	16,969,829	16,969,829	16,270,973	698,856
<b>TOTAL EXPENDITURES</b>	<u>265,885,267</u>	<u>265,885,267</u>	<u>271,888,900</u>	<u>(6,003,633)</u>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>	<u>(9,213,607)</u>	<u>(9,213,607)</u>	<u>(4,509,407)</u>	<u>4,704,200</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Budgetary reserve	(1,500,000)	(1,500,000)	-	1,500,000
Refund of prior year revenues	-	-	(1,761,143)	(1,761,143)
Transfers in	1,750,000	1,750,000	1,750,000	-
Transfers out	(30,000)	(30,000)	(914,808)	(884,808)
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>220,000</u>	<u>220,000</u>	<u>(925,951)</u>	<u>(1,145,951)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>(8,993,607)</u>	<u>(8,993,607)</u>	<u>(5,435,358)</u>	<u>3,558,249</u>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>36,782,649</u>	<u>36,782,649</u>	<u>36,782,649</u>	<u>-</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 27,789,042</u>	<u>\$ 27,789,042</u>	<u>\$ 31,347,291</u>	<u>\$ 3,558,249</u>

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



**ALLENTOWN SCHOOL DISTRICT  
STATEMENT OF NET POSITION - PROPRIETARY FUND  
JUNE 30, 2016**

	<u>Food Service Fund</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 5,701,970
Due from other governments	1,641,649
Inventories	143,303
<b>TOTAL CURRENT ASSETS</b>	<u>7,486,922</u>
<b>CAPITAL ASSETS:</b>	
Furniture and equipment, net	<u>196,300</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>	
Deferred pension contributions	589,900
Deferred pension	13,915
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>603,815</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u><u>\$ 8,287,037</u></u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET DEFICIT</b>	
<b>CURRENT LIABILITIES:</b>	
Unearned revenues	\$ 2,120
Due to other funds	6,229,255
Other current liabilities	325,637
<b>TOTAL CURRENT LIABILITIES</b>	<u>6,557,012</u>
<b>NONCURRENT LIABILITIES:</b>	
Net pension liability	<u>7,695,732</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>	
Deferred pension	<u>523,500</u>
<b>NET POSITION (DEFICIT):</b>	
Net investment in capital assets	196,300
Unrestricted (deficit)	<u>(6,685,507)</u>
<b>TOTAL NET DEFICIT</b>	<u>(6,489,207)</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET DEFICIT</b>	<u><u>\$ 8,287,037</u></u>

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

**ALLENTOWN SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN NET POSITION - PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Food Service Fund</u>
<b>OPERATING REVENUES</b>	
Food service revenues	\$ 257,562
Other operating revenue	16,454
<b>TOTAL OPERATING REVENUES</b>	<u>274,016</u>
 <b>OPERATING EXPENSES</b>	
Salaries and wages	2,360,189
Employee benefits	1,309,862
Purchased professional and technical services	2,162
Purchased property services	67,326
Other purchased services	5,231
Supplies	4,597,343
Depreciation	21,653
<b>TOTAL OPERATING EXPENSES</b>	<u>8,363,766</u>
 <b>OPERATING LOSS</b>	<u>(8,089,750)</u>
 <b>NONOPERATING REVENUES</b>	
State sources	830,037
Federal sources	9,570,251
Interest income	16,741
<b>TOTAL NONOPERATING REVENUES</b>	<u>10,417,029</u>
 <b>INCOME BEFORE TRANSFERS</b>	2,327,279
 Transfers out	<u>(1,750,000)</u>
 <b>CHANGE IN NET DEFICIT</b>	577,279
 <b>NET DEFICIT, BEGINNING OF YEAR</b>	<u>(7,066,486)</u>
 <b>NET DEFICIT, END OF YEAR</b>	<u>\$ (6,489,207)</u>

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

**ALLENTOWN SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS - PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Food Service Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Receipts from customers	\$ 248,550
Payments to suppliers	(3,143,319)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<u>(2,894,769)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
State sources	819,607
Federal sources	8,637,749
Transfers out	(1,750,000)
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>7,707,356</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Acquisition of capital assets	(92,623)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(92,623)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest income	16,741
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>16,741</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	4,736,705
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>965,265</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 5,701,970</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</b>	
Operating loss	\$ (8,089,750)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	21,653
USDA donated commodities	685,311
Changes in assets and liabilities:	
Increase in inventories	(25,466)
Increase in deferred pension contributions	(120,949)
Increase in deferred pension	(5,673)
Increase in due to other funds	4,623,446
Decrease in other liabilities	(54,135)
Increase in net pension liability	428,083
Decrease in deferred pension	(357,289)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<u>\$ (2,894,769)</u>
<b><u>SUPPLEMENTAL DISCLOSURE</u></b>	
<b>NONCASH NONCAPITAL FINANCING ACTIVITY:</b>	
USDA donated commodities	<u>\$ 685,311</u>

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

**ALLENTOWN SCHOOL DISTRICT  
STATEMENT OF NET POSITION - FIDUCIARY FUNDS  
JUNE 30, 2016**

	<u>Student Activity Funds</u>	<u>IRC Section 125 Fund</u>	<u>Total Agency Funds</u>	<u>Private- Purpose Trust</u>
<b>ASSETS</b>				
Cash and cash equivalents	<u>\$ 287,242</u>	<u>\$ 204,508</u>	<u>\$ 491,750</u>	<u>\$ 157,176</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 287,242</u></u>	<u><u>\$ 204,508</u></u>	<u><u>\$ 491,750</u></u>	<u><u>\$ 157,176</u></u>
<b>LIABILITIES AND NET POSITION</b>				
<b>LIABILITIES:</b>				
Other current liabilities	<u>\$ 287,242</u>	<u>\$ 204,508</u>	<u>\$ 491,750</u>	<u>\$ -</u>
<b>TOTAL LIABILITIES</b>	<u><u>287,242</u></u>	<u><u>204,508</u></u>	<u><u>491,750</u></u>	<u><u>-</u></u>
<b>NET POSITION:</b>				
Restricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>157,176</u>
<b>TOTAL NET POSITION</b>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>157,176</u></u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 287,242</u></u>	<u><u>\$ 204,508</u></u>	<u><u>\$ 491,750</u></u>	<u><u>\$ 157,176</u></u>

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

**ALLENTOWN SCHOOL DISTRICT  
STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUND  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Private- Purpose Trust</u>
<b>ADDITIONS</b>	
Local sources	<u>\$ 28,846</u>
<b>TOTAL ADDITIONS</b>	<u>28,846</u>
<b>DEDUCTIONS</b>	
Expenses	<u>-</u>
<b>TOTAL DEDUCTIONS</b>	<u>-</u>
<b>CHANGE IN NET POSITION</b>	28,846
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>128,330</u>
<b>NET POSITION, END OF YEAR</b>	<u><u>\$ 157,176</u></u>

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

ALLENTOWN SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE 1     SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Allentown School District ("the District") was incorporated in 1866 under the provisions of the Commonwealth of Pennsylvania. The District operates 15 elementary schools, four middle schools, and two senior high schools to provide education and related services to the residents of the City of Allentown. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania as a school district of the second class. The District operates under a locally elected nine-member Board form of government.

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 authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles.

Reporting Entity

GASB Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statements No. 39 and No. 61, established the criteria for determining the activities, organizations, and functions of government to be included in the financial statements of the reporting entity. In evaluating the District as a reporting entity, management has addressed all potential component units which may or may not fall within the District's financial accountability. The criteria used to evaluate component units for possible inclusion as part of the District's reporting entity are financial accountability and the nature and significance of the relationship. Based on these criteria, the District has determined that the Allentown Public Library ("the Library") is a component unit of the District.

The District appoints the Library board for terms of three years and reviews the Library budget. The Library also receives a majority of its revenues from an appropriation of real estate taxes levied by the District.

The Library is a discretely presented component unit and is reported in a separate column in the entity-wide financial statements to emphasize that it is legally separate from the government. Complete financial statements for the Library may be obtained at the Library's administrative offices at 31 South Penn Street, Allentown, Pennsylvania.

Basis of Presentation

*Entity-wide Financial Statements*

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

ALLENTOWN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The entity-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting as further defined under proprietary funds below. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the entity-wide statements and the statements of governmental funds.

The entity-wide statement of activities presents a comparison between expenses and program revenues for each function of the business-type activities of the District and for each governmental program. Expenses are those that are associated specifically with a service or program and are, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the District.

Except for interfund activity and balances between the funds that underlie governmental activities and the funds that underlie business-type activities, which are reported as transfers and internal balances, the effect of interfund activity has been removed from these statements.

*Fund Financial Statements*

During the school year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Fiduciary fund financial statements are presented by fund type.

*Governmental Funds*

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. The District reports the following major governmental funds:

- The **General Fund** is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

ALLENTOWN SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

- The **Capital Projects Fund** is used to account for the proceeds of general obligation notes and bonds and for the acquisition, construction, and renovation of major capital facilities and their related capital assets as described in the note agreements.
- The **Capital Reserve Fund** is used to account for funds set aside for intended capital expenditure projects.
- The **Debt Service Fund** is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

**Revenue Recognition**

In applying the "susceptible to accrual concept" under the modified accrual basis, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers tax revenue to be available if collected within 60 days of the end of the fiscal period. During the year ended June 30, 2016, the District recognized certain revenues from the Commonwealth of Pennsylvania, which were received more than 60 days after year end but are usually received within 60 days of year end. The District determined that their exclusion would be misleading to the financial statements. Revenue from federal, state, and other grants designated for payment of specific District expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as unearned revenues until earned.

Other revenues, including certain other charges for services and miscellaneous revenues, are recorded as revenue when received in cash because they generally are not measurable until actually received.

**Expenditure Recognition**

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt which has not matured are recognized when paid. Liabilities for compensated absences and special termination benefits are recognized as fund liabilities to the extent they mature each period. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

***Proprietary Funds***

The District's only major proprietary fund is the Food Service Fund and is used to account for all financial transactions related to the food service operation. Proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are financed



ALLENTOWN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

primarily by user charges. The economic resources measurement focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Allocations of certain costs, such as depreciation, are recorded in proprietary funds. The District allocates "building-wide costs" to the proprietary fund. Specifically, general fund expenditures that partially benefit the proprietary fund (utilities, janitorial services, insurance, etc.) are recognized proportionately within the proprietary fund.

These funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the District's proprietary fund are food service charges. Operating expenses for the District's proprietary fund include food production costs, supplies, and administrative costs. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

***Fiduciary Funds***

Fiduciary funds account for the assets held by the District as a trustee or agent for individuals, private organizations, and/or governmental units and are, therefore, not available to support the District's own programs. The District accounts for these assets in a private-purpose trust and agency funds. The private purpose and agency funds account for funds held on behalf of students and employees of the District. The measurement focus and basis of accounting for the private-purpose trust is the same as for proprietary funds, while the agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

**Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

**Investments**

Investments are reported at fair value.

In establishing the fair value of investments, the District uses the following hierarchy. The lowest available level of valuation available is used for all investments.

*Level 1* – Valuations based on quoted market prices in active markets for identical assets or liabilities that the entity has the ability to access.

ALLENTOWN SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

*Level 2* – Valuations based on quoted prices of similar products in active markets or identical products in markets that are not active or for which all significant inputs are observable, directly or indirectly.

*Level 3* – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Receivables and Payables

State subsidies represent current year entitlements and are recognized as revenue in the current fiscal year even though funds may be received in the following year. Federal program funds applicable to expenditures of the current fiscal year but expected to be received in the next fiscal year are accrued as current year revenues.

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either due to/from other funds (i.e., the current portion of interfund loans) or advances to/from other funds (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the entity-wide financial statements as internal balances.

The District experiences very small losses from uncollectible property taxes. Property taxes constitute a lien against real property and usually can be collected in full when title transfers. Only balances that remain after tax sales are written off each year. Accordingly, an allowance for doubtful accounts has not been established by the District for property taxes receivable.

Property Taxes

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

July 1 - September 5	-	Discount period, 2% of gross levy
September 6 - November 5	-	Face period
November 6 - December 31	-	Penalty period, 10% of gross levy
January 1	-	Lien date

Assessed valuations of property are determined by the Lehigh County Board of Assessments. The tax on real estate for public school purposes for fiscal year 2015-2016 was 18.3287 mills (\$18.33 for \$1,000 of assessed valuation).

Prepaid Items and Inventories

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

ALLENTOWN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The District's general fund inventory, except stock supplies, is expensed under the purchase method, and all other general fund inventory is charged to inventory when purchased and expensed when used under the consumption method. Supplies are taken out of inventory using the weighted average cost method. The District's food service fund inventory of food and supplies, except inventory donated by the USDA, is valued at last unit cost and expensed as used. Donated food from the U.S. Department of Agriculture is recorded at fair market value at the time of donation.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the entity-wide and proprietary fund financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$6,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed, inclusive of ancillary costs.

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

Land improvements	20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	8 years

Compensated Absences

Employees are compensated for longevity payments, and sick and vacation days as stipulated in their collective bargaining agreements. The liability for these compensated absences is recorded as a long-term liability in the entity-wide financial statements. In the fund financial statements, governmental funds report the compensated absence liability only to the extent that it is payable from expendable available financial resources.

Long-term Obligations

In the entity-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are netted against outstanding principal balances and amortized over the life of the bonds.

ALLENTOWN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Deferred amounts on refunding are recorded as a deferred inflow or outflow of resources and amortized over the life of the old debt or the life of the new debt, whichever is shorter. Prepaid bond insurance costs are reported as a deferred charge and amortized over the life of the debt. All other issuance costs are expensed when incurred. All amortized amounts are amortized using the straight-line method.

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. Premiums received and discounts paid on debt issuances are reported as other financing sources and uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures, except for refundings paid from proceeds, which are reported as other financing uses.

Net Position

Net position represents the difference between assets and deferred outflows of resources versus liabilities and deferred inflows of resources. Net investment in capital assets consists 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. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and then unrestricted resources as they are needed.

Fund Balances

Fund balances of the governmental funds are classified, if applicable, as follows:

*Nonspendable* – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

*Restricted* – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation, or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

*Committed* – amounts that can be used only for specific purposes determined by formal action of the Board of School Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions approved by the Board of School Directors.

*Assigned* – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Chief Financial Officer may assign amounts for specific purposes.

ALLENTOWN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

*Unassigned* – all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds and, finally, unassigned funds, as needed, unless the Board or Chief Financial Officer have provided otherwise in its commitment or assignment actions.

Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statement of net position and balance sheet - governmental funds will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has four items that qualify for reporting in this category. The first is the deferred charge on bond refunding reported in the statement of net position. A deferred charge on bond refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item is the deferred outflow - interest rate SWAP which meets the requirements of hedge accounting under GASB Statement No. 53. The change in the fair value of the hedge is recognized as a deferral in the statement of net position instead of in the statement of activities. The third item is pension contributions made subsequent to the measurement date and, therefore, not reflected in the net pension liability under full accrual basis reporting. This item is reported as a deferred outflow of resources on the entity-wide and proprietary fund statement of net position. The fourth item is the unamortized portion of contributions made in excess of the District's share of the proportionate contributions into its pension plan.

In addition to liabilities, the statement of net position and balance sheet - governmental funds will sometimes report separate sections for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District currently has three types of items that qualify for reporting in this category. Delinquent taxes not collected within 60 days of year end and, therefore, not available under modified accrual reporting are reflected as deferred inflows of resources on the general fund balance sheet. The deferred inflow of resources - derivative instrument interest rate SWAP represents changes in the fair value of derivative instruments that are applicable to future reporting periods when additional events occur and are reported in the statement of net position. Certain changes to the net pension liability are required to be amortized over a period of years; the unamortized portions of these changes are reflected as deferred inflows of resources on the statement of net position.

ALLENTOWN SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE 1     SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Implementation of GASB Statement

During the year ended June 30, 2016, the District implemented GASB Statement No. 72, "Fair Value Measurement and Application." GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes and applying fair value to certain investments, as well as improving disclosures related to all fair value measurements. The effects of this statement have been included in the District's financial statement footnotes.

Use of Estimates in the Preparation of Financial Statements

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.

NOTE 2     STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

An annual 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, although project-length financial plans are adopted for all capital projects funds.

The District is required to publish notice by advertisement at least once in two newspapers of general circulation in the municipalities in which it is located and within 20 days of final action that the proposed budget has been prepared and is available for public inspection at the administrative offices of the District. Notice that public hearings will be held on the proposed operating budget must be included in the advertisement; such hearings are required to be scheduled at least 10 days prior to the date final action on adoption is taken by the Board.

Legal budgetary control is maintained at the sub-function/major object level. The Board may make transfers of funds appropriated to any particular item of expenditure by legislative action in accordance with the Pennsylvania School Code. 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.

NOTE 3     DEPOSITS

Statutes authorize the District to invest in U.S. Treasury bills, time or share accounts of institutions insured by the Federal Deposit Insurance Corporation, or in certificates of deposit when they are secured by proper bond or collateral, repurchase agreements, State Treasurer's investment pools,

ALLENTOWN SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE 3 DEPOSITS (cont'd)

or mutual funds. During the year ended June 30, 2016, the Pennsylvania Legislature passed Act 10 of 2016, which expanded allowable investments to include commercial paper, bankers' acceptances, and negotiable certificates of deposit that are highly rated by at least two national rating agencies.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. The District does not have a policy for custodial credit risk. At June 30, 2016, the carrying amount of the District's deposits was \$46,809,073, and the bank balance was \$49,072,632. Of the bank balance, \$307,389 was covered by federal depository insurance, and \$35,533,549 was exposed to custodial credit risk because, in accordance with Act 72 of the Commonwealth of Pennsylvania, it was uninsured and the collateral held by the depository's agent was not in the District's name.

The District also had cash deposits in the amount of \$13,231,694 in the Pennsylvania Local Government Investment Trust ("PLGIT"). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PLGIT acts like a money market mutual fund in that its objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized statistical rating organization, and is subject to an independent annual audit. As of June 30, 2016, PLGIT was rated as AAAM by a nationally recognized statistical rating agency.

Discretely Presented Component Unit

At June 30, 2016, the carrying amount of the Library's deposits was \$701,295, and the bank balance was \$794,475. Of the bank balance, \$250,000 was covered by federal depository insurance, and the remaining \$544,475 was exposed to custodial credit risk because, in accordance with Act 72 of the Commonwealth of Pennsylvania, it was uninsured and the collateral held by the depository's agent was not in the Library's name.

NOTE 4 INVESTMENTS

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The District has the following recurring fair value measurements as of June 30, 2016:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Matures in Greater Than Five Years</u>
U.S. Treasury bonds and notes	\$ 5,576,456	\$ 5,576,456	\$ 5,576,456

ALLENTOWN SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE 4 INVESTMENTS (cont'd)

Credit Risk

As of June 30, 2016, the District's investments in U.S. Treasury bonds and notes are backed by the full faith and credit of the U.S. government and are not considered to have credit risk.

Interest Rate Risk

As of June 30, 2016, all of the District's investments in U.S. Treasury notes have maturities of 10 to 15 years. The District does not have a policy for interest rate risk.

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. As of June 30, 2016, the District did not have any investments subject to custodial credit risk.

Discretely Presented Component Unit

The Library categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Library has the following recurring fair value measurements as of June 30, 2016:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Matures In Less Than One Year</u>
Equity mutual funds	\$ 609,349	\$ 609,349	\$ 609,349
Bond mutual funds	233,129	233,129	233,129
Domestic equities	121,445	121,445	121,445
Money market mutual fund	115,488	115,488	115,488
<b>TOTAL</b>	<b><u>\$ 1,079,411</u></b>	<b><u>\$ 1,079,411</u></b>	<b><u>\$ 1,079,411</u></b>

Investments in external investment pools, such as those in mutual funds, are disclosed but not subject to interest rate, custodial, credit, or concentration risks because they are not evidenced by securities that exist in physical or book entry form.



ALLENTOWN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 3,906,216	\$ -	\$ -	\$ 3,906,216
Construction-in-progress	8,424	734,452	8,424	734,452
Total Capital Assets Not Being Depreciated	3,914,640	734,452	8,424	4,640,668
Capital assets being depreciated:				
Land improvements	3,412,940	56,902	-	3,469,842
Buildings and improvements	236,518,168	817,931	-	237,336,099
Furniture and equipment	25,439,351	662,966	-	26,102,317
Total Capital Assets Being Depreciated	265,370,459	1,537,799	-	266,908,258
Less accumulated depreciation for:				
Land improvements	1,838,466	124,779	-	1,963,245
Buildings and improvements	60,706,983	4,601,672	-	65,308,655
Furniture and equipment	19,547,046	722,719	-	20,269,765
Total Accumulated Depreciation	82,092,495	5,449,170	-	87,541,665
Total Capital Assets Being Depreciated, Net	183,277,964	(3,911,371)	-	179,366,593
<b>Governmental Activities, Net</b>	<b>\$187,192,604</b>	<b>\$ (3,176,919)</b>	<b>\$ (8,424)</b>	<b>\$184,007,261</b>
<b>Business-type Activities</b>				
Capital assets being depreciated:				
Furniture and equipment	\$ 1,781,847	\$ 92,623	\$ -	\$ 1,874,470
Total Capital Assets Being Depreciated	1,781,847	92,623	-	1,874,470
Less accumulated depreciation for:				
Furniture and equipment	1,656,517	21,653	-	1,678,170
Total Accumulated Depreciation	1,656,517	21,653	-	1,678,170
<b>Business-type Activities, Net</b>	<b>\$ 125,330</b>	<b>\$ 70,970</b>	<b>\$ -</b>	<b>\$ 196,300</b>

ALLENTOWN SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE 5 CAPITAL ASSETS (cont'd)

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

Governmental Activities:

Instruction	\$ 4,138,039
Instructional student support	417,172
Administrative and financial support services	468,054
Operation and maintenance of plant services	385,180
Student activities	<u>40,725</u>
 Total Depreciation Expense - Governmental Activities	 <u>\$ 5,449,170</u>

Business-type Activities - Food Service	<u>\$ 21,653</u>
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Discretely Presented Component Unit

Activity for Allentown Public Library for the year ended June 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 209,941	\$ -	\$ -	\$ 209,941
Total Capital Assets Not Being Depreciated	<u>209,941</u>	<u>-</u>	<u>-</u>	<u>209,941</u>
Capital assets being depreciated:				
Land improvements	59,082	8,790	-	67,872
Buildings and improvements	3,895,201	9,950	-	3,905,151
Furniture and equipment	386,314	16,969	-	403,283
Total Capital Assets Being Depreciated	<u>4,340,597</u>	<u>35,709</u>	<u>-</u>	<u>4,376,306</u>
Less accumulated depreciation for:				
Land Improvements	59,082	732	-	59,814
Buildings and improvements	2,528,636	78,144	-	2,606,780
Furniture and equipment	381,814	1,411	-	383,225
Total Accumulated Depreciation	<u>2,969,532</u>	<u>80,287</u>	<u>-</u>	<u>3,049,819</u>
Total Capital Assets Being Depreciated, Net	<u>1,371,065</u>	<u>(44,578)</u>	<u>-</u>	<u>1,326,487</u>
Total Capital Assets, Net	<u>\$ 1,581,006</u>	<u>\$ (44,578)</u>	<u>\$ -</u>	<u>\$ 1,536,428</u>

ALLENTOWN SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

**NOTE 6**     INTERNAL RECEIVABLES, PAYABLES, AND TRANSFERS

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

Receivable To	Payable From	Amount
General Fund	Capital Projects Fund	\$ 49,600
General Fund	Food Service Fund	\$ 6,229,255
General Fund	Other Governmental Funds	\$ 26,140

Interfund balances between funds result mainly from the time lag between when reimbursable expenditures occur and payments between the funds have been made. The balances generally are paid shortly after year end.

Interfund transfers for the year ended June 30, 2016 are as follows:

Transfer In	Transfer Out	Amount
General Fund	Food Service Fund	\$ 1,750,000
Debt Service Fund	General Fund	\$ 884,808
Other Governmental Fund	General Fund	\$ 30,000

Transfers represent annual budgeted amounts transferred from the food service fund to the general fund for indirect charges related to food service operations. Transfers also include amounts deposited into a sinking fund (the Debt Service Fund) for future debt service payments as required by the repayment terms on the Qualified Zone Academy Bonds ("QZAB") and Qualified School Construction Bonds ("QSCB") disclosed in Note 7.

**NOTE 7**     LONG-TERM DEBT

The following summarizes the changes in the long-term liabilities of governmental activities for the year ended June 30, 2016:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Amounts Due in One Year
Bonds payable	\$ 87,976,935	\$ 34,550,000	\$37,784,931	\$ 84,742,004	\$4,295,964
Bond premium	898,024	3,820,757	152,639	4,566,142	121,355
Bond discount	(381,027)	-	(17,749)	(363,278)	(17,749)
Notes payable	102,966,000	-	2,850,000	100,116,000	3,234,500
Post-employment benefits	6,154,328	179,787	-	6,334,115	-
Accumulated compensated absences	1,529,832	-	411,900	1,117,932	-
<b>TOTALS</b>	<u>\$199,144,092</u>	<u>\$ 38,550,544</u>	<u>\$41,181,721</u>	<u>\$196,512,915</u>	<u>\$7,634,070</u>

ALLENTOWN SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE 7 LONG-TERM DEBT (cont'd)

Payments of long-term debt are expected to be funded by the general fund.

***General Obligation Bonds***

Series of 2000, maturing through February 2017, bearing interest ranging from 4.75% to 5.96%, interest payable semi-annually in February and August.	\$ 1,026,004
Series of 2009, maturing through February 2019, bearing interest of 3.75%, interest payable semi-annually in February and August.	800,000
Series A of 2010, maturing through February 2029, bearing interest ranging from 3.00% to 4.25%, interest payable semi-annually in February and August.	16,090,000
Series A of 2010 QSCB, requiring sinking deposits through September 2027, bearing interest of 5.00%, interest payable semi-annually in March and September.	5,666,000
Series C of 2010 QZAB, requiring sinking fund deposits through September 2028, bearing interest of 6.495%, interest payable semi-annually in March and September.	8,970,000
Series of 2011 QZAB, requiring sinking fund deposits through September 2026, bearing interest of 5.426%, interest payable semi-annually in March and September.	2,000,000
Series of 2011, maturing through February 2028, bearing interest ranging from 2.00% to 4.00%, interest payable semi-annually in August and February.	2,980,000
Series A of 2014, maturing through March 2024, bearing interest ranging from 2.00% to 5.00%, interest payable semi-annually in March and September.	12,010,000
Series B of 2014, maturing through March 2017, bearing interest ranging from 1.186% to 1.973%, interest payable semi-annually in March and September.	650,000
Series B of 2016, maturing through February 2031, bearing interest ranging from 2.00% to 4.00%, interest payable semi-annually in August and February.	<u>34,550,000</u>
<b>TOTAL BONDS</b>	<u>\$ 84,742,004</u>

ALLENTOWN SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE 7 LONG-TERM DEBT (cont'd)

*General Obligation Notes*

<p>Series of 2007, maturing through February 2018, with interest at variable rates, payable monthly. Interest rates change on a weekly basis as determined by the lender. The interest rate as of June 30, 2016 was 0.45%.</p>	<p>\$ 2,170,000</p>
<p>Series of 2008, maturing through February 2030, with interest at variable rates payable monthly. Interest rates change on a weekly basis as determined by the lender. The interest rate as of June 30, 2016 was 0.43%.</p>	<p>21,475,000</p>
<p>Series of 2009, maturing through February 2031, with interest at variable rates payable monthly. Interest rates change on a weekly basis as determined by the lender. The interest rate as of June 30, 2016 was 0.99%.</p>	<p>27,030,000</p>
<p>Series of 2010 A, maturing through February 2020, with interest at variable rates payable monthly. Interest rates change on a weekly basis as determined by the lender. The interest rate as of June 30, 2016 was 0.45%.</p>	<p>3,280,000</p>
<p>Series of 2010 B, maturing through February 2023, with interest at variable rates payable monthly. Interest rates change on a weekly basis as determined by the lender. The interest rate as of June 30, 2016 was 0.42%.</p>	<p>2,400,000</p>
<p>Series of 2010 D, maturing through February 2024, with interest at variable rates payable monthly. Interest rates change on a weekly basis as determined by the lender. The interest rate as of June 30, 2016 was 0.42%.</p>	<p>2,300,000</p>
<p>Series of 2010 F, maturing through February 2024, with interest at variable rates payable monthly. Interest rates change on a weekly basis as determined by the lender. The interest rate as of June 30, 2016 was 0.42%.</p>	<p>1,200,000</p>
<p>Series of 2010 H, maturing through February 2030, with interest at variable rates payable monthly. Interest rates change on a weekly basis as determined by the lender. The interest rate as of June 30, 2016 was 0.43%.</p>	<p>21,245,000</p>
<p>Series of 2011 AA, maturing through February 2028, bearing interest ranging from 2.00% to 4.00%, interest payable semi-annually in February and August.</p>	<p>5,235,000</p>

ALLENTOWN SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE 7 LONG-TERM DEBT (cont'd)

Series of 2011 A QSCB, requiring sinking fund deposits through March 2030, bearing interest of 5.088%, interest payable semi-annually in March and September. 891,000

Series of 2012, maturing through February 2028, bearing interest ranging from 2.00% to 3.50%, interest payable semi-annually in February and August. 9,645,000

*Construction Loan*

Note payable maturing through March 2027, with interest at a fixed rate of 2.75%. 3,245,000

TOTAL NOTES 100,116,000

TOTAL BONDS AND NOTES \$184,858,004

Annual debt service requirements to maturity, including the mandatory sinking fund deposits, for the bonds and notes are as follows:

<u>Year Ending June 30,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Total Maturities</u>
2017	\$ 7,530,464	\$ 8,897,796	\$ 16,428,260
2018	9,609,460	7,430,429	17,039,889
2019	11,394,460	7,090,746	18,485,206
2020	13,164,460	6,694,986	19,859,446
2021	13,599,460	6,196,334	19,795,794
2022-2026	71,552,305	22,960,787	94,513,092
2027-2031	53,117,925	7,088,065	60,205,990
	<u>179,968,534</u>	<u>66,359,143</u>	<u>246,327,677</u>
Sinking fund deposits	<u>4,889,470</u>	<u>-</u>	<u>4,889,470</u>
<b>TOTAL</b>	<b><u>\$184,858,004</u></b>	<b><u>\$ 66,359,143</u></b>	<b><u>\$251,217,147</u></b>

Advance Refunding

Certain outstanding general obligation bonds of the District have been defeased by placing the proceeds of refunding bonds into an irrevocable escrow account held and managed by bank trustees and invested in U.S. Treasury obligations, the principal and interest on which would provide amounts sufficient to pay the principal and interest on the defeased bonds in

ALLENTOWN SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE 7 LONG-TERM DEBT (cont'd)

accordance with the schedule of remaining payments due. Accordingly, the escrow account and the defeased bonds are not included in the District's financial statements. At June 30, 2016, \$49,125,000 of bonds outstanding are considered defeased.

During the year ended June 30, 2016, the District issued a \$34,550,000 general obligation bond for the purpose of advance refunding all of Series A of 2008, advance refunding a portion of Series of 2009, and paying the costs and expenses associated with issuing the bonds. The amounts advance refunded, \$24,955,000 for Series A of 2008 and \$10,650,000 of Series of 2009 are considered defeased and included in the defeased amount in the preceding paragraph. The District realized a total savings of \$1,598,222, with a net present value savings (economic gain) of \$1,525,736.

Tax Revenue Anticipation Note

During the year ended June 30, 2016, the District approved the issuance of a Tax Revenue Anticipation Note. The issuance of this note was needed to cover a projected cash flow deficit as a result of the State of Pennsylvania's budget impasse. The District authorized a note of \$50,000,000 but only utilized \$1,000,000; the entire amount issued was paid off during the year ended June 30, 2016.

NOTE 8 FUND BALANCES

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

	General Fund	Capital Reserve Fund	Capital Projects Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:						
Inventory	\$ 239,496	\$ -	\$ -	\$ -	\$ 13,117	\$ 252,613
Prepaid expenditure	51,746	-	-	-	-	51,746
Restricted:						
Capital projects	-	-	29,169	-	-	29,169
Debt service	-	-	-	5,578,212	-	5,578,212
Committed:						
Debt service	2,300,000	-	-	-	-	2,300,000
Healthcare costs	2,100,000	-	-	-	-	2,100,000
Assigned:						
2016-2017 budget	15,165,332	-	-	-	-	15,165,332
Capital projects	-	1,080,190	-	-	-	1,080,190
Student activities	-	-	-	-	303,550	303,550
Unassigned	11,490,717	-	-	-	-	11,490,717
<b>TOTAL FUND BALANCES</b>	<b>\$31,347,291</b>	<b>\$1,080,190</b>	<b>\$ 29,169</b>	<b>\$5,578,212</b>	<b>\$ 316,667</b>	<b>\$ 38,351,529</b>

ALLENTOWN SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE 9     PENSION PLAN

Plan Description

The District contributes to the Public School Employees' Retirement System ("PSERS"), a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the system include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available comprehensive annual financial report that includes the financial statements and required supplementary information for the plan. A copy of this report may be obtained by writing to the Public School Employees' Retirement System, P.O. Box 125, Harrisburg, Pennsylvania, 17108-0125, or by visiting the PSERS website at [www.psers.state.pa.us](http://www.psers.state.pa.us).

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62, with at least one year of credited service, (b) age 60 with 30 or more years of credited service, or (c) 35 or more years of service regardless of age. Act 120 of 2010 ("Act 120") preserves the benefits of existing members and introduced benefit reductions for individuals who became new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E ("Class T-E"), and Membership Class T-F ("Class T-F"). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service, or attain a total combination and age and service that is equal to or greater than 92, with a minimum of 35 years of service.

Benefits are generally equal to two percent or two and one-half percent, depending upon the 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 may be elected. For Class T-E and Class T-F members, the right to benefits is vested after 10 years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to two percent or two and one-half percent, depending upon the 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.



ALLENTOWN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PENSION PLAN (cont'd)

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 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.

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.

Members who joined the system after June 30, 2011 automatically contribute at the Membership Class T-E rate of 7.50 percent (base rate) of the member's qualifying compensation. All new hires after June 30, 2011 who elect Class T-F membership contribute at 10.30 percent (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 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.50 percent and 9.50 percent, and Membership Class T-F contribution rate to fluctuate between 10.30 percent and 12.30 percent.

Employer Contributions

The District's contractually required annual contribution is based on an actuarially determined amount that, when combined with the 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. For the year ended June 30, 2016, the rate of the employer contribution was 25.84 percent of covered payroll, which was comprised of 25.00 percent for pension contributions and 0.84 percent for healthcare premium assistance. The District's contribution to PSERS for the year ended June 30, 2016 was \$27,098,924. The Library's contribution to PSERS for the year ended June 30, 2016 was \$365,951.

ALLENTOWN SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE 9 PENSION PLAN (cont'd)

Pension Liability and Expense, and Deferred Outflows and Inflows of Resources

At June 30, 2016, the District and the Library reported a total liability of \$346,219,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the system's total pension liability as of June 30, 2014 to June 30, 2015. The 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 and Library's proportion was 0.7993 percent, which was a decrease of 0.0267 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District and the Library recognized pension expense of \$24,029,164. At June 30, 2016, the District and the Library reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	\$ -	\$ 701,000
Difference between expected and actual experience	-	1,429,000
Changes in proportions	-	21,378,000
Difference between employer contributions and proportionate share of total contributions	626,284	-
Other	-	20,292
Contributions subsequent to the date of measurement	26,572,054	-
	\$27,198,338	\$23,528,292

An amount of \$26,572,054 is reported as deferred outflows of resources resulting from the District's and the Library's contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts will be reported as deferred outflows and resources and deferred inflows of resources related to pensions, and will be recognized in pension expense as follows:

Year Ended June 30,	
2017	\$ (7,950,629)
2018	(7,950,629)
2018	(7,950,629)
2020	941,474
2021	8,405
	\$ 22,902,008

ALLENTOWN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PENSION PLAN (cont'd)

Actuarial Assumptions

The total pension liability as of June 30, 2016 was determined by rolling forward the system's total pension liability as of the June 30, 2014 actuarial valuation to June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry age normal, level percentage of pay.
- Investment return – 7.50 percent, including inflation of 3.00 percent.
- Salary increases – Effective average of 5.50 percent, which reflects an allowance for inflation of 3.00 percent, real wage growth of 1.00 percent, and merit or seniority increases of 1.50 percent.
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back three years for both males and females. For disabled annuitants, the RP-2000 Combined Disabled Tables (male and female) with age set back seven years for males and three years for females.

The actuarial assumptions used in the June 30, 2014 valuation were based on the experience study that was performed for the five-year period ended June 30, 2010. The recommended assumption changes based on this experience study were adopted by the PSERS Board of Directors 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 the 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 PSERS Board of Directors. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

A schedule of plan investments by asset class, target allocations, and long-term expected real rate of return is as follows:

<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%

ALLENTOWN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 PENSION PLAN (cont'd)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. long treasuries	3.0%	1.4%
TIPS	12.0%	1.1%
High yield bonds	6.0%	3.3%
Cash	3.0%	0.7%
Absolute return	10.0%	4.9%
Risk parity	10.0%	3.7%
MLPs/infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	(14.0%)	1.1%
	<u>100.00%</u>	

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

Discount Rate

The discount used to measure the total pension liability was 7.50 percent. 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 which are 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 and Library's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability, calculated using the discount rate of 7.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent) or one percentage point higher (8.50 percent) than the current rate.

	<u>1% Decrease 6.50%</u>	<u>Current Rate Discount Rate 7.50%</u>	<u>1% Increase 8.50%</u>
District's and Library's proportionate share of the net pension liability	\$426,749,000	\$346,219,000	\$278,534,000

ALLENTOWN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 10 OPERATING LEASES

The District executed a lease in January 2015 with an effective date of August 2015 for building space. This lease is considered an operating lease for accounting purposes. The following is a summary of the minimum rental payments for the remaining term at June 30, 2016:

Year Ending June 30,

2017	\$	620,955
2018		620,955
2019		620,955
2020		620,955
2021		<u>51,746</u>
	\$	<u>2,535,566</u>

NOTE 11 JOINT VENTURE

The District is a participating member of the Lehigh Carbon Community College ("the College"). The College is governed by a Board of Trustees composed of representatives from each of the 13 member school districts and two at-large representatives. A vote of two-thirds of all member school districts is required for approval of the College's annual operating and debt service budget. Each member school district pays a share of the operating costs of the College based on a five-year average of student membership from each school district. Each member school district also pays a share of the debt service budget of the College based upon the 2005 market valuation as certified by the Pennsylvania State Tax Equalization Board. The financial statements of the College are available from the College business office located at 4526 Education Park Drive, Schnecksville, PA 18078-2598. For the year ended June 30, 2016, the District's share of the operating and debt service budget was \$1,508,980.

NOTE 12 POST-EMPLOYMENT HEALTHCARE PLAN

Plan Description

The District adheres to GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions," for certain post-employment healthcare benefits and life insurance benefits provided by the District. This statement generally provides for prospective implementation - that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. Accordingly, for financial reporting purposes, no liability is reported for the post-employment benefits liability at the date of transition.

ALLENTOWN SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE 12 POST-EMPLOYMENT HEALTHCARE PLAN (cont'd)

The District's post-employment healthcare plan is a single-employer defined benefit healthcare plan. The plan provides medical insurance benefits to eligible retirees and their spouses. The Board of School Directors assigns the authority to establish and amend benefit provisions. The plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

Funding Policy

The contribution requirements of plan members are established and may be amended by the Board of School Directors. The required contribution is based on projected pay-as-you-go financing requirements, with any additional amount to prefund as determined annually by the Board of School Directors. For fiscal year 2016, the District contributed \$270,915 to the plan for current premiums, or approximately 18 percent of total premiums. Plan members receiving benefits contributed \$1,213,765, or approximately 82 percent of total premiums, through their required monthly contributions.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution ("ARC") of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the plan.

Annual required contribution	\$ 1,303,632
Interest on net OPEB obligation	276,946
Adjustment to annual required contribution	<u>(377,823)</u>
Annual OPEB cost (expense)	1,202,755
Contributions made	<u>(1,022,968)</u>
Increase in net OPEB obligation	179,787
Net OPEB obligation - beginning of year	<u>6,154,328</u>
Net OPEB obligation - end of year	<u>\$ 6,334,115</u>

ALLENTOWN SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE 12 POST-EMPLOYMENT HEALTHCARE PLAN (cont'd)

Funded Status and Funding Progress

The schedule of funding progress of OPEB is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
6/30/2015	\$ -	\$11,890,193	\$11,890,193	0.00%	\$100,546,736	14.98%
6/30/2013	\$ -	\$14,031,452	\$14,031,452	0.00%	\$ 93,691,068	14.98%
6/30/2011	\$ -	\$11,988,051	\$11,988,051	0.00%	\$ 97,668,932	12.27%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented on the previous page, presents information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the June 30, 2015 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.50 percent investment rate of return and an annual healthcare cost trend rate of six percent in 2015 and 5.5 percent in 2016 through 2020. Rates gradually decrease from 5.4 percent in 2021 to 3.8 percent in 2075 and later. The UAAL is being amortized based on the level dollar, 30-year open period. The remaining amortization period at June 30, 2016 was 21 years.

ALLENTOWN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 13 CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

The District participates in both state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The District is potentially liable for any expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

Litigation

Certain litigation claims are pending against the District. In the opinion of District management and legal counsel, the potential losses, if any, on such claims would not have a materially adverse effect on the District's finances.

NOTE 14 EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The following general fund functions incurred expenditures in excess of appropriations in the following amounts for the year ended June 30, 2016:

Regular programs, elementary/secondary	\$ 9,335,933
Special programs, elementary/secondary	\$ 5,753,310
Nonpublic school programs	\$ 90,527
Pupil personnel	\$ 1,251,669
Administration	\$ 550,926
Pupil health	\$ 1,870,688
Student activities	\$ 168,400

The excess of expenditures over appropriations was financed with current year savings in other budget appropriation line items, transfers from the food service fund, and revenues in excess of anticipated amounts.

NOTE 15 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs except for worker's compensation, for which the District retains risk of loss. For insured programs, there were no significant reductions in insurance coverage during the 2015-2016 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.



ALLENTOWN SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 16 RELATED PARTY TRANSACTIONS

The District has various transactions with Allentown Public Library, which are related because of a common board of directors. The Library received a substantial portion of its support from the District during the year ended June 30, 2016. The District also provides certain general and administrative services to the Library. As of June 30, 2016, the Library owed the District \$51,595 related to their portion of retirement expenses paid by the District, while the District owed the Library \$280,757 for the Library's portion of the state retirement and social security subsidies. The net of these two transactions results in the District owing the Library \$229,162.

NOTE 17 CAPITAL IMPROVEMENT COMMITMENTS

As of June 30, 2016, the District is committed to various capital projects. Anticipated project commitments are as follows:

	<u>Contract Amount</u>	<u>Construction- In-progress</u>	<u>Completed at 06/30/2016</u>	<u>Estimated Balance to Complete</u>
Capital projects	\$ 783,767	\$ 682,602	\$ -	\$ 101,165

In addition, the District has incurred costs in the amount of \$51,850 for other projects that were not under a formal construction commitment as of June 30, 2016.

NOTE 18 DERIVATION INSTRUMENTS

On April 28, 2009 and April 28, 2010, the District entered into floating-for-fixed rate SWAPs (the "SWAPs") with Goldman Sachs Capital Markets, L.P. ("Goldman") that relate to \$34,750,000 and \$34,750,000 of the District's General Obligation Notes, 2009 and 2010 Series ("Related Notes"), respectively. The SWAPs are structured with a declining notional (principal) amount which will mirror the principal amortization of the Related Notes, thus creating a "synthetic fixed rate" liability for the District.

As of June 30, 2016, the District determined that the SWAPs listed as investment derivative instruments under governmental activities met the criteria for effectiveness using the quantitative method. The District has reported a Deferred Outflow - Interest Rate SWAP and Deferred Inflow - Derivative Instrument Interest Rate SWAP of \$14,517,785 as of June 30, 2016, a decrease of \$1,747,496 in fair value from the previous year.

ALLENTOWN SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE 18 DERIVATION INSTRUMENTS (cont'd)

The terms, fair value, and Goldman credit ratings of the SWAP as of June 30, 2016 are as follows:

Related Notes	Notional Amount	Effective Date	Variable Rate Received	Fixed Rate Paid	Fair Value*	Termination Date	Goldman Credit Ratings
Series 2009	\$34,750,000	04/01/09	67% 1M LIBOR	3.962%	\$(6,696,168)	02/01/2031	A1/A-/A
Series 2010	\$34,750,000	04/01/10	67% 1M LIBOR	4.003%	\$(7,821,617)	02/01/2030	A1/A-/A

\* Fair value from the District's perspective; positive values represent amounts in the District's favor, and negative amounts represent amounts in the counterparty's favor. These values are estimates, are based on mid-market quotations, and do not represent actual prices to unwind. These measurements are categorized as Level III on the investment valuation hierarchy.

- **Counterparty Risk**
  - Risk that the counterparty cannot make future payments or cannot make termination payment due to the District. Risk is reduced by selecting highly-rated counterparty and by ISDA ("International SWAPs and Derivatives Association") contract terms addressing collateral limits and credit ratings.
- **Basis Risk**
  - Risk that the payment obligation on the District's leg of the SWAP or on its underlying bonds (the SIFMA index) will exceed the SWAP receipt (the percentage of LIBOR, plus a spread when applicable) due to a macro change in tax-exempt market or to a tax change event.
- **Tax Risk**
  - A form of basis risk - risk of higher tax-exempt interest rates (an increase in SIFMA Index) if tax law changes lower the taxation rate on interest income. In the extreme scenario, if a change in tax law eliminated tax-exempt status, the market would adjust "tax-exempt" security pricing so that there would be no material difference between the SIFMA Index and LIBOR.
- **Credit Risk**
  - Credit deterioration of the underlying bonds would result in basis risk discussed above when underlying bonds are in a variable rate mode.
- **Termination Risk**
  - Risk that the SWAP would be terminated at a time when prevailing market conditions resulted in a termination payment owed to the SWAP provider.
- **Rollover Risk**
  - Risk of extension if the SWAP term is less than the debt term and the District desires to extend the SWAP.

ALLENTOWN SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE 19 DEFICIT NET POSITION

For governmental activities and business-type activities (food service fund), the unrestricted net deficit amounts of \$303,328,989 and \$6,685,507, respectively, includes the effect of the deferring the recognition of pension contributions made subsequent to the measurement date of the net pension liability, the unamortized portion of contributions made in excess of the District's share of its proportionate contributions to its pension plan, and the deferred outflows resulting from the change in the District's share of the net pension liability. This is offset by the District's actuarially determined pension liability and the deferred inflows resulting from the differences between projected and actual investment earnings and expected and actual experience.

Discretely Presented Component Unit

For governmental activities, the unrestricted net deficit amount of \$2,210,248 includes the effect of the deferring the recognition of pension contributions made subsequent to the measurement date of the net pension liability, the unamortized portion of contributions made in excess of the Library's share of its proportionate contributions to its pension plan, and the deferred outflows resulting from the change in the Library's share of the net pension liability. This is offset by the Library's actuarially determined pension liability and the deferred inflows resulting from the differences between projected and actual investment earnings expected and actual experience.

NOTE 20 SUBSEQUENT EVENTS

The District has evaluated all subsequent events through January 30, 2017, the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

**ALLENTOWN SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE DISTRICT'S AND LIBRARY'S PROPORTIONATE  
SHARE OF THE NET PENSION LIABILITY**

	Measurement Date	
	June 30, 2015	June 30, 2014
District's and Library's proportion of the net pension liability	0.7993%	0.8260%
District's and Library's proportion of the net pension liability - dollar value	\$346,219,000	\$326,936,000
District's and Library's covered employee payroll	\$100,546,278	\$105,406,602
District's and Library's proportionate share of the net pension liability as a percentage of its covered employee payroll	344.34%	310.17%
Plan fiduciary net position as a percentage of the total pension liability	54.36%	57.24%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**ALLENTOWN SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF DISTRICT AND LIBRARY CONTRIBUTIONS**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 26,572,054	\$ 20,611,987
Contributions in relation to the contractually required contribution	<u>26,572,054</u>	<u>20,611,987</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's and Library's covered-employee payroll	\$106,288,216	\$100,546,278
Contributions as a percentage of covered-employee payroll	25.00%	20.50%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**SUPPLEMENTARY INFORMATION**

**ALLENTOWN SCHOOL DISTRICT**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2016**

	Special Revenue Funds			Totals
	Athletic Fund	JBC Fund	Playground Fund	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 56,669	\$ 209,088	\$ 63,933	\$ 329,690
Inventory	-	13,117	-	13,117
<b>TOTAL ASSETS</b>	<u>\$ 56,669</u>	<u>\$ 222,205</u>	<u>\$ 63,933</u>	<u>\$ 342,807</u>
<b>LIABILITIES AND NET POSITION</b>				
<b>LIABILITIES:</b>				
Due to other funds	\$ 2,343	\$ 23,797	\$ -	\$ 26,140
<b>TOTAL LIABILITIES</b>	<u>2,343</u>	<u>23,797</u>	<u>-</u>	<u>26,140</u>
<b>FUND BALANCES:</b>				
Nonspendable	-	13,117	-	13,117
Assigned	54,326	185,291	63,933	303,550
<b>TOTAL FUND BALANCES</b>	<u>54,326</u>	<u>198,408</u>	<u>63,933</u>	<u>316,667</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 56,669</u>	<u>\$ 222,205</u>	<u>\$ 63,933</u>	<u>\$ 342,807</u>



**ALLENTOWN SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	Special Revenue Funds			Totals
	Athletic Fund	JBC Fund	Playground Fund	
REVENUES				
Local sources	\$ 28,201	\$ 83,329	\$ 6,528	\$ 118,058
	-	3,901	-	3,901
<b>TOTAL REVENUES</b>	<u>28,201</u>	<u>87,230</u>	<u>6,528</u>	<u>121,959</u>
EXPENDITURES				
Operation of noninstructional services	14,747	45,882	-	60,629
<b>TOTAL EXPENDITURES</b>	<u>14,747</u>	<u>45,882</u>	<u>-</u>	<u>60,629</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>13,454</u>	<u>41,348</u>	<u>6,528</u>	<u>61,330</u>
OTHER FINANCING SOURCES				
Transfers in	30,000	-	-	30,000
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>30,000</u>	<u>-</u>	<u>-</u>	<u>30,000</u>
NET CHANGE IN FUND BALANCES	43,454	41,348	6,528	91,330
FUND BALANCES, BEGINNING OF YEAR	<u>10,872</u>	<u>157,060</u>	<u>57,405</u>	<u>225,337</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 54,326</u>	<u>\$ 198,408</u>	<u>\$ 63,933</u>	<u>\$ 316,667</u>

**SINGLE AUDIT SUPPLEMENT**

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

January 30, 2017

Board of School Directors  
Allentown School District  
Allentown, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Allentown School District ("the 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, and have issued our report thereon dated January 30, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 District'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 and, therefore, material weaknesses or significant deficiencies may

Board of School Directors  
Allentown School District

exist that were not identified. However, as described in the accompanying schedule of findings and recommendations, we identified a deficiency in internal control that we consider to be a material weakness. We consider the deficiency listed as item #2013-001 described in the accompanying schedule of findings and recommendations to be a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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*.

#### Allentown School District's Responses to the Finding

The Allentown School District's response to the finding identified by our audit is described in the accompanying schedule of findings and recommendations. We did not audit the Allentown School District's response and, accordingly, we express no opinion on it.

#### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Barbacane, Thornton & Company LLP*

BARBACANE, THORNTON & COMPANY LLP

Barbacane, Thornton & Company LLP  
200 Springer Building  
3411 Silverside Road  
Wilmington, Delaware 19810

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

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January 30, 2017

Board of School Directors  
Allentown School District  
Allentown, Pennsylvania

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, contracts, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

BARBACANE  
THORNTON  
& COMPANY  
CERTIFIED PUBLIC ACCOUNTANTS

Board of School Directors  
Allentown School District

Opinion on Each Major Federal Program

In our opinion, the 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 program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the 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 the 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.

*Barbacane, Thornton & Company LLP*  
BARBACANE, THORNTON & COMPANY LLP

ALLENTOWN SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

**PART A - SUMMARY OF AUDITOR'S RESULTS**

*Financial Statements*

Type of auditor's report issued [*unmodified, qualified, adverse, or disclaimer*]:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?   X   Yes        No
- Significant deficiency(ies) identified?        Yes   X   None reported
- Noncompliance material to financial statements noted?        Yes   X   No

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?        Yes   X   No
- Significant deficiency(ies) identified?        Yes   X   None reported

Type of auditor's report issued on compliance for major programs [*unmodified, qualified, adverse, or disclaimer*]:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?

       Yes   X   No

Identification of major programs:

CFDA Numbers  
84.027, 84.173  
10.553, 10.555, 10.556, 10.559  
84.367

Name of Federal Program or Cluster  
Special Education Cluster  
Child Nutrition Cluster  
Title II Improving Teacher Quality State Grants

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 849,346

Auditee qualified as low-risk auditee?

       Yes   X   No

ALLENTOWN SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

PART B - FINDINGS RELATED TO FINANCIAL STATEMENTS

STATUS OF PRIOR YEAR FINDINGS

2013-001

GENERAL FUND BUDGET

Condition

In reviewing the budget, we noted a number of areas in which the budget does not appear to represent current activity levels of the District. For instance, the total instruction function was budgeted at \$146.3 million, and actual expenditures in 2012-2013 were \$158.9 million. The total support services function was budgeted at \$69.6 million, and actual expenditures in 2012-2013 were \$60.8 million.

Criteria

The fundamental purpose of budgetary control is to plan beforehand for the operations of the District and then maintain the operations according to the plan.

Effect

Budgetary comparisons to actual results stimulate the early identification of operational problems and help ensure that timely decisions are made resolving the problems, resulting in better coordination and control of business efforts and in more effective use of the District's resources.

Cause

The District did not amend its budget during the year to account for changes in planned spending.

Recommendation

We recommended that the District amend its budget during the year so that the budget more accurately reflects the actual spending of the District.

Status

During our current year audit, we noted that the budget still does not provide a realistic representation of activity levels of the District. There continues to be significant variances when budgeted figures are compared to actual amounts. This finding is still applicable for the current year.



ALLENTOWN SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (cont'd)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

**PART C - FINDINGS RELATED TO FEDERAL AWARDS**

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.



31 South Penn Street • P.O. Box 328 • Allentown, PA 18105  
Administration Center • 484-765-4272 • Fax: 484-765-4025

January 25, 2017

**Barbacane, Thornton & Company LLP**

**Response to Status of Prior Year Finding:**

The Allentown School District presents the status of the current budget to the full Board at the Finance Committee and School Board meetings monthly. At these meetings, budget transfers are presented, reviewed, and approved by the Board for execution by the Administration. The action taken does not change the total budget, but instead, provides proper accounting of the expenditures and provides the Board involvement in the procedure which aligns actual expenditures to the anticipated budgeted amounts.

Budget practices have been changed to provide greater accuracy in the estimation of actual budgets, but these approved transfers will continue to reflect the changes in expenditures from the approved budget due to changes in expenditure patterns. In recent years, internal reorganization, major constriction in staff, and federal and state funding adjustments after Budget approval by the Board have led to these major differences and will continue to be a factor. Staff has been reviewing the general ledger classifications of the budget against actual revenues/expenditures to provide a better comparison and reduce the variances being generated. The Budget process has been further defined and the most current data is being utilized to improve the accuracy in the future.

Respectfully,

A handwritten signature in cursive script that reads "William R. Gretton III". The signature is written in dark ink and includes a stylized flourish at the end.

**William R. Gretton III**  
**Acting Business Administrator**

**ALLENTOWN SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning - Ending	Program or Award Amount	Total Received for Year	Accrued (Unearned) Revenue 07/01/15	Revenue Recognized	Expenditures	Accrued (Unearned) Revenue 06/30/16	Amount Passed Through to Subrecipients
<b>U.S. Department of Education</b>											
High School Graduation Initiative	D	84.360A	S360A100174	10/01/14-09/30/15	\$ 2,347,203	\$ 1,254,140	\$ 273,341	\$ 980,799	\$ 980,799	\$ -	\$ -
Total CFDA #84.360A						1,254,140	273,341	980,799	980,799	-	-
<b>Passed through PA State System of Higher Education</b>											
Gaining Early Awareness and Readiness for Undergraduate Programs	I	84.334	2015-GEARUP3-ASD-01	04/15/15-09/24/15	740,136	147,823	55,297	103,331	103,331	10,805	-
Gaining Early Awareness and Readiness for Undergraduate Programs	I	84.334	2016-GEARUP3-ASD-02	09/25/15-09/24/16	745,479	167,815	-	456,988	456,988	289,173	-
Total CFDA #84.334						315,638	55,297	560,319	560,319	299,978	-
<b>Passed through PA Department of Education</b>											
Title I Grants to Local Education Agencies	I	84.010	013-160007	07/01/14-09/30/16	8,257,005	2,681,133	1,406,292	1,274,841	1,274,841	-	-
Title I Grants to Local Education Agencies	I	84.010	013-160007	07/01/15-09/30/17	9,743,923	7,268,961	-	9,279,876	9,279,876	2,010,915	-
Title I Grants to Local Education Agencies	I	84.010	042-140007	07/16/14-09/30/15	428,194	256,916	(2,882)	259,798	259,798	-	-
Title I Grants to Local Education Agencies	I	84.010	042-150007	06/05/15-09/30/16	429,918	268,699	-	188,828	188,828	(79,871)	-
Title I Reward School Grant	I	84.010	077-150007	03/11/15-09/30/15	50,000	28,571	28,562	9	9	-	-
Total CFDA #84.010						10,504,280	1,431,972	11,003,352	11,003,352	1,931,044	-
Twenty-First Century Community Learning Ctrs	I	84.287	4100058675	10/01/14-09/30/15	399,000	198,006	93,667	104,339	104,339	-	-
Twenty-First Century Community Learning Ctrs	I	84.287	4100068046	10/01/15-09/30/16	399,000	177,130	-	303,015	303,015	125,885	-
Twenty-First Century Community Learning Ctrs	I	84.287	4100071616	01/01/16-12/31/16	399,000	17,696	-	88,758	88,758	71,062	-
Total CFDA #84.287						392,832	93,667	496,112	496,112	196,947	-
English Language Acquisition Grants	I	84.365	010-150007	07/01/14-09/30/16	535,217	392,492	148,185	244,307	244,307	-	-
English Language Acquisition Grants	I	84.365	010-160007	07/01/15-09/30/17	538,244	358,829	-	380,704	380,704	21,875	-
Total CFDA #84.365						751,321	148,185	625,011	625,011	21,875	-
Mathematics and Science Partnerships	I	84.366	075-140007	09/02/14-09/30/15	462,997	178,076	41,608	136,468	136,468	-	-
Mathematics and Science Partnerships	I	84.366	075-150007	10/19/15-09/30/16	487,304	453,250	-	258,127	258,127	(195,123)	-
Total CFDA #84.366						631,326	41,608	394,595	394,595	(195,123)	-
Improving Teacher Quality State Grants	I	84.367	020-150007	07/01/14-09/30/15	1,002,217	265,996	265,996	-	-	-	-
Improving Teacher Quality State Grants	I	84.367	020-160007	07/01/15-09/30/16	1,009,787	742,686	-	1,009,787	1,009,787	267,101	-
Total CFDA #84.367						1,008,682	265,996	1,009,787	1,009,787	267,101	-

Continued on next page.

**ALLENTOWN SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning - Ending	Program or Award Amount	Total Received for Year	Accrued (Unearned) Revenue 07/01/15	Revenue Recognized	Expenditures	Accrued (Unearned) Revenue 06/30/16	Amount Passed Through to Subrecipients
<b>U.S. Department of Education (cont'd)</b>											
<b>Passed through Bucks County I.U.</b>											
Education for Homeless Children and Youth	I	84.196	081-12-0403	10/01/14-09/30/15	125,000	72,917	50,194	22,723	22,723	-	-
Education for Homeless Children and Youth	I	84.196	081-12-0403	10/01/15-09/30/16	110,000	64,167	-	93,732	93,732	29,585	-
<b>Total CFDA #84.196</b>						<b>137,084</b>	<b>50,194</b>	<b>116,455</b>	<b>116,455</b>	<b>29,585</b>	<b>-</b>
<b>Passed through Carbon Lehigh County I.U.</b>											
Special Education Grant to States	I	84.027	H027A140093	07/01/14-09/30/15	2,822,293	2,822,293	2,822,293	-	-	-	-
Special Education Grant to States	I	84.027	H027A150093	07/01/15-09/30/16	2,692,495	-	-	2,692,495	2,692,495	2,692,495	-
<b>Total CFDA #84.027</b>						<b>2,822,293</b>	<b>2,822,293</b>	<b>2,692,495</b>	<b>2,692,495</b>	<b>2,692,495</b>	<b>-</b>
<b>Special Education Grant to States Sec 619</b>											
Amendment D	I	84.173	H173A140090	07/01/14-06/30/15	23,837	23,837	23,837	-	-	-	-
Special Education Grant to States Sec 619	I	84.173	H173A150090	07/01/15-06/30/16	16,615	-	-	16,615	16,615	16,615	-
<b>Total CFDA #84.173</b>						<b>23,837</b>	<b>23,837</b>	<b>16,615</b>	<b>16,615</b>	<b>16,615</b>	<b>-</b>
<b>Race to the Top - Phase 3</b>											
Race to the Top - Phase 3	I	84.413A	B413A120004	07/01/12-06/30/16	592,108	114,871	114,871	-	-	-	-
Race to the Top - Phase 3	I	84.413A	B413A120004	07/01/12-06/30/16	592,108	31,822	-	101,223	101,223	69,401	-
<b>Total CFDA #84.413A</b>						<b>146,693</b>	<b>114,871</b>	<b>101,223</b>	<b>101,223</b>	<b>69,401</b>	<b>-</b>
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>						<b>17,988,126</b>	<b>5,321,261</b>	<b>17,996,763</b>	<b>17,996,763</b>	<b>5,329,898</b>	<b>-</b>
<b>U.S. Dept of Health and Human Services</b>											
<b>Passed through PA Department of Education</b>											
Temporary Assistance for Needy Families	I	93.558	4100060949	07/01/14-06/30/15	434,653	390,500	390,500	-	-	-	-
Temporary Assistance for Needy Families	I	93.558	4100060949	07/01/15-06/30/16	488,477	-	-	485,056	485,056	485,056	-
<b>Total CFDA #93.558</b>						<b>390,500</b>	<b>390,500</b>	<b>485,056</b>	<b>485,056</b>	<b>485,056</b>	<b>-</b>
<b>Promoting Adolescent Health through School-Based HIV/STD Prevention and Surveillance</b>											
	I	93.079	1433054	08/01/11-07/31/18	22,500	3,295	-	3,295	3,295	-	-
<b>Promoting Safe and Stable Families</b>											
Promoting Safe and Stable Families	I	93.556	4100057284	07/01/14-06/30/15	136,398	128,790	128,790	-	-	-	-
Promoting Safe and Stable Families	I	93.556	4100057284	07/01/15-06/30/16	136,398	-	-	128,475	128,475	128,475	-
<b>Total CFDA #93.556</b>						<b>128,790</b>	<b>128,790</b>	<b>128,475</b>	<b>128,475</b>	<b>128,475</b>	<b>-</b>

Continued on next page.

**ALLENTOWN SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning - Ending	Program or Award Amount	Total Received for Year	Accrued (Unearned) Revenue 07/01/15	Revenue Recognized	Expenditures	Accrued (Unearned) Revenue 06/30/16	Amount Passed Through to Subrecipients
<u>U.S. Dept of Health and Human Services (cont'd)</u>											
<u>Passed through PA Dept of Public Welfare</u>											
Community-based Child Abuse Prevention Grants	I	93.590	4100057284	07/01/14-06/30/15	2,043	1,929	1,929	-	-	-	-
Community-based Child Abuse Prevention Grants	I	93.590	4100057284	07/01/15-06/30/16	2,043	-	-	1,924	1,924	1,924	-
Total CFDA #93.590						1,929	1,929	1,924	1,924	1,924	-
Medical Assistance ACCESS - Administrative Claiming Program	I	93.778	N/A	07/01/14-06/30/15	155,811	63,971	63,971	-	-	-	-
Medical Assistance ACCESS - Administrative Claiming Program	I	93.778	N/A	07/01/15-06/30/16	125,777	29,941	-	125,777	125,777	95,836	-
Total CFDA #93.778						93,912	63,971	125,777	125,777	95,836	-
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>						<b>618,426</b>	<b>585,190</b>	<b>744,527</b>	<b>744,527</b>	<b>711,291</b>	<b>-</b>
<u>U.S. Department of Agriculture</u>											
<u>Passed through PA Department of Agriculture</u>											
National School Lunch Program	I	10.555	N/A	07/01/14-06/30/15	N/A	-	(641)	641	641	-	-
National School Lunch Program	I	10.555	N/A	07/01/15-06/30/16	N/A	688,869	-	684,670	684,670	(4,199)	-
<u>Passed through PA Department of Education</u>											
National School Lunch Program	I	10.555	359/362	07/01/14-06/30/15	N/A	945,284	945,284	-	-	-	-
National School Lunch Program	I	10.555	359/362	07/01/15-06/30/16	N/A	5,696,525	-	6,907,617	6,907,617	1,211,092	-
Total CFDA #10.555						7,330,678	944,843	7,592,928	7,592,928	1,206,893	-
School Breakfast Program	I	10.553	365	07/01/14-06/30/15	N/A	346,604	346,604	-	-	-	-
School Breakfast Program	I	10.553	365	07/01/15-06/30/16	N/A	1,308,495	-	1,594,104	1,594,104	285,609	-
Total CFDA #10.553						1,655,099	346,604	1,594,104	1,594,104	285,609	-
Special Milk Program for Children	I	10.556	364	07/01/14-06/30/15	N/A	1,284	1,284	-	-	-	-
Special Milk Program for Children	I	10.556	364	07/01/15-06/30/16	N/A	1,711	-	2,007	2,007	296	-
Total CFDA #10.556						2,995	1,284	2,007	2,007	296	-
Child and Adult Care Food program	I	10.558	164	07/01/14-06/30/15	N/A	16,957	16,957	-	-	-	-
Child and Adult Care Food program	I	10.558	164	07/01/15-06/30/16	N/A	108,001	-	134,107	134,107	26,106	-
Total CFDA #10.558						124,958	16,957	134,107	134,107	26,106	-

Continued on next page.

**ALLENTOWN SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning - Ending	Program or Award Amount	Total Received for Year	Accrued (Unearned) Revenue 07/01/15	Revenue Recognized	Expenditures	Accrued (Unearned) Revenue 06/30/16	Amount Passed Through to Subrecipients
<b>U.S. Department of Agriculture (cont'd)</b>											
<b>Passed through PA Department of Education</b>											
Fresh Fruit and Vegetable Program	I	10.582	362	07/01/15-06/30/16	N/A	43,204	-	59,977	59,977	16,773	-
Summer Food	I	10.559	164	07/01/14-06/30/15	N/A	19,599	19,599	-	-	-	-
Summer Food	I	10.559	164	07/01/15-06/30/16	N/A	150,085	-	187,128	187,128	37,043	-
Total CFDA #10.559						<u>169,684</u>	<u>19,599</u>	<u>187,128</u>	<u>187,128</u>	<u>37,043</u>	<u>-</u>
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>						<u>9,326,618</u>	<u>1,329,087</u>	<u>9,570,251</u>	<u>9,570,251</u>	<u>1,572,720</u>	<u>-</u>
<b>TOTAL FEDERAL AWARDS</b>						<u>\$27,933,170</u>	<u>\$7,235,538</u>	<u>\$28,311,541</u>	<u>\$28,311,541</u>	<u>\$7,613,909</u>	<u>\$ -</u>
SPECIAL EDUCATION CLUSTER (IDEA) (CFDAs #84.027 and #84.173)						<u>\$ 2,846,130</u>	<u>\$2,846,130</u>	<u>\$ 2,709,110</u>	<u>\$ 2,709,110</u>	<u>\$2,709,110</u>	<u>\$ -</u>
CHILD NUTRITION CLUSTER (CFDAs #10.553, #10.555, #10.556, and 10.559)						<u>\$ 9,158,456</u>	<u>\$1,312,130</u>	<u>\$ 9,376,167</u>	<u>\$ 9,376,167</u>	<u>\$1,529,841</u>	<u>\$ -</u>

**Source Codes:**

- I - Indirect Funding
- D - Direct Funding

ALLENTOWN SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A SCOPE OF THIS SCHEDULE

The schedule of expenditures of federal awards reflects federal expenditures for all individual grants which were active during the fiscal year.

NOTE B BASIS OF ACCOUNTING

The District uses the modified accrual method of recording transactions except as noted for the accounting of donated commodities in Note C. Revenues are recorded when measurable and available. Expenditures are recorded when incurred.

NOTE C NONMONETARY FEDERAL AWARDS - DONATED COMMODITIES

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals, and prisons) and to the needy. Expenditures reported in the schedule of expenditures of federal awards under CFDA #10.555 represent surplus food consumed by the District during the 2015-2016 fiscal year. The District has food commodities totaling \$4,198 in inventory as of June 30, 2016.

NOTE D ACCESS PROGRAM

The ACCESS Program is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding recognized for the year ended June 30, 2016 was \$585,193.

NOTE E ARRA PROGRAMS

The Qualified School Construction Bond Program ("QSCB") and Qualified Zone Academy Program ("QZAB") were authorized through the American Recovery and Reinvestment Tax Act ("ARRA"). These ARRA-funded programs are not covered by the single audit requirements and are not required to be included in the schedule of expenditures of federal awards ("SEFA") or in the determination of major programs. Federal subsidy reimbursements related to the QSCB and QZAB debt service payments are, therefore, not considered federal financial assistance as it relates to the SEFA. The total amount of federal subsidy reimbursements received totaled \$856,739 for the year ended June 30, 2016.

ALLENTOWN SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE F      INDIRECT COST RATE

The District has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.