PENN MANOR SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2018

PENN MANOR SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2018

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PENN MANOR SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2018

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Independent Auditors' Report

Board of School Directors
Penn Manor School District
Millersville, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the remaining fund information of Penn Manor School District (the School District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the School 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.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the remaining fund information of Penn Manor School District as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 18 to the financial statements, effective July 1, 2017, the District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are 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, schedules of pension information, the information about other postemployment benefits - schedule of funding progress and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Penn Manor School District's financial statements. The accompanying schedule of expenditures of federal awards 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 is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the 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 November 19, 2018 on our consideration of Penn Manor School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Penn Manor School District's internal control over financial reporting and compliance.

Brown Schultz Sheridan & Fritz

Lancaster, Pennsylvania
November 19, 2018

PENN MANOR SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2018
(Unaudited)

The discussion and analysis of Penn Manor School District's financial performance provides an overall review of the School District's financial activities for the year ended June 30, 2018. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. It should be read in conjunction with the notes to the basic financial statements and the financial statements to enhance the understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2018 are as follows:

- Capital assets, net of depreciation, decreased by $1.9 million. The overall total of capital assets decreased during 2017-18 as depreciation expenses outpaced asset additions. Planning continues for the renovation/replacement of facilities at Penn Manor High School which will have an impact in future years.

- Revenues totaled $86.4 million. General revenues accounted for $67.3 million or 77.9% of total revenues, which is slightly higher than the prior year. Program specific revenues in the form of charges for services and food sales, grants and contributions accounted for $19.0 million or 22.0% of total revenues, which is slightly lower than the prior year.

- The School District had $83.1 million in expenses related to governmental activities; $16.5 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of $67.3 million were adequate to provide for these programs.

- Among major funds, the General Fund had $83.7 million in revenues and $81.8 million in expenditures and other financing uses. This resulted in an addition of $1,866,840 to fund balance, bringing the General Fund's fund balance up to $18.5 million from $16.6 million. Approximately $1,285,000 of the General Fund's fund balance is budgeted to be utilized for the year ending June 30, 2019. The ending unassigned fund balance on June 30, 2018 of $6.0 million represents 7.0% of the budgeted expenditures and other financing uses for the 2018-19 fiscal year.

- Net position for Proprietary Funds increased from $1,295,748 to $1,395,360. While non-operating revenues held steady, both operating revenues and operating expenses decreased in 2017-18. The expansion of the school breakfast program in all buildings and high meal counts continue to provide our students with healthy, nutritional meals and our operation with valuable funding.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Penn Manor School District as a financial whole.

The statement of net position and statement of activities provide information about the activities of the entire School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how the services were financed in the short term as well as what remains for future spending. The fund financial statements also present the School District's most significant funds – in the case of Penn Manor School District, the General Fund is the most significant fund.

Reporting on the School District as a Whole

The analysis for the School District as a whole begins on page 7. One of the most important questions asked about the School District's finances is, "Have our financial results this year improved or diminished our overall financial position?" The statement of net position and the statement of activities report information about the School District as a whole and about the activities in a way that helps answer this question. These statements include all assets and deferred outflows and liabilities and deferred inflows using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net position and changes in net position. The change in net position is important because it tells the reader, for the School District as a whole, whether the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors.

In the statement of net position and the statement of activities, the School District's financial information is divided into two distinct kinds of activities:

- *Governmental Activities* - Most of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

- *Business-Type Activities* - These services are provided on a charge for goods or services basis to recover most of the expenses of the goods or services provided. The School District's food services are reported as business activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the School District as a whole. The School District's two principal types of funds, governmental and proprietary, use different accounting approaches.

- ***Governmental Funds -*** Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the financial statements.

- ***Proprietary Funds -*** Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net position for 2018 compared to 2017.

(Table 1)
Net Position

	Governmental activities		Business-type activities		Total	
	2018	2017 (restated)	2018	2017	2018	2017 (restated)
Assets and deferred outflows:						
Current assets	$ 41,359,486	$ 40,749,197	$ 1,436,760	$ 1,330,876	$ 42,796,246	$ 42,080,073
Capital and noncurrent assets	121,920,692	123,813,321	61,702	76,223	121,982,394	123,889,544
Deferred outflows	19,550,690	22,735,744			19,550,690	22,735,744
Total assets and deferred outflows	$ 182,830,868	$ 187,298,262	$ 1,498,462	$ 1,407,099	$ 184,329,330	$ 188,705,361
Liabilities and deferred inflows:						
Current liabilities	$ 15,605,934	$ 15,370,701	$ 73,111	$ 77,114	$ 15,679,045	$ 15,447,815
Noncurrent liabilities	178,009,108	181,905,024	29,991	34,237	178,039,099	181,939,261
Deferred inflows	1,773,136	3,314,782			1,773,136	3,314,782
Total liabilities and deferred inflows	195,388,178	200,590,507	103,102	111,351	195,491,280	200,701,858
Net position (deficit):						
Net investment in capital assets	69,007,935	65,243,141	61,702	76,223	69,069,637	65,319,364
Restricted	9,156,099	11,385,502			9,156,099	11,385,502
Unrestricted (deficit)	(90,721,344)	(89,920,888)	1,333,658	1,219,525	(89,387,686)	(88,701,363)
Total net position (deficit)	(12,557,310)	(13,292,245)	1,395,360	1,295,748	(11,161,950)	(11,996,497)
Total liabilities, deferred inflows and net position	$ 182,830,868	$ 187,298,262	$ 1,498,462	$ 1,407,099	$ 184,329,330	$ 188,705,361

In total, net position increased approximately $835,000 from 2017. This increase includes the effect of the adoption of a new accounting pronouncement on the net position as of June 30, 2017, which increased the previously reported governmental activities net position (deficit) by $6,899,889. Refer to Note 18 for how the adoption was recorded. Net position of governmental activities increased by approximately $735,000 while the net position of business-type activities increased by approximately $100,000. The food service operations operated with a profit in fiscal 2017-18 before a minimal contribution from the General Fund to cover bad debts for student lunches. Looking ahead, School District General Fund support for the food service operation is not expected other than the required annual transfer to cover student debts. While general support may resume in future years, the expectation is to make the food service operation entirely self-sufficient.

PENN MANOR SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2018
(Unaudited)

(Table 2)
Changes in Net Position

	Governmental activities		Business-type activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	$ 509,991	$ 711,865	$ 949,958	$ 1,032,684	$ 1,459,949	$ 1,744,549
Operating grants	15,999,370	15,870,744	1,583,635	1,594,505	17,583,005	17,465,249
General revenue:						
Property and other taxes	55,013,167	52,269,221			55,013,167	52,269,221
Grants and entitlements	11,562,840	11,391,196			11,562,840	11,391,196
Other	747,763	651,108	26,338	8,150	774,101	659,258
Total revenues	83,833,131	80,894,134	2,559,931	2,635,339	86,393,062	83,529,473
Expenses:						
Program expenses, instruction	53,636,895	51,641,716			53,636,895	51,641,716
Support services:						
Instructional student support	4,012,052	3,990,374			4,012,052	3,990,374
Administrative and financial support services	8,240,927	8,375,147			8,240,927	8,375,147
Operation and maintenance of plant services	6,081,590	6,460,793			6,081,590	6,460,793
Pupil transportation	3,789,517	3,844,514			3,789,517	3,844,514
Student activities	1,721,913	1,670,235			1,721,913	1,670,235
Capital outlay	4,346,130	2,652,477			4,346,130	2,652,477
Interest on long-term debt	1,243,594	1,686,478			1,243,594	1,686,478
Food service			2,460,319	2,521,617	2,460,319	2,521,617
Other expenses	25,578	16,665			25,578	16,665
Total expenses	83,098,196	80,338,399	2,460,319	2,521,617	85,558,515	82,860,016
Increase (decrease) in net position	$ 734,935	$ 555,735	$ 99,612	$ 113,722	$ 834,547	$ 669,457

The statement of activities shows the cost of program services and the charges for services and grants offsetting those costs. Table 2 shows, for governmental and business-type activities, the total cost of services for fiscal year 2017-18 as compared to fiscal year 2016-17.

Program revenues are used to partially offset the costs of governmental activities. Those program revenues that offset expenses this year include:

- Charges for services which include tuition for nonresident students, fees for extra programs, contracted rental of facilities and admission paid to athletic events.
- Operating grants and contributions include state subsidies for special education, transportation and employee benefits, as well as federal and state grants for specific programs.

Table 3 shows, for governmental activities, the total cost of services and the net cost of services.

(Table 3)
Governmental Activities

	Total cost of services		Net cost of services	
	2018	2017	2018	2017
Instruction	$ 53,636,895	$ 51,641,716	$ 42,440,497	$ 41,336,770
Support services:				
Instructional student support	4,012,052	3,990,374	3,315,716	3,462,533
Administrative and financial support services	8,240,927	8,375,147	7,217,706	7,611,892
Operation and maintenance of plant	6,081,590	6,460,793	5,602,745	6,099,727
Pupil transportation	3,789,517	3,844,514	2,034,242	2,172,911
Student activities	1,721,913	1,670,235	1,501,051	1,487,448
Capital outlay	4,346,130	2,652,477	4,346,130	2,652,477
Interest on long-term debt	1,243,594	1,686,478	125,933	(1,070,771)
Other expenses	25,578	16,665	4,815	2,803
Total expenses	$ 83,098,196	$ 80,338,399	$ 66,588,835	$ 63,755,790

The dependence upon tax revenues and grants and entitlements for governmental activities is apparent. 79.1% of instructional activities are supported through taxes and other general revenues as compared with 80.0% in the previous year. When looking at the total governmental activities, the general revenue and tax support needed increased slightly from 79.4% to 80.1%. The community, as a whole, is by far the primary financial support for Penn Manor School District.

Expenses for governmental activities increased by $2,759,797, which is a 3.4% increase over the prior year. While salaries experienced a modest raise, benefit increases were driven largely by the increased PSERS employer expense. Planned transfers to the district's capital reserve fund increased over the previous year as the district prepares for a major renovation of the high school. The School District continues its efforts to reduce expenditures in operations, administration and personnel costs.

Business-Type Activities

Business-type activities consist only of food service operations. This program had revenues, including state and federal support, of $2.6 million and expenses of $2.5 million for the fiscal year. Meal prices were held constant with the previous year. Net position was $1,395,360 as of June 30, 2018. The increase of net position can be attributed to steady non-operating revenues coupled with a decrease in operating revenues and operating expenses. The food service operation receive minimal support from tax revenues in 2017-18. No transfer from the General Fund has been budgeted for the 2017-18 school year in an effort to promote self-sustainability in the food service operation although it is likely that a small transfer will be required to offset uncollectable student debts.

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of $83.9 million and expenditures of $83.7 million. This resulted in the overall fund balance increasing by $218,002.

- General Fund transfers to other funds included a planned transfer to the Capital Reserve Fund of $2,403,895. This amount represents money raised specifically to help offset the costs of the future high school renovation project. There was also an additional planned $500,000 transfer from the General Fund to the Capital Reserve Fund.

- The fund balance in the General Fund increased by $1,866,840. Legislation enacted in December 2003 mandates that a school district may not carry an unassigned fund balance that exceeds 8% of expenditures. A commitment of fund balance occurred during the year-end process that set the estimated unassigned fund balance at 7.0%. A recommitment of funds will occur during the budgeting process for the 2019-20 fiscal year to accommodate the current year estimates calculated each spring.

- The School District starts the next fiscal year with a total fund balance of 21.5% of budgeted expenditures and other financing uses. A large portion of the fund balance is committed for planned and expected expenses related to the projected increase in employer retirement costs associated with the PSERS program, an establishment of a healthcare internal service fund, costs associated with future renovation projects and new textbooks and software upgrades. Planned use of the fund balance during the 2018-19 fiscal year is budgeted to keep the School District below the 8% limit on June 30, 2019.

- The planned, budgeted use of fund balance has allowed the School District to temper the impact of rising costs on the local tax levy. A tax increase was implemented for the 2018 tax levy in addition to planned use of fund balance to assist the School District in balancing the budget. As tough economic years are expected in the future, the Act 1 Index was decreased slightly for the 2019-20 budget year. The adjusted index for Penn Manor School District has been set at 2.9% for the 2019-20 fiscal year, which is slightly higher than the ten-year average of 2.63%.

General Fund Budgeting Highlights

The School District's General Fund budget is prepared according to Pennsylvania law.

During the course of fiscal 2017-18, the School District administered expenditures based on its General Fund budget. The School District uses site based budgeting, and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. At the end of the fiscal year, the School Board approved certain budgetary transfers to be made, as needed, to comply with statutory requirements. No change was made to original revenue or expenditures/other financing uses budget total amounts; budgets were transferred within the original totals approved for 2017-18.

For the General Fund, actual revenues were $83.72 million; this was $2,800,053 over the original budget estimates of $80.92 million. The difference between actual and budgeted revenue is composed of fluctuations within several of the revenue accounts comprised of an additional $812,061 received in Local Revenues, $1,821,435 received in State Revenues and $166,557 in Federal Revenues.

Capital Assets and Debt Administration

Capital assets

At the end of the fiscal year, the School District had $121.5 million invested in land, buildings and equipment, with $121.4 million in governmental activities. Table 4 shows the fiscal 2017 balance compared to 2018.

(Table 4)
Capital Assets at June 30, Net of Depreciation

	Governmental activities		Business-type activities		Total	
	2018	2017	2018	2017	2018	2017
Land	$ 6,887,173	$ 6,794,658			$ 6,887,173	$ 6,794,658
Buildings and improvements	112,276,007	114,393,402			112,276,007	114,393,402
Furniture and equipment, vehicles	2,237,603	2,109,944	$ 90,691	$ 76,223	2,328,294	2,186,167
Totals	$ 121,400,783	$ 123,298,004	$ 90,691	$ 76,223	$ 121,491,474	$ 123,374,227

The overall total of capital assets decreased during 2017-18 as annual depreciation expenses outpaced asset additions. A full appraisal was performed at the end of the 2006-07 fiscal year for insurance purposes and for fixed asset accounting. The fixed asset listing continues to be updated annually, while insurance appraisals are scheduled through the Lancaster Lebanon Public Schools Insurance Consortium.

Debt

At June 30, 2018, the School District had $50.0 million in bonds and notes outstanding as compared to $56.1 million a year ago. Table 5 summarizes bonds outstanding.

(Table 5)
Outstanding Debt at Year End

	Governmental activities	
	2018	2017
General Obligation Bonds:		
Series A of 2010		$ 3,185,000
Series of 2012	$ 9,175,000	9,180,000
Series of 2013	4,725,000	6,530,000
Series of 2014		8,330,000
Series of 2015	14,190,000	14,195,000
Series of 2017	11,940,000	
General Obligation Notes:		
Series of 2013A		4,645,000
Series of 2016	9,990,000	9,995,000
Total	$ 50,020,000	$ 56,060,000

The School District decreased its bonds and notes by a net of $6.0 million during 2017-18. A significant amount of principal was paid down according to the debt schedules as two issues were refunded. Moody's Investors Service has assigned an A1 enhanced with a stable outlook and an A2 underlying rating to the Penn Manor School District. The A2 underlying rating reflects the School District's satisfactory financial operations, manageable debt position and modestly growing rural/agricultural tax base. The A1 enhanced rating is based upon the additional security for these bonds provided by the Commonwealth of Pennsylvania's Act 150 School District Intercept Program. The Act provides for undistributed state aid to be diverted to bondholders in the event of default.

For the Future

While Penn Manor School District continues to be strong financially, there are concerns regarding the economic and political outlook for the state and the local community. As the preceding information shows, the School District maintains a healthy investment in fixed assets to support and provide comprehensive educational services. The School District also considers future implications of current and ongoing financial obligations and prudently manages its financial assets. Strong academic performance is supported by reasonable and competitive per pupil spending. Balanced payment schedules on existing debt obligations should mean steady tax implications in the future.

The Board of Directors has chosen to renovate the high school facility. After two years of investigation and public presentations for the community and the school board, the board directed the administration to develop plans for a complicated $87,000,000 renovation on the current site of the high school that will involve extensive demolition and reconstruction of the facility. Design work is now complete, and the planned renovation will begin in the spring of 2019. The Board has prudently discussed funding options and implications and has entered into two separate cash forward swap instruments in an effort to hedge against anticipated interest rate increases. The first swap has been terminated as reported in the notes under subsequent events.

The School District passed the budget for 2018-19 in June 2018 with a 4.6% property tax increase. Under Act 1, the state allowed the School District to increase up to the adjusted index of 3.0%, and the School District sought and was granted exceptions to the index for retirement and special education expenses for an additional 1.6%. When coupled with uncertain state subsidized support and increased mandated costs, remaining at or below the Act 1 index presents significant financial challenges for the School District. Management will continue to carefully control expenses during the coming years to ensure a balance is struck between the need for tax increases in conjunction with the steady structured use of fund balance to balance future budgets.

As we have seen throughout the nation, the economic situation is having an effect on the public sector. Many districts in Pennsylvania face challenges on a number of issues. With the passage of Act 1 of 2006, our School District is faced with a cap on the amount of money that can be funded from a property tax increase. This cap is based upon a number calculated and provided by the Department of Education. Limited tax relief arrived in the 2008-09 tax year as the Commonwealth was able to send school districts a portion of the gambling revenue to be used as an offset to real estate tax increases. In 2017-18, Penn Manor School District was fortunate to receive $1,295,369 that offset property taxes due from taxpayers who had qualified for the homestead or farmstead exemptions. Other implications of the law include earlier budgetary planning cycles and limits on the tax increases which can be levied without voter referendums.

Many districts face the common problem of escalating costs for employee benefits, particularly the retirement expenses of PSERS and, as in the case for our School District, self-insured medical costs. Both of these costs are set by outside influences and, therefore, are not discretionary costs that can be controlled by School District management.

Market performance of the invested PSERS funds has resulted in estimated increases that will affect our employer contributions for years to come. While the actual effect of the current market has yet to be determined, higher employer costs in the short term and dramatically higher rates in the future are being planned for by the School District through the use of committed fund balance integrated with millage increases. This condition will have an alarming effect on school district budgeting across the Commonwealth and may lead to significant reductions in programs and services. The portion of funds committed in the School District's fund balance to be used to contain the projected increases in the employer share of PSERS will not be enough to alleviate the problem, but it will allow the School District to prudently plan for any potential changes. The School District is fortunate to have anticipated the looming crisis and fortunate to have committed funds available to help lessen the dramatic impact that other districts may experience.

The costs of medical benefits will continue to have an effect on the School District budget as we continue to offer a competitive benefits package to employees through our self-insured plan. The School District continues to implement various wellness strategies to lower the pace of medical inflation. A Collective Bargaining Agreement is in effect through the 2020-21 school year and has given some relief to these costs through employee contributions, but those contributions cover only a fraction of actual expenses. This past fiscal year saw a sharp increase in healthcare expenses over the previous year, highlighting the difficulty in budgeting and planning for such costs. Any changes to the employee healthcare plan are a result of negotiating a comprehensive package with the education association.

In conclusion, Penn Manor School District has committed itself to financial and educational excellence for many years. The School District's system of budgeting and internal controls is well regarded and consistently followed. Continued diligence in all financial matters will be a key component of continued financial performance well into the future.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it received. If you have questions about this report or need additional financial information, please contact Christopher L. Johnston, Business Manager, at Penn Manor School District, PO Box 1001, Millersville, PA 17551 or visit our website at www.pennmanor.net.

PENN MANOR SCHOOL DISTRICT

STATEMENT OF NET POSITION (DEFICIT) – JUNE 30, 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	Governmental activities	Business-type activities	Total
Current assets:			
Cash and cash equivalents	$ 5,149,524	$ 1,167,781	$ 6,317,305
Investments	28,941,068	143,789	29,084,857
Taxes receivable, net	2,099,484		2,099,484
Due from other governments	4,700,946	187,575	4,888,521
Other receivables	359,548	8,422	367,970
Internal balances	108,916	(108,916)	-
Inventories		38,109	38,109
Total current assets	41,359,486	1,436,760	42,796,246
Noncurrent assets:			
Investments held for long-term purposes	519,909		519,909
Construction in progress	2,662,907		2,662,907
Land	6,887,173		6,887,173
Site improvements, net of accumulated depreciation	3,159,281		3,159,281
Buildings and building improvements, net of accumulated depreciation	106,453,819		106,453,819
Furniture, equipment and educational media, net of accumulated depreciation	1,968,700	61,702	2,030,402
Vehicles, net of accumulated depreciation	268,903		268,903
Total noncurrent assets	121,920,692	61,702	121,982,394
Total assets	163,280,178	1,498,462	164,778,640
Deferred outflows of resources:			
Pensions	19,018,195		19,018,195
Other postemployment benefits	214,495		214,495
Other postemployment benefits (HIPAP)	318,000		318,000
Total deferred outflows of resources	19,550,690		19,550,690
Total assets and deferred outflows of resources	$ 182,830,868	$ 1,498,462	$ 184,329,330

See notes to financial statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)

	Governmental activities	Business-type activities	Total
Current liabilities:			
Accounts payable	$ 2,135,290	$ 17,331	$ 2,152,621
Accrued salaries and benefits	7,961,047		7,961,047
Current portion of:			
Bonds and notes payable	4,780,000		4,780,000
Compensated absences	357,372	3,332	360,704
Payroll deductions and withholdings	78,266		78,266
Unearned revenue	2,847	52,448	55,295
Accrued bond interest	291,112		291,112
Total current liabilities	15,605,934	73,111	15,679,045
Noncurrent liabilities:			
Bonds and notes payable	47,561,621		47,561,621
Accrued retirement costs	1,067,649		1,067,649
Other postemployment benefits	3,737,178		3,737,178
Other postemployment benefits (HIPAP)	4,894,000		4,894,000
Net pension liability	118,631,000		118,631,000
Long-term portion of compensated absences	2,117,660	29,991	2,147,651
Total noncurrent liabilities	178,009,108	29,991	178,039,099
Total liabilities	193,615,042	103,102	193,718,144
Deferred inflows of resources:			
Pensions	974,000		974,000
Other postemployment benefits (HIPAP)	228,000		228,000
Deferred gain on refunding	571,136		571,136
Total deferred inflows of resources	1,773,136		1,773,136
Net position (deficit):			
Net investment in capital assets	69,007,935	61,702	69,069,637
Restricted	9,156,099		9,156,099
Unrestricted	(90,721,344)	1,333,658	(89,387,686)
Total net position (deficit)	(12,557,310)	1,395,360	(11,161,950)
Total liabilities, deferred inflows of resources and net position (deficit)	$ 182,830,868	$ 1,498,462	$ 184,329,330

PENN MANOR SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

		Program revenues		Net revenue (expense) and changes in net position		
	Expenses	Charges for services	Operating grants and contributions	Governmental activities	Business-type activities	Total
Governmental activities:						
Instruction	$ 53,636,895	$ 398,549	$ 10,797,849	$ (42,440,497)		$ (42,440,497)
Instructional student support	4,012,052		696,336	(3,315,716)		(3,315,716)
Administrative and financial support services	8,240,927		1,023,221	(7,217,706)		(7,217,706)
Operation and maintenance of plant services	6,081,590	62,831	416,014	(5,602,745)		(5,602,745)
Pupil transportation	3,789,517		1,755,275	(2,034,242)		(2,034,242)
Student activities	1,721,913	48,611	172,251	(1,501,051)		(1,501,051)
Community services	20,836		20,763	(73)		(73)
Scholarships and awards	1,303			(1,303)		(1,303)
Capital outlay	3,841,454			(3,841,454)		(3,841,454)
Long-term debt interest	1,748,270		1,117,661	(630,609)		(630,609)
Miscellaneous	3,439			(3,439)		(3,439)
Total governmental activities	83,098,196	509,991	15,999,370	(66,588,835)		(66,588,835)
Business-type activities, food services	2,460,319	949,958	1,583,635		$ 73,274	73,274
Total primary government	$ 85,558,515	$ 1,459,949	$ 17,583,005	(66,588,835)	73,274	(66,515,561)

(continued)

PENN MANOR SCHOOL DISTRICT

STATEMENT OF ACTIVITIES (CONTINUED)

YEAR ENDED JUNE 30, 2018

		Program revenues		Net revenue (expense) and changes in net position		
	Expenses	Charges for services	Operating grants and contributions	Governmental activities	Business-type activities	Total
General revenues:						
Taxes:						
Property taxes, etc.				$ 47,927,037		$ 47,927,037
Other				7,086,130		7,086,130
Grants, subsidies and other nonrestricted				11,562,840		11,562,840
Interest				609,958	$ 19,765	629,723
Miscellaneous				228,872		228,872
Loss on disposal of assets				(86,294)		(86,294)
Proceeds from sale of assets				1,800		1,800
Transfers				(6,573)	6,573	-
Total general revenues				67,323,770	26,338	67,350,108
Change in net position				734,935	99,612	834,547
Net position (deficit):						
July 1, 2017, restated				(13,292,245)	1,295,748	(11,996,497)
June 30, 2018				$ (12,557,310)	$ 1,395,360	$ (11,161,950)

See notes to financial statements.

PENN MANOR SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS – JUNE 30, 2018

ASSETS

	Major funds			
	General fund	Capital reserve	Nonmajor fund, capital projects	Total governmental funds
Assets:				
Cash and cash equivalents	$ 5,149,524			$ 5,149,524
Investments	16,551,166	$ 9,494,769	$ 3,415,041	29,460,976
Taxes receivable, net	2,099,484			2,099,484
Due from:				
Other funds	113,921	500,000		613,921
Other governments	4,700,946			4,700,946
Other receivables, net	359,279			359,279
Total assets	$ 28,974,320	$ 9,994,769	$ 3,415,041	$ 42,384,130

See notes to financial statements.

LIABILITIES, DEFFERED INFLOWS OF RESOURCES AND FUND BALANCES

	Major funds			
	General fund	Capital reserve	Nonmajor fund, capital projects	Total governmental funds
Liabilities:				
Due to other funds	$ 504,736			$ 504,736
Accounts payable	1,296,619	$ 838,670		2,135,289
Accrued salaries and benefits	7,961,047			7,961,047
Payroll deductions and withholdings	78,266			78,266
Unearned revenue	2,847			2,847
Total liabilities	9,843,515	838,670		10,682,185
Deferred inflows of resources, unavailable revenue	599,705			599,705
Fund balances:				
Restricted		9,156,099		9,156,099
Committed	12,502,306			12,502,306
Assigned			$ 3,415,041	3,415,041
Unassigned	6,028,794			6,028,794
Total fund balances	18,531,100	9,156,099	3,415,041	31,102,240
Total liabilities, deferred inflows of resources and fund balances	$ 28,974,320	$ 9,994,769	$ 3,415,041	$ 42,384,130

PENN MANOR SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION (DEFICIT)

YEAR ENDED JUNE 30, 2018

Total fund balances, governmental funds	$ 31,102,240
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets and construction in progress used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of assets is $188,685,011, and the accumulated depreciation is $67,284,228.	121,400,783
Property taxes receivable will be collected subsequent to year-end but are not available soon enough to pay for the current period's expenditures and, therefore, are unavailable in the funds.	599,705
Deferred gain on refunding is not reported as a deferred inflow of resources in the funds.	(571,136)
Net pension, net other employment benefits and net other postemployment benefits (HIPAP) obligations are not due and payable in the current period and, therefore, are not reported in the funds:	
Net pension liability	(118,631,000)
Net other postemployment benefits liability	(3,737,178)
Net other postemployment benefits (HIPAP) liability	(4,894,000)

(continued)

PENN MANOR SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION (DEFICIT) (CONTINUED)

YEAR ENDED JUNE 30, 2018

Deferred outflows and inflows of resources related to pensions, other postemployment benefits and other postemployment benefits (HIPAP) are applicable to future periods and, therefore, are not reported in the funds:		
Deferred outflows of resources:		
Pensions		$ 19,018,195
Other postemployment benefits		214,495
Other postemployment benefits (HIPAP)		318,000
Deferred inflows of resources:		
Pensions		(974,000)
Other postemployment benefits (HIPAP)		(228,000)
Long-term liabilities, net of related assets, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds and notes payable	$ (50,020,000)	
Accrued interest on the bonds and notes payable	(291,112)	
Unamortized bond premium, net of discount	(2,321,621)	
Accrued retirement costs	(1,067,649)	
Compensated absences	(2,475,032)	(56,175,414)
Total net position (deficit), governmental activities		$ (12,557,310)

See notes to financial statements.

PENN MANOR SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2018

	Major funds			Nonmajor fund	
	General fund	Capital reserve	Debt service	Capital projects	Total governmental funds
Revenues:					
Local sources:					
Real estate taxes	$ 47,432,902				$ 47,432,902
Other taxes	7,086,130				7,086,130
Investment income	442,076	$ 127,186		$ 40,696	609,958
Other revenue	1,932,376				1,932,376
Total local sources	56,893,484	127,186		40,696	57,061,366
State sources	25,669,148				25,669,148
Federal sources	1,153,549				1,153,549
Total revenues	83,716,181	127,186		40,696	83,884,063

(continued)

PENN MANOR SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS (CONTINUED)

YEAR ENDED JUNE 30, 2018

	Major funds			Nonmajor fund	
	General fund	Capital reserve	Debt service	Capital projects	Total governmental funds
Expenditures:					
Instructional services	$ 49,572,605				$ 49,572,605
Support services	21,343,273				21,343,273
Noninstructional services	1,439,677				1,439,677
Capital outlay		$ 4,713,007		$ 7,608	4,720,615
Debt service:					
Principal			$ 5,005,000		5,005,000
Interest			1,576,915		1,576,915
Refunds of prior years' receipts	3,203				3,203
Total expenditures	72,358,758	4,713,007	6,581,915	7,608	83,661,288

(continued)

PENN MANOR SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS (CONTINUED)

YEAR ENDED JUNE 30, 2018

	Major funds			Nonmajor fund	
	General fund	Capital reserve	Debt service	Capital projects	Total governmental funds
Excess (deficiency) of revenues over expenditures	$ 11,357,423	$ (4,585,821)	$ (6,581,915)	$ 33,088	$ 222,775
Other financing sources (uses):					
Debt proceeds,net			13,536,516		13,536,516
Refundings:					
Current			(4,665,471)		(4,665,471)
Advanced			(8,814,205)		(8,814,205)
Debt issuance costs			(56,840)		(56,840)
Interfund transfers	(9,492,383)	2,903,895	6,581,915		(6,573)
Proceeds from sale of assets	1,800				1,800
Total other financing sources (uses)	(9,490,583)	2,903,895	6,581,915		(4,773)
Net changes in fund balances	1,866,840	(1,681,926)	-	33,088	218,002
Fund balances:					
July 1, 2017, restated (capital reserve and capital projects)	16,664,260	10,838,025		3,381,953	30,884,238
June 30, 2018	$ 18,531,100	$ 9,156,099	$ -	$ 3,415,041	$ 31,102,240

See notes to financial statements.

PENN MANOR SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

Total net change in fund balances, governmental funds		$ 218,002
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 allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation expense for the period.		
Depreciation expense	$ (4,745,849)	
Disposal of assets	(86,294)	
Capital outlay	2,934,922	(1,897,221)
Because some property taxes will not be collected for several months after the School District's fiscal year-end, they are not considered as available revenues in the governmental funds. Unavailable tax revenue decreased by this amount this year.		40,135
Issuance of long-term debt provides current financial resources to governmental funds. The repayment of the principal of long-term debt consumes the current financial resources of governmental funds. However, this transaction has no effect on net position. Also, governmental funds report the effect of insurance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these transactions in the statement of activities is shown below:		
Bond proceeds	(11,945,000)	
Debt service, principal payment to refunded bond escrow agent	8,330,000	
Debt service, principal payment of current refunding	4,645,000	
Bond premium, net of discount	(1,591,516)	
Repayment of bond principal	5,005,000	
Amortization of:		
Bond premium, net of discount	329,250	
Deferred loss on refunding	75,868	4,848,602

(continued)

PENN MANOR SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (CONTINUED)

YEAR ENDED JUNE 30, 2018

In the statement of activities, interest is accrued on outstanding bonds and notes, whereas in the governmental funds, an interest expenditure is reported when due.		$ (71,797)
Governmental funds report District pension, other postemployment benefits and other postemployment benefits (HIPAP) contributions as expenditures. However, in the statement of activities, the cost of these benefits earned is reported as expense.		
Pensions:		
District pension contributions	$ 10,478,000	
Cost of benefits earned	(12,195,000)	(1,717,000)
Other postemployment benefits:		
District contributions	121,375	
Cost of benefits earned	(362,553)	(241,178)
Other postemployment benefits (HIPAP):		
District contributions	276,000	
Cost of benefits earned	(215,000)	61,000
In the statement of activities, certain operating expenses (compensated absences, other postemployment benefits and retirement costs) are measured by the amounts incurred during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount incurred versus the amount used.		
Compensated absences	(395,938)	
Retirement incentive liability	(109,670)	(505,608)
Change in net position of governmental activities		$ 734,935

See notes to financial statements.

PENN MANOR SCHOOL DISTRICT

STATEMENT OF NET POSITION – PROPRIETARY FUND

JUNE 30, 2018

	Food service
ASSETS	
Current assets:	
Cash and cash equivalents	$ 1,167,781
Investments	143,789
Due from other governments	187,575
Other receivables	8,422
Inventories	38,109
Total current assets	1,545,676
Noncurrent assets, machinery and equipment, net of accumulated depreciation	61,702
Total assets	$ 1,607,378
LIABILITIES AND NET POSITION	
Current liabilities:	
Accounts payable	$ 17,331
Current portion of compensated absences	3,332
Unearned revenue	52,448
Due to other funds	108,916
Total current liabilities	182,027
Noncurrent liabilities, noncurrent portion of compensated absences	29,991
Total liabilities	212,018
Net position:	
Net investment in capital assets	61,702
Unrestricted	1,333,658
Total net position	1,395,360
Total liabilities and net position	$ 1,607,378

See notes to financial statements.

PENN MANOR SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION – PROPRIETARY FUND

YEAR ENDED JUNE 30, 2018

	Food service
Operating revenues:	
Food service revenue	$ 914,211
Other operating revenue	35,747
Total operating revenues	949,958
Operating expenses:	
Salaries	634,401
Employee benefits	359,284
Supplies	1,265,437
Depreciation	14,521
Other operating expenses	186,676
Total operating expenses	2,460,319
Operating loss	(1,510,361)
Nonoperating revenues:	
Earnings on investments	19,765
Sources:	
State	196,895
Federal	1,386,740
Total nonoperating revenues	1,603,400
Change in net position before operating transfers	93,039
Transfers in	6,573
Change in net position	99,612
Net position:	
July 1, 2017	1,295,748
June 30, 2018	$ 1,395,360

See notes to financial statements.

PENN MANOR SCHOOL DISTRICT

STATEMENT OF CASH FLOWS – PROPRIETARY FUND

YEAR ENDED JUNE 30, 2018

	Food service
Cash flows from operating activities:	
Cash received from users	$ 941,623
Cash payments to:	
Suppliers for goods and services	(1,259,122)
Employees for services	(988,532)
Net cash used in operating activities	(1,306,031)
Cash flows from noncapital financing activities:	
Operating transfers	6,573
Sources:	
State	197,545
Federal	1,194,279
Net cash provided by noncapital financing activities	1,398,397
Cash flows from investing activities:	
Earnings on investments	19,765
Withdrawals or redemptions from investment securities	2,125,433
Purchase of investment securities	(2,103,138)
Net cash provided by investing activities	42,060
Net increase in cash and cash equivalents	134,426
Cash and cash equivalents:	
Beginning of year	1,033,355
End of year	$ 1,167,781

(continued)

PENN MANOR SCHOOL DISTRICT

STATEMENT OF CASH FLOWS – PROPRIETARY FUND (CONTINUED)

YEAR ENDED JUNE 30, 2018

	Food service
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (1,510,361)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	14,521
Donated commodities	192,030
Decrease in:	
Accounts receivable	(8,335)
Inventories	9,228
Increase (decrease) in:	
Accounts payable and other liabilities	4,261
Unearned revenue	(7,375)
Total adjustments	204,330
Net cash used in operating activities	$ (1,306,031)

See notes to financial statements.

PENN MANOR SCHOOL DISTRICT

STATEMENT OF NET POSITION – FIDUCIARY FUNDS

JUNE 30, 2018

	Private purpose trust	Agency
Assets:		
Cash and cash equivalents		$ 81,395
Investments	$ 58,496	59,720
Total assets	$ 58,496	$ 141,115
Liabilities:		
Due to other funds		$ 269
Accounts payable		26,468
Other current liabilities		114,378
Total liabilities		141,115
Net position, reserved for:		
Scholarships	$ 26,408	
Endowments	32,088	
Total net position	58,496	
Total liabilities and net position	$ 58,496	$ 141,115

See notes to financial statements.

PENN MANOR SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – FIDUCIARY FUNDS

YEAR ENDED JUNE 30, 2018

	Private purpose trust
Additions:	
Gifts and contributions	$ 23
Earnings on investments	645
	668
Deduction, scholarships awarded	(1,795)
Change in net position	(1,127)
Net position:	
July 1, 2017	59,623
June 30, 2018	$ 58,496

See notes to financial statements.

1. Summary of significant accounting policies:

Penn Manor School District (the School District or District), located in Lancaster County, Pennsylvania, provides a full range of educational services appropriate to grade levels kindergarten through 12 to students living in Conestoga Township, Manor Township, Martic Township, the Borough of Millersville and Pequea Township. These include regular, advanced academic and vocational education programs and special education programs for gifted and physically and mentally challenged children. The governing body of the School District is a board of nine school directors who are each elected for a four-year term. The daily operation and management of the School District is carried out by the administrative staff of the School District, headed by the Superintendent of Schools who is appointed by the Board of School Directors. The School District is comprised of seven elementary schools, two middle schools and one high school, serving 5,250 students.

The financial statements of the Penn Manor School District have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the School District's significant accounting policies.

Reporting entity:

The criteria used by the School District to evaluate the possible inclusion of related entities (authorities, boards, councils, etc.) within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given case, the School District reviews the applicability of the following criteria.

The School District is financially accountable for:

1. Organizations that make up its legal entity.

2. Legally separate organizations if School District officials appoint a voting majority of the organization's governing body and the School District is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the School District as defined below.

Impose its will - If the School District can significantly influence the programs, projects or activities of, or the level of services performed or provided by, the organization.

1. Summary of significant accounting policies (continued):

Reporting entity (continued):

Financial benefit or burden - If the School District (1) is entitled to the organization's resources or (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization or (3) is obligated in some manner for the debt of the organization.

3. Organizations that are fiscally dependent on the School District. Fiscal dependency is established if the organization is unable to adopt its own budget, levy taxes or set rates or charges or issue bonded debt without the approval of the School District.

Based on the foregoing criteria, no additional entities are included in the accompanying financial statements.

Basis of presentation, fund accounting:

The accounts of the School District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts comprising each fund’s assets and deferred outflows of resources, liabilities and deferred inflows of resources, fund equity, revenues and expenditures/expenses. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent.

Basis of presentation, financial statements:

<u>Government-wide financial statements</u>

The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. As a general rule, the effect of interfund activity has been eliminated from these financial statements. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

1. Summary of significant accounting policies (continued):

Basis of presentation, financial statements (continued):

Government-wide financial statements (continued)

The government-wide statements are prepared using the economic resources measurement focus. 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. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents direct expenses and program revenues for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws on the general revenues of the School District.

Fund financial statements

Fund financial statements are provided for governmental, proprietary and fiduciary funds. Major individual governmental and proprietary funds are reported in separate columns. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets, current liabilities and fund balances and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

1. Summary of significant accounting policies (continued):

Basis of presentation, financial statements (continued):

Fund financial statements (continued)

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included in the statement of net position. The statement of revenues, expenses and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds are reported using the economic resources measurement focus.

The School District reports the following major governmental funds:

General fund - The general fund is the principal operating fund of the School District. It is used to account for all current financial resources except those required to be accounted for in another fund.

Capital reserve fund – This fund is used to account for transfers from other funds and related investment earnings for capital outlays not accounted for in another fund.

Debt service fund - This fund is used to account for the accumulation of resources for and payment of general long-term debt principal and interest.

The School District reports the following nonmajor governmental fund:

Capital projects fund - This fund is used to account for financial resources related to general fixed asset acquisitions, construction and improvements.

The School District reports the following proprietary fund:

Food service fund - This fund accounts for the revenues, food purchases and other costs and expenses of providing meals to students during the school year.

1. Summary of significant accounting policies (continued):

Basis of presentation, financial statements (continued):

Fund financial statements (continued)

The School District accounts for assets held by the School District in a trustee capacity in a private purpose trust fund. This fund accounts for receipts and disbursement of monies contributed to the School District for scholarships and memorials.

The agency fund is used to account for assets held by the School District as agent for others. Agency funds are custodial in nature and do not involve measurement of results of operations. This fund represents the student activities fund.

Basis of accounting:

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

Government-wide, proprietary and fiduciary fund financial statements measure and report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, expenses, gains and losses using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, except for postemployment healthcare benefits (Note 15). Taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues in the year in which the eligibility requirements imposed by the provider have been met.

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the School District is considered to be 60 days after fiscal year-end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except debt service, compensated absences, pension and OPEB which are recognized when due or paid.

Under the modified accrual basis, the following revenue sources are considered susceptible to accrual at year-end: property taxes, tuition, grants and entitlements, student fees and interest on investments.

1. Summary of significant accounting policies (continued):

Basis of accounting (continued):

Current property taxes measurable at June 30, 2018, and which are not intended to finance 2017-2018 school year operations, have been recorded as unearned revenue. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenue at year-end.

Revenues, exchange and nonexchange transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year in which the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from exchange and nonexchange transactions must also be available before it can be recognized.

Cash and cash equivalents:

Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and include investments with maturities of three months or less when purchased.

Cash and cash equivalents include amounts in demand and interest-bearing bank deposits at cost which is fair value.

Investments:

Investments are stated at fair value. Fair value of the investment is equal to cost/principal amounts because those are the values at which those investments could be readily redeemed.

1. Summary of significant accounting policies (continued):

Inventories:

There is no inventory recorded in the general fund. Items such as office supplies and cleaning materials are expensed as incurred.

Inventories in the food service fund represent the cost, using the first-in, first-out (FIFO) method, of food and supplies on hand at June 30, 2018, including the value of commodities donated by the federal government. Any unused commodities donated by the federal government are reported as unearned revenue until used.

Capital assets and depreciation:

The School District's property, plant and equipment with useful lives of more than one year are stated at historical cost (or estimated historical cost) and are comprehensively reported in the government-wide financial statements. Proprietary fund capital assets are also reported in its fund financial statements. Donated assets are stated at acquisition value on the date donated. The School District generally capitalizes assets with a cost of $5,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method over their estimated useful lives. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations. Estimated historical costs of capital assets were derived, when information supporting historical costs was not obtainable, by adjusting replacement cost back to the estimated year of acquisition.

Estimated useful lives, in years, for depreciable assets are generally as follows:

Assets	Years
School buildings	40
Building improvements	20
Site improvements	20
Furniture and equipment	5 to 12
Vehicles	12

1. Summary of significant accounting policies (continued):

Deferred outflows and inflows of resources:

The statement of financial position reports separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources are a separate financial statement element and represent consumption of net position or fund balance that applies to future periods, and thus, will not be recognized as an outflow of resources (expense) until then. Deferred inflows of resources are a separate financial statement element and represent the acquisition of net position or fund balance that applies to future periods and will not be recognized as an inflow of resources (revenue) until a future period. The District has three items that qualify for reporting as a deferred outflow of resources and a deferred inflow of resources. One item relates to the net pension liability, and these deferrals are only reported in the government-wide statement of net position (deficit). Deferred outflows and deferred inflows of resources result from changes in the District's proportionate share of the total pension liability and the pension plan's fiduciary net position; for contributions made to the plan between the measurement date of the net pension liability and the end of the District's fiscal year; for differences between projected and actual experience; and for actual pension plan investment earnings in excess of or less than the expected amount included in determining pension expense. The deferred outflows related to the contribution are included in pension expense in the next year, whereas other deferrals are attributed to pension expense over a total of five years, including the current year. The second item relates to the net other postemployment benefits and net other postemployment benefits (HIPAP), and these deferrals are only reported in the government-wide statement of net position (deficit). Deferred outflows and deferred inflows of resources related to other postemployment benefits result from changes in the District's actuarially determined liability. Deferred outflows and deferred inflows of resources related to other postemployment benefits (HIPAP) result from changes in the District's proportionate share of the total other postemployment benefits (HIPAP) liability and the other postemployment benefit (HIPAP) plan's fiduciary net position; for contributions made to the plan between the measurement date of the net other postemployment benefits (HIPAP) liability and the end of the District's fiscal year; for differences between projected and actual experience; and for actual other postemployment benefits (HIPAP) plan investment earnings in excess of or less than the expected amount included in determining the expense. The deferred outflows related to the contribution are included in other postemployment benefits (HIPAP) expense in the next year, whereas other deferrals are attributed to other postemployment benefits (HIPAP) expense over a total of five to seven years, including the current year. The third item, deferred charge on 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. In the fund financial statements, governmental fund types recognize the deferred charge on refunding as an expense during the current year.

1. Summary of significant accounting policies (continued):

Long-term obligations:

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position. Bond premiums and discounts, as well as insurance costs, are deferred and amortized over the life of the bonds 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 while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as other financing uses.

Compensated absences:

The School District accrues vacation leave and retirement costs as liabilities as the benefits are earned by the employees if it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Professional employees with qualifying years of service receive a lump-sum retirement bonus according to either the collective bargaining agreement or Act 93 agreement.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive severance benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year-end, taking into consideration any limits specified in the School District's severance policy. For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected.

Additional amounts are accrued for salary-related payments associated with the payment of compensated absences using the rates in effect at the balance sheet date. The School District has accrued the employer's share of Social Security and Medicare taxes.

1. Summary of significant accounting policies (continued):

Encumbrances:

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration and project control in the general fund. Encumbrances outstanding at year-end are reported as reservations of fund balances because they do not constitute expenditures or liabilities. As of June 30, 2018, the School District had no encumbrances.

Pension and other postemployment benefit (HIPAP) plans:

For purposes of measuring the net pension liability, net other postemployment benefits (HIPAP), deferred outflows of resources and deferred inflows of resources related to pensions and other postemployment benefits (HIPAP), pension expense and other postemployment benefits (HIPAP) expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Substantially all full-time and part-time employees of the District participate in a cost-sharing multiple-employer defined benefit pension plan through Public School Employees' Retirement System (PSERS or System). On the governmental fund financial statements, the District recognizes annual pension expenditures or expenses equal to its contractually required contributions. For the fiscal year ended June 30, 2018, the rate of employer contribution was 32.57%. The 32.57% rate is composed of a contribution rate of 31.74% for pension benefits and 0.83% for healthcare insurance premium assistance. The District is required to pay the entire employer contribution rate and is reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income aid ratio (as defined in Act 29 of 1994), which is at least one half of the total employer rate. Such payments are recorded in the general fund and proprietary funds as state source revenues. In the government-wide financial statements, payments are allocated based on function. The District made all required contributions for the year ended June 30, 2018 and has recognized them as expenditures or expenses.

1. Summary of significant accounting policies (continued):

Other postemployment benefits:

In the government-wide statements, the District recognizes the costs and liabilities associated with postemployment benefits other than pension compensation. The District provides access to retiree healthcare benefits to eligible retired employees and qualified spouses/beneficiaries. The District has estimated the cost of providing these benefits through an actuarial valuation.

Interfund activity:

Exchange transactions between governmental funds are eliminated on the government-wide statements.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and as nonoperating revenues/expenses in proprietary funds.

Use of estimates:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferrals and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures or expenses during the reporting period. A significant assumption in these financial statements is the PSERS pension liability. Actual results could differ from those estimates.

1. Summary of significant accounting policies (continued):

Fund equity:

The School District follows GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a district's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

<u>Nonspendable fund balance</u> – amounts that cannot be spent because they are in a nonspendable form (i.e., inventory) or legally or contractually required to be maintained intact (i.e., principal of a permanent fund).

<u>Restricted fund balance</u> – amounts limited by external parties or legislations (i.e., debt covenants and grants).

<u>Committed fund balance</u> – amounts limited by Board policy or Board action (i.e., future anticipated costs).

<u>Assigned fund balance</u> – amounts that are intended for a particular purpose. Generally, balances in special revenue funds or capital project funds will be designated as assigned.

<u>Unassigned fund balance</u> – amounts available for consumption or not restricted in any manner.

Use of fund balance:

The restricted fund balance shall be reduced to the extent that the underlying reason for the restriction has been eliminated.

If the School District experiences an excess of expenditures over revenues for a given fiscal year, the fund balance shall be consumed in the following order:

Restricted fund balance to the extent that expenditures related to the restriction contributed to the excess of expenditures over revenues.

Committed fund balance to the extent that expenditures related to the commitment contributed to the excess of expenditures over revenues. If a plan for periodic use of committed fund balance is reviewed and approved by the Board, the committed fund balance will not be reduced by more than the amount designated in the plan.

1. Summary of significant accounting policies (continued):

Use of fund balance (continued):

Assigned fund balance to the extent that expenditures related to the assignment contributed to the excess of expenditures over revenues.

Unassigned fund balance for any remaining excess of expenditures over revenues.

Fund balance parameters:

The School District will strive to maintain an unassigned general fund fund balance of not less than 6% and not more than 8% of the budgeted expenditures for that fiscal year. The total fund balance, consisting of several portions, including restricted, committed, assigned and unassigned, may exceed 8%. If the unassigned portion, of the fund balance falls below the threshold of 6% of budgeted expenditures, the Board may pursue options for increasing revenues and decreasing expenditures, or a combination of both until 6% is attained. If the unassigned portion of the fund balance exceeds 8% of budgeted expenditures, the Board may utilize a portion of the fund balance by appropriating excess funds for expenditures. The goal shall be to use any excess fund balance for nonrecurring expenditures, not for normal operating costs.

Extraordinary and special items:

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. There were no extraordinary items for the year ended June 30, 2018.

Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. There were no special items for the year ended June 30, 2018.

Adoption of GASB Statements:

During the 2018 fiscal year end, the District adopted GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; Statement No. 81, *Irrevocable Split-Interest Agreements*; Statement No. 82, *Pension Issues - an Amendment of GASB Statements No. 67, No. 68 and No. 73*; GASB Statement No. 85, *Omnibus 2017* and GASB Statement No. 86, *Certain Debt Extinguishment Issues*.

1. Summary of significant accounting policies (continued):

Pending GASB statements:

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This statement addresses accounting for legally enforceable liabilities associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. The provisions of GASB Statement No. 83 are effective for the District's June 30, 2019 financial statements.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The provisions of GASB Statement No. 84 are effective for the District's June 30, 2020 financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*. This statement changes accounting and financial reporting for leases by governments. This statement requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions of GASB Statement No. 87 are effective for the District's December 31, 2021 financial statements.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions of GASB Statement No. 88 are effective for the District's June 30, 2019 financial statements.

1. Summary of significant accounting policies (continued):

Pending GASB statements (continued):

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. The provisions of GASB Statement No. 89 are effective for the District’s June 30, 2021 financial statements.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. This statement is to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The provisions of GASB Statement No. 90 are effective for the District's June 30, 2020 financial statements.

The effect of implementation of these statements has not yet been determined.

2. Cash, cash equivalents and investments:

Under Section 440.1 of the Public School Code of 1949, as amended, the School District is permitted to invest its monies as follows:

Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law is pledged by the depository.

Custodial credit risk, deposits:

Custodial credit risk is the risk that, in the event of a counterparty failure, the School District’s deposits may not be returned to it. The School District’s policy requires deposits in savings accounts or time deposits or share accounts of institutions to be insured or covered by approved collateral as provided by law.

2. Cash, cash equivalents and investments (continued):

Custodial credit risk, deposits (continued):

The reconciliation of deposits to the financial statements is as follows:

Bank accounts, uninsured	$ 6,049,755
Insured by FDIC	509,686
	6,559,441
Less outstanding checks	(160,741)
Total	$ 6,398,700

Amounts are shown in the financial statements as follows:

Governmental activities, cash and cash equivalents	$ 5,149,524
Business-type activities	1,167,781
Fiduciary funds, agency	81,395
Total	$ 6,398,700

The District uses external investment pools to ensure safety and maximize efficiency, liquidity and yield for District funds. The external investment pools are valued at amortized cost, which approximates fair value. The amortized cost method involves valuing a security at its cost on the date of purchase and recording a constant amortization or accretion to maturity of any discount of premium. The fair value of securities, held by the external investment pool, are evaluated on at least a weekly basis using prices supplied from an independent pricing service. These values are compared to the amortized cost.

2. Cash, cash equivalents and investments (continued):

Investments:

Investments are exposed to various risks such as interest rate, market and credit risks. The District's investments are subject to changes in value which occur from time to time. As of June 30, 2018, the School District had the following investments:

Investment	Maturities	Fair value
PA Local Government Investment Trust (PLGIT)	Less than one year	$ 9,771,668
PA School District MAX (PSDLAF)	Less than one year	4,447,314
Total externally pooled investments		14,218,982
PA School District Liquid Asset Fund, certificates of deposit (unrated/backed by AAAm rated collateral)	1 to 24 months	15,504,000
Total		$ 29,722,982

Financial statement amounts for investments:

Governmental activities:	
Investments	$ 28,941,068
Held for long-term purposes	519,909
Business-type activities	143,789
Fiduciary funds:	
Private purpose trust	58,496
Agency	59,720
Total	$ 29,722,982

Investments held for long-term purposes are held in the capital projects fund.

2. Cash, cash equivalents and investments (continued):

Interest rate risk:

The School District has a formal investment policy that permits investments as authorized by law. The policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk:

The School District's investment policy requires that its investment companies be registered under the Investment Company Act of 1940 with shares registered under the Securities Act of 1933. In addition, the investment companies used by the School District must be rated in the highest category by a nationally recognized rating agency.

The District uses external investment pools to ensure safety and maximize efficiency, liquidity and yield for District funds. The external investment pools are valued at amortized cost, which approximates fair value. The amortized cost method involves valuing a security at its cost on the date of purchase and recording a constant amortization or accretion to maturity of any discount of premium. The fair value of securities, held by the external investment pool, are evaluated on at least a weekly basis using prices supplied from an independent pricing service. These values are compared to the amortized cost.

The District has investments with PLGIT and PSDLAF. Both PLGIT and PSDLAF (collectively, the Funds) were established as common law trusts, organized under laws of the Commonwealth of Pennsylvania. Shares of the Funds are offered to certain Pennsylvania school districts, intermediate units, area vocational-technical schools and municipalities. The purpose of the funds is to enable such governmental units to pool their available funds for investments authorized by Section 440.1 of the Pennsylvania Public School Code of 1949 as amended. The Funds are governed by elected boards of trustees who are responsible for the overall management of the Funds. The trustees are elected from the several classes of local governments participating in the Funds. Each fund is audited annually by independent auditors. The Funds operate in a manner consistent with the Securities and Exchange Commission's Rule 2(a)7 of the Investment Company Act of 1940. The Funds use amortized cost to report net position to compute share prices. The Funds maintain net asset value of $1 per share. Accordingly, the fair value of the position in the Funds is the same as the value of the Funds' shares.

2. Cash, cash equivalents and investments (continued):

Credit risk (continued):

The District is invested in PLGIT - Class shares, which require no minimum balance, no minimum initial investment, and have a one day minimum investment period. At June 30, 2018, PLGIT carried an AAAm rating and had an average maturity of less than one year.

The District is invested in PLGIT/PLUS – Class shares, which require a minimum investment of $50,000, a minimum investment period of thirty days, and has a premature withdrawal penalty. At June 30, 2018, PLGIT carried an AAAm rating and had an average maturity of less than one year.

The District is invested in PSDLAF Max Series which uses a principal investment strategy of investing in short-term money-market instruments and maintaining a constant net asset value (NAV) of $1.00 per share. Investments (other than direct deposits of state aid payments) are to be deposited for a minimum of fourteen (14) days. At June 30, 2018, PSDLAF carried an AAAm rating.

3. Real estate taxes:

Based upon assessments provided by the County, the School District bills and collects its own property taxes. The School District tax rate for the year ended June 30, 2018 was 20.06 mills ($20.06 per $1,000 of assessed valuation) as levied by the Board of School Directors. The schedule for real estate taxes levied for each fiscal year is as follows:

July 1	Levy date
July 1 - August 31	2% discount period
September 1 - October 31	Face payment period
November 1 - December 31	10% penalty period
January 1	Lien date

4. Taxes receivable and related accounts, general fund:

The School District, in accordance with generally accepted accounting principles, recognized the delinquent and unpaid taxes receivable reduced by an allowance for uncollectible taxes as determined by the administration. A portion of the receivable amount, which was measurable and available within 60 days, was recognized as revenue and the remaining balance reported as unavailable in the fund financial statements. The balances at June 30, 2018 are as follows:

	Gross taxes receivable	Allowance for uncollectible taxes	Net estimated to be collectible	Tax revenue recognized	Unavailable revenue	Unearned revenue
Real estate	$ 994,757	$ 28,475	$ 966,282	$ 366,577	$ 599,705	
Earned income taxes	1,056,045		1,056,045	1,056,045		
Per capita and occupation	284,699	281,852	2,847			$ 2,847
Transfer tax	74,310		74,310	74,310		
	$ 2,409,811	$ 310,327	$ 2,099,484	$ 1,496,932	$ 599,705	$ 2,847

5. Interfund accounts:

Individual fund receivable and payable balances at June 30, 2018 were as follows:

	Due from other funds	Due to other funds
General fund	$ 113,921	$ 504,736
Capital reserve fund	500,000	
Food service fund	4,736	113,652
Student activities fund		269
	$ 618,657	$ 618,657

5. Interfund accounts (continued):

	Transfers to other funds	Transfers from other funds
General fund	$ 9,492,383	
Debt service fund		$ 6,581,915
Capital reserve fund		2,903,895
Food service fund		6,573
	$ 9,492,383	$ 9,492,383

The general fund due from other funds pertains to operating expenses paid by the general fund.

6. Due from other governments:

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2018, the following amounts are due from other governmental units:

	General fund	Food service fund
State subsidy:		
Retirement	$ 1,906,592	
Social Security	475,144	
Transportation	234,893	
Planned construction	955,165	
Grants and programs:		
Federal	301,156	$ 176,411
State		11,164
Local	827,996	
	$ 4,700,946	$ 187,575

7. Changes in capital assets:

Capital asset activity for governmental activities for the year ended June 30, 2018 is as follows:

	Beginning balance	Increases	Decreases	Transfers	Ending balance
Governmental activities:					
Capital assets not being depreciated:					
Land	$ 6,794,658	$ 92,515			$ 6,887,173
Construction in progress	11,524,167	2,346,147		$ (11,207,407)	2,662,907
Total assets not being depreciated	18,318,825	2,438,662		(11,207,407)	9,550,080
Capital assets being depreciated:					
Site improvements	6,989,501		$ 18,096		6,971,405
Buildings and building improvements	155,661,804	20,607	87,003	11,207,407	166,802,815
Furniture, equipment and educational media	4,300,975	397,663	21,986		4,676,652
Vehicles	606,069	77,990			684,059
Total assets being depreciated	167,558,349	496,260	127,085	11,207,407	179,134,931
Accumulated depreciation:					
Site improvements	3,564,477	265,743	18,096		3,812,124
Buildings and building improvements	56,217,593	4,142,425	11,022		60,348,996
Furniture and equipment	2,418,040	301,585	11,673		2,707,952
Vehicles	379,060	36,096			415,156
Total accumulated depreciation	62,579,170	4,745,849	40,791		67,284,228
Total capital assets being depreciated, net	104,979,179	(4,249,589)	86,294	11,207,407	111,850,703
Governmental activities, capital assets, net	$ 123,298,004	$ (1,810,927)	$ 86,294	$ -	$ 121,400,783

7. Changes in capital assets (continued):

Capital asset activity for business-type activities for the year ended June 30, 2018 is as follows:

	Beginning balance	Increases	Decreases	Ending balance
Business-type activities:				
Capital assets being depreciated, equipment	$ 716,413			$ 716,413
Less accumulated depreciation for equipment	640,190	$ 14,521		654,711
Business-type activities, capital assets, net	$ 76,223	$ (14,521)		$ 61,702

Depreciation expenses were charged to governmental functions as follows:

Instruction	$ 2,426,465
Instructional student support	2,451
Administration and financial services	5,233
Operation and maintenance of plant	200,727
Pupil transportation	929
Student activities	266,363
Capital outlay	1,843,681
	$ 4,745,849

8. Fund balances:

As of June 30, 2018, fund balances are composed of the following:

	General fund	Capital reserve	Capital projects	Total governmental funds
Restricted		$ 9,156,099		$ 9,156,099
Committed:				
Future pension obligations	$ 2,000,000			2,000,000
Textbook and software updgrades	1,000,000			1,000,000
Future capital projects	6,502,306			6,502,306
Future healthcare obligations	3,000,000			3,000,000
Assigned			$ 3,415,041	3,415,041
Unassigned	5,738,698			5,738,698
Total fund balances	$ 18,241,004	$ 9,156,099	$ 3,415,041	$ 30,812,144

9. Unearned revenue:

Unearned revenue at June 30, 2018 consists of the following:

	General fund	Proprietary fund	Total
Per capita and occupation taxes	$ 2,847		$ 2,847
Prepaid lunches		$ 42,718	42,718
Unused donated commodities		9,730	9,730
	$ 2,847	$ 52,448	$ 55,295

10. General long-term debt:

General obligation bonds and notes:

The School District issued general obligation bonds (GOB) and general obligation notes (GON) to provide funds for major capital improvements. These bonds and notes are direct obligations and pledge the full faith and credit of the School District. Currently, the School District has five general obligation bond series and two general obligation notes with interest rates and outstanding principal amounts at June 30, 2018 as follows:

Issue	Final maturity date	Interest rate or yield	Amount
Series of 2012 GOB	April 1, 2022	0.65% - 3.00%	$ 9,175,000
Series of 2013 GOB	June 1, 2019	1.75% - 3.00%	4,725,000
Series of 2015 GOB	June 1, 2027	0.60% - 4.00%	14,190,000
Series of 2016 GON	June 1, 2029	2.70%	9,990,000
Series of 2017 GOB	March 1, 2025	0.80%-5.00%	11,940,000
			50,020,000
Bond premium, net of discount			2,321,621
Total			52,341,621
Less current portion			4,780,000
			$ 47,561,621

General obligation bonds of 2017:

On October 11, 2017, the School District issued general obligation bonds of 2017 in the amount of $11,945,000. The bonds are to be used to finance the advance refunding of the general obligation bonds, series of 2014 and finance the current refunding of the general obligation bonds, series A of 2013. The bonds are payable over eight years with interest of 0.80%-5.00%. Final payment is due March 1, 2025.

10. General long-term debt (continued):

Letter of credit:

At June 30, 2018, the School District has a letter of credit with a local bank for $359,989 which pertains to the Conestoga Elementary School renovation project. The letter of credit is secured by property of the School District. The letter of credit expires on April 7, 2019.

Long-term obligation activity, other than pension and OPEB:

Long-term obligation activity for governmental activities can be summarized as follows:

	Beginning balance	Increases	Decreases	Ending balance
General obligation bonds and notes	$ 56,060,000	$ 13,536,516	$ 19,576,516	$ 50,020,000
Accrued retirement cost	957,979	109,670		1,067,649
Compensated absences	2,079,094	395,938		2,475,032
	$ 59,097,073	$ 14,042,124	$ 19,576,516	$ 53,562,681

Debt service requirements:

The annual requirements of the School District's debt service are listed below.

Year ending June 30,	Principal	Interest	Total
2019	$ 4,780,000	$ 1,632,565	$ 6,412,565
2020	4,205,000	1,537,308	5,742,308
2021	4,330,000	1,411,320	5,741,320
2022	3,565,000	1,324,725	4,889,725
2023	4,550,000	1,205,678	5,755,678
2024-2028	25,635,000	3,127,320	28,762,320
2029	2,955,000	79,785	3,034,785
	$ 50,020,000	$ 10,318,701	$ 60,338,701

10. General long-term debt (continued):

Interest rate swaps:

On February 21, 2017, the School Board approved a parameters resolution (the Bond Resolution) authorizing the District to incur up to $100,000,000 of General Obligation Bonds (the Bonds). The Bond Resolution authorizes future issuance of the Bonds to finance the District's future capital projects. The District plans on issuing the Bonds in two separate series in March of 2019 (the 2019 Bonds) and March of 2020 (the 2020 Bonds). Prior to engaging a Swap Advisor, the District had preliminary discussions regarding entering into an interest rate swap for the purposes of hedging the Bonds. In September 2017, the District executed two cash settled forward interest rate swaps designed to manage interest risk on future issuance of the Bonds. The first swap (the 2019 Swap) is intended to hedge interest rates on the 2019 Bonds. The second swap (the 2020 Swap) is intended to hedge interest on the 2020 Bonds. The swaps have a combined notional amount of $80,000,000 and are executed with the Royal Bank of Canada.

11. Operating leases:

On September 11, 1995, the School District entered into a 40-year operating lease with Millersville University of the Pennsylvania State System of Higher Education. The School District agreed to construct and maintain a two-tier parking garage on land owned by Millersville University. In lieu of rent, the School District agreed to allow Millersville University primary use of the lower tier of the parking garage.

On December 11, 1995, the School District entered into a 40-year operating lease with Millersville University. The School District agreed to lease approximately 2.32 acres of land, referred to as the "Athletic Field," to Millersville University. In lieu of rent, Millersville University agreed to lease to the School District .34 acres of land, referred to as the "Parking Lot." The School District and Millersville University have agreed to a land swap of these two parcels whereby the University would receive the 2.32 acres of land in exchange for giving the School District the .34 acres of land and a total of $61,287 that will be credited to future annual payments due for the lease of the Millersville University Stadium. Final approval of the land swap was received on September 27, 2016 from the Pennsylvania Department of General Services.

12. Risk management:

Property and liability:

For losses incurred prior to July 1, 1999 and subsequent to June 30, 2002, the School District joined together with other school districts in the area to form the Lancaster-Lebanon Public Schools Insurance Pool (the Pool), a public entity risk pool currently operating as a common risk management and insurance program for member school districts, the Lancaster-Lebanon Intermediate Unit, the Lancaster County Academy and the Lancaster County Career and Technology Center. This agreement states that the School District pays an annual premium to the Pool for the purpose of seeking the prevention or lessening of casualty losses to members from injuries to persons or properties which might result in claims being made against members and to pool the insurance risks, reserves, claims and losses and providing self-insurance and reinsurance. It is the intent of the members of the Pool that the Pool will utilize funds contributed by the members to provide self-insurance and reimbursement to the members for certain losses, to defend and protect each member of the Pool in accordance with the agreement against certain liabilities and losses and to purchase excess and aggregate stop-loss insurance for claims greater than $100,000 per occurrence.

As of June 30, 2018, the School District is not aware of any additional assessments relating to the Pool.

Hospitalization:

The School District has a self-insured hospitalization plan with Aetna, Inc., the claims administrator, who processes and pays the claims. For the year ended June 30, 2018, the School District was limited in liability for claims to $175,000 per individual and $8,690,274 in total for the Point of Service Plan. A liability for claims incurred prior to June 30, 2018 and paid subsequently is recorded in the amount of $484,042 in accounts payable in the general fund.

Vision fund:

The School District administers a vision fund which is reflected in the general fund. The plan reimburses for professional eye examinations and the cost of prescription glasses and contacts. Eligible expenses in accordance with the plan are those incurred by either an employee or his/her dependents.

12. Risk management (continued):

Vision fund (continued):

The plan requires submission of receipted invoices for eligible services and operates on a fiscal year from July 1 to June 30. Payment by the School District is made monthly and items submitted by the end of each month will be reimbursed by the 15th of the following month. In order to be eligible for payment, bills incurred must be less than six months old. Payment for the fiscal year ended June 30, 2018 is limited to $300 per eligible employee

Workers' compensation:

The School District is participating in the Lancaster-Lebanon Public Schools Workers' Compensation Fund which is a cooperative voluntary trust arrangement for 17 member school districts and the Lancaster-Lebanon Intermediate Unit. This agreement states that the School District pays an annual premium to the fund for the purpose of seeking prevention or lessening of claims due to injuries of employees of the members and pooling workers' compensation and occupational disease insurance risks, reserves, claims and losses and providing self-insurance and reinsurance thereof. It is the intent of the members of the fund that the fund will utilize funds contributed by the members, which shall be held in trust by the fund, to provide self-insurance and reimbursement to the members for their obligations to pay compensation as required under the Workers’ Compensation Act and the Pennsylvania Occupational Disease Act and to purchase excess and aggregate insurance. As of June 30, 2018, the School District is not aware of any additional assessments relating to the fund.

Unemployment compensation:

The School District has elected to self-insure for unemployment compensation rather than contribute to the state fund. Transactions relating to this plan are reflected in the general fund. As of June 30, 2018, the School District is not aware of any unemployment compensation claims.

Other risks:

The School District is exposed to various risks of loss related to theft and destruction of assets, errors and omissions and natural disasters. The School District has purchased various insurance policies to safeguard its assets from risk of loss. During the year ended June 30, 2018 and the two previous fiscal years, no settlements exceeded insurance coverage.

13. Defined benefit pension plan:

Plan description:

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

Benefits provided:

Benefits are provided by PSERS by statute; therefore, financial statement amounts are affected by PSERS activity. The District's reported amounts will vary over time depending on the pension results of PSERS.

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

13. Defined benefit pension plan (continued):

Benefits provided (continued):

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

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

Member contributions:

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

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

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

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

13. Defined benefit pension plan (continued):

Employer contributions:

The School District's contractually required contribution rate for fiscal year ended June 30, 2018 was 31.74% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were $10,478,000 for the year ended June 30, 2018.

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions:

The District's net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of PSERS and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

At June 30, 2018, the District reported a net liability of $118,631,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward PSERS's total pension liability as of June 30, 2016 to June 30, 2017. 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, 2017, the District's proportion was .2402%, which was an increase of .002% from its proportion measured as of June 30, 2016.

13. Defined benefit pension plan (continued):

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions (continued):

For the year ended June 30, 2018, the District recognized pension expense of $12,195,000. At June 30, 2018, the District 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 earnings on pension plan investments	$ 2,747,000	
Differences between projected and actual experience	1,238,000	$ 718,000
Net changes in proportion	1,095,000	
Changes in assumptions	3,223,000	
Differences between District acutal contributions and the calculated portion determined by PSERS	237,000	256,000
District contributions subsequent to the measurement date	10,478,195	
	$ 19,018,195	$ 974,000

13. Defined benefit pension plan (continued):

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions (continued):

For the year ended June 30, 2018, $10,478,000 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as an increase in pension expense as follows:

Year ended June 30,	
2019	$ 1,477,000
2020	3,429,000
2021	2,881,000
2022	(202,000)

13. Defined benefit pension plan (continued):

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions (continued):

<u>Actuarial assumptions</u>*:*

The total pension liability as of June 30, 2017 was determined by rolling forward PSERS's total pension liability as of the June 30, 2016 actuarial valuation to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement (with changes in the 2017 assumptions from the 2016 assumptions identified):

Actuarial cost method:	Entry age normal - level % of pay
Investment return:	7.25% includes inflation of 2.75%
Salary increases:	Effective average of 5.00% which reflects an allowance for inflation of 2.75%, real wage growth and merit or seniority increases of 2.25%.
Mortality rates:	Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projection using a modified version of the MP-2015 Mortality Improvement Scale.
Assumptions:	PSERS' Board approved new actuarial assumptions effective for the June 30, 2016 actuarial valuation. The new assumptions were used to calculate the net pension liability at June 30, 2016 and are reflected above.

13. Defined benefit pension plan (continued):

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions (continued):

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

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

13. Defined benefit pension plan (continued):

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions (continued):

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, 2017 are:

Asset class	Target allocation	Long-term expected real rate of return
Global public equity	20.0 %	5.1 %
Fixed income	36.0	2.6
Commodities	8.0	3.0
Absolute return	10.0	3.4
Risk parity	10.0	3.8
Master Limited Partnerships/Infrastructure	8.0	4.8
Real estate	10.0	3.6
Alternative investments	15.0	6.2
Cash	3.0	0.6
Financing (LIBOR)	(20.0)	1.1
	100.0 %	

Discount rate:

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

13. Defined benefit pension plan (continued):

Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions (continued):

Sensitivity of the District's proportionate share:

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

	1% Decrease 6.25%	Current discount rate 7.25%	1% Increase 8.25%
District's proportionate share of the net pension liability	$ 146,024,000	$ 118,631,000	$ 95,503,000

Pension plan fiduciary net position:

Detailed information about PSERS's fiduciary net position is available in PSERS's Comprehensive Annual financial report which can be found on PSERS's website at www.psers.state.pa.us.

14. Other postemployment benefits:

Postemployment benefits other than pension (OPEB):

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB plan and additions to/deductions from the OPEB fiduciary net position have been determined on the same basis as they are reported by the OPEB plan (Plan). Benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

14. Other postemployment benefits (continued):

Plan description:

The District offers postemployment dental, vision, life and health insurance benefits to employees upon their retirement with the same plan provisions provided to active employees. The following is a breakdown of eligibility requirements and coverage by group:

<u>Administrators</u>

The member must meet the requirements of one of the following programs:

a. Program One: Complete at least ten consecutive years of District service, must be eligible for PSERS retirement and must give written notice by April 1 in the year of retirement.
b. Program Two: Attain 55 years of age and attain 25 years of PSERS service.
c. Act 110/43 (30 years of PSERS service or upon superannuation retirement).

<u>Teachers</u>

The member must meet the requirements of one of the following programs:

a. Program One: Attain 50 years of age, complete at least 15 consecutive years of District service, must be eligible for PSERS retirement and must give written notice by April 1 in the year of retirement.
b. Program Two: Attain 55 years of age and attain 25 years of PSERS service.
c. Act 110/43 (30 years of PSERS service or upon superannuation retirement).

<u>Support staff</u>

The member must meet the requirements of one of the following programs:

a. Program Two: Attain 55 years of age and attain 25 years of PSERS service.
b. Act 110/43 (30 years of PSERS service or upon superannuation retirement).

14. Other postemployment benefits (continued):

Employees covered by benefit terms:

At July 1, 2016, the following employees were covered by benefit terms:

	Administrators	Teachers and support staff	Total
Inactive employees or beneficiaries currently receiving benefits	4	38	42
Active employees	30	463	493
Total	34	501	535

14. Other postemployment benefits (continued):

Total OPEB liability and actuarial assumptions:

The District's total OPEB liability of $3,737,178 was measured as of June 30, 2017 and was determined by rolling forward the July 1, 2016 actuarial valuation to June 30, 2017 using the following actuarial assumptions and other inputs, applies to all periods included in the measurement, unless otherwise specified:

Discount rate:	3.13% based on S&P Municipal Bond 20 Year High Grade Rate Index at July 1, 2017
Salary increases:	2.50% cost of living adjustment, 1% real wage growth and merit increases which varies by age from 2.75% to 0%
Healthcare cost trend rates:	6.0% in 2017, and 5.5% in 2018 through 2023. Rates gradually decrease from 5.4% in 2024 to 3.9% in 2075 and later based on Society of Actuaries Long-Run Medical Cost Trend Model.
Retirees' share of benefit related costs:	Retiree contributions are assumed to increase at the same rate as the Healthcare Cost Trend Rate
Mortality rates:	Separate rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation. Incorporated into the table are rates projected generationally by the Buck Modified 2016 projection scale to reflect mortality improvement

Mortality rates are presumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation.

14. Other postemployment benefits (continued):

Changes in the total OPEB liability:

Balance at June 30, 2016	$ 3,391,054
Changes for the year:	
Service cost	264,540
Interest	89,547
Changes in assumptions	101,586
Benefit payments	(109,549)
Net changes	346,124
Balance at June 30, 2017	$ 3,737,178

Changes in assumptions reflect a change in the discount rate from 2.49% in 2016 to 3.13% in 2017. The trend assumptions for salary, mortality, withdrawal and retirement were updated based on the new PSERS assumptions.

Sensitivity of net OPEB liability to changes in the discount rate:

The following presents the net OPEB liability of the Plan, as well as what the Plan's net OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

	1% Decrease 2.13%	Current discount rate 3.13%	1% Increase 4.13%
District's net OPEB liability	$ 4,019,252	$ 3,737,178	$ 3,470,228

14. Other postemployment benefits (continued):

Sensitivity of net OPEB liability to changes in the healthcare cost trend rates:

The following presents the net OPEB liability of the Plan, as well as what the Plan's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower or 1% higher than the current healthcare cost trend rates:

	1% Decrease	Current trend rates	1% Increase
District's net OPEB liability	$ 3,281,277	$ 3,737,178	$ 4,281,244

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB:

For the year ended June 30, 2018, the District recognized OPEB expense of $362,553. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Changes in assumption	$ 93,120	
District benefit payments subsequent to the measurement date	121,375	
	$ 214,495	

14. Other postemployment benefits (continued):

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB:

For the year ended June 30, 2018, $214,495 reported as deferred outflows of resources relate to OPEB resulting from District benefit payments made subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability for the valuation year ended June 30, 2018. Other amounts reported as deferred outflows of resource and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30,	
2019	$ 8,466
2020	8,466
2021	8,466
2022	8,466
2023	8,466
thereafter	50,790

Health Insurance Premium Assistance Program (HIPAP):

For purposes of measuring the net HIPAP liability, deferred outflows of resources and deferred inflows of resources related to HIPAP, and HIPAP expense, information about the fiduciary net position of PSERS and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

PSERS provides Premium Assistance which is a governmental cost sharing, multiple-employer HIPAP plan for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002 under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive Premium Assistance payments equal to the lesser of $100 per month or their out-of-pocket monthly health insurance premium. To receive Premium Assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program (HOP). As of June 30, 2017, there were no assumed future benefit increases to participating eligible retirees.

14. Other postemployment benefits (continued):

Premium Assistance eligibility criteria:

Retirees of the System can participate in the Premium Assistance program if they satisfy the following criteria:

- Have 24 ½ or more years of service, or
- Are a disability retiree, or
- Have 15 or more years of service and retired after reaching superannuation age, and
- Participate in the HOP or employer-sponsored health insurance program.

Benefits provided:

Participating eligible retirees are entitled to receive Premium Assistance payments equal to the lesser of $100 per month or their out-of-pocket monthly health insurance premium. To receive Premium Assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' HOP. As of June 30, 2017, there were no assumed future benefit increases to participating eligible retirees.

Employer contributions:

The District's contractually required contribution rate for the fiscal year ended June 30, 2017 was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were $276,000 for the year ended June 30, 2018.

14. Other postemployment benefits (continued):

HIPAP liabilities, HIPAP expense, and deferred outflows of resources and deferred inflows of resources related to HIPAP:

At June 30, 2018, the District reported a liability of $4,894,000 for its proportionate share of the net HIPAP liability. The net HIPAP liability was measured as of June 30, 2017, and the total HIPAP liability used to calculate the net HIPAP liability was determined by rolling forward PSERS's total HIPAP liability as of June 30, 2016 to June 30, 2017. The District's proportion of the net HIPAP 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, 2017, the District's proportion was 0.2402%, which was an increase of 0.002% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized HIPAP expense of $215,000. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to HIPAP from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Change in assumptions		$ 228,000
Net difference between projected and actual investment earnings	$ 5,000	
Changes in proportion	37,000	
Contributions subsequent to the measurement date	276,000	
	$ 318,000	$ 228,000

14. Other postemployment benefits (continued):

HIPAP liabilities, HIPAP expense, and deferred outflows of resources and deferred inflows of resources related to HIPAP (continued):

$276,000 reported as deferred outflows of resources related to HIPAP resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net HIPAP liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to HIPAP will be recognized in HIPAP expense as follows:

Year ended June 30,	
2018	$ (31,000)
2019	(31,000)
2020	(31,000)
2021	(31,000)
2022	(31,000)
thereafter	(31,000)

14. Other postemployment benefits (continued):

HIPAP liabilities, HIPAP expense, and deferred outflows of resources and deferred inflows of resources related to HIPAP (continued):

Actuarial assumptions

The total HIPAP liability as of June 30, 2017, was determined by rolling forward the System's total HIPAP liability as of June 30, 2016 to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 3.13% - S&P 20 Year Municipal Bond Rate.
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement is capped at $1,200 per year.
- Assumed healthcare cost trends were applied to retirees with less than $1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Participation rate:
  - Eligible retirees will elect to participate pre age 65 at 50%
  - Eligible retirees will elect to participate post age 65 at 70%

14. Other postemployment benefits (continued):

HIPAP liabilities, HIPAP expense, and deferred outflows of resources and deferred inflows of resources related to HIPAP (continued):

Actuarial Assumptions (continued):

The following assumptions were used to determine the contribution rate:

- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority.
- Premium Assistance: 63% of eligible retirees are assumed to elect Premium Assistance.
- Mortality rates: Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back three years for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back seven years for males and three years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back three years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

Investments consist primarily of short term assets designed to protect the principal of the plan assets. The expected rate of return on HIPAP plan investments was determined using the HIPAP asset allocation policy and best estimates of geometric real rates of return for each asset class.

14. Other postemployment benefits (continued):

HIPAP liabilities, HIPAP expense, and deferred outflows of resources and deferred inflows of resources related to HIPAP (continued):

The HIPAP plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Under the program, as defined in the retirement code employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year.

HIPAP - Asset class	Target allocation	Long-term expected real rate of return
Cash	76.4 %	0.6 %
Fixed income	23.6	1.5
	100.0 %	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2017.

<u>Discount rate</u>

The discount rate used to measure the total HIPAP liability was 3.13%. Under the plan's funding policy, contributions are structured for short term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short term funding policy, the HIPAP plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments; therefore, the plan is considered a "pay-as-you-go" plan. A discount rate of 3.13% which represents the S&P 20-year Municipal Bond Rate at June 30, 2017, was applied to all projected benefit payments to measure the total HIPAP liability.

14. Other postemployment benefits (continued):

HIPAP liabilities, HIPAP expense, and deferred outflows of resources and deferred inflows of resources related to HIPAP (continued):

<u>Sensitivity of the District's proportionate share of the net HIPAP liability to changes in the healthcare cost trend rates</u>

Healthcare cost trends were applied to retirees receiving less than $1,200 in annual Premium Assistance. As of June 30, 2017, retirees Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of $1,200. As of June 30, 2017, 91,797 retirees were receiving the maximum amount allowed of $1,200 per year. As of June 30, 2017, 1,354 members were receiving less than the maximum amount allowed of $1,200 per year. The actual number of retirees receiving less than the $1,200 per year cap is a small percentage of the total population and has a minimal impact on healthcare cost trends as depicted below.

The following presents the District's proportionate stare of the net HIPAP liability for June 30,2017, calculated using current healthcare cost trends as well as what the net HIPAP liability would be if it healthcare cost trends were 1-percentage point lower or 1-percentage point higher than the current rate:

	1% Decrease	Current trend rates	1% Increase
District's porportionate share of net HIPAP liability	$ 4,893,000	$ 4,894,000	$ 4,895,000

14. Other postemployment benefits (continued):

HIPAP liabilities, HIPAP expense, and deferred outflows of resources and deferred inflows of resources related to HIPAP (continued):

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

The following presents the District's proportionate share of the net HIPAP liability, calculated using the discount rate of 3.13%, as well as what the net HIPAP liability would be if it were calculated using a discount rate that is one percentage point lower (2.13%) or one percentage point higher (4.13%) than the current rate:

	1% Decrease 2.13%	Current discount rate 3.13%	1% Increase 4.13%
District's proportionate share of the net HIPAP liability	$ 5,563,000	$ 4,894,000	$ 4,338,000

HIPAP plan fiduciary net position

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

15. Joint ventures:

Lancaster County Career and Technology Center (LCCTC):

The School District is one of 16 member school districts of the Lancaster County Career and Technology Center (LCCTC). LCCTC provides vocational-technical training and education to participating students of the member school districts. LCCTC is controlled and governed by the Career and Technology Board for Lancaster County, which is composed of school board members of all the member school districts. No member school district exercises specific control over the fiscal policies or operations of LCCTC. The LCCTC is not reported as part of the School District's reporting entity. The School District's share of annual operating costs for LCCTC fluctuates based upon the percentage of enrollment of each member school district. The amount paid for these services in the year ended June 30, 2018 was approximately $1,613,000, which has been reported in the general fund. Complete financial statements for LCCTC can be obtained from the Administrative Office at 1730 Hans Herr Drive, P.O. Box 527, Willow Street, PA 17584.

15. Joint ventures (continued):

Lancaster County Career and Technology Center (LCCTC) (continued):

The District entered into a lease agreement with the Lancaster County Career and Technology Center Authority (Authority) along with 15 other school districts. The Lancaster County Career and Technology Center Authority is an authority created under the Pennsylvania Municipality Authorities Act and is empowered to acquire, hold, construct, improve, maintain, operate and lease public school buildings and other school projects for public school purposes. By resolution, the member districts have requested the Authority to proceed with improvement of the school facilities of the Lancaster County Career Technology Center (LCCTC) to be funded by lease revenue bonds not to exceed the maximum aggregate principal amount of $43,000,000. The bonds will be designated Lancaster County Career and Technology Center Authority Guaranteed Lease Revenue Bonds. Each district will pay its proportionate share of the lease rentals in order to fund the debt.

On June 29, 2012, a new lease was signed and the Authority issued Guaranteed Lease Revenue Bonds Series of 2012 in the amount of $9,995,000. Payments are required over the period February 2013 until February 2037, with interest payable semi-annually. The average bond yield is 3.50%. On November 11, 2017, the bonds were refunded with Guaranteed Lease Revenue Notes, Series of 2017-11.

On July 9, 2014, the Authority completed issuance of Guaranteed Lease Revenue Bonds, Series of 2014, in the amount of $3,900,000. Payments are required over the period February 2015 until February 2037, with interest payable semi-annually. The average bond yield is 3.88%. The balance of the District’s share of this obligation at June 30, 2018 was $342,350.

On February 1, 2017, the Authority completed issuance of Guaranteed Lease Revenue Notes, Series of 2017, for the purpose of advance refunding the Guaranteed Lease Revenue Bonds, Series of 2013, and to pay the costs of issuing the notes in the amount of $9,380,000. Payments are required until February 2037. The notes bear interest rates ranging from 2.75% to 3.35%. The balance of the District’s share of this obligation at June 30, 2018 was $867,529.

On November 11, 2017, the Authority completed issuance of Guaranteed Lease Revenue Notes, Series of 2017-11, for the purpose of advance refunding the Guaranteed Lease Revenue Bonds, Series of 2012, and to pay the costs of issuing the notes in the amount of $7,930,000. Payments are required until February 2037. The notes bear interest rates ranging from 2.20% to 5.00%. The balance of the District’s share of this obligation at June 30, 2018 was $715,586.

15. Joint ventures (continued):

Lancaster County Career and Technology Center (LCCTC) (continued):

Minimum future rental payments under the operating leases for the School District are as follows:

Fiscal year ending	Total
2019	$ 101,430
2020	101,418
2021	101,333
2022	101,199
2023	101,343
2024-2028	506,970
2029-2033	506,629
2034-2037	405,143
Total minimum future rental payments	$ 1,925,465

Lancaster-Lebanon Joint Authority:

The School District is a member in the Lancaster-Lebanon Joint Authority (Joint Authority). The Lancaster Lebanon Joint Authority was incorporated on February 14, 1980 under the Municipality Authorities Act of 1945, Act of May 2, 1945, P.L. 382, as amended by the Boards of School Directors of the 22 school districts located in Lancaster and Lebanon counties. The school districts established the Joint Authority for the purposes of acquiring, holding, constructing, improving, maintaining, operating, owning and/or leasing projects for public school purposes and for the purposes of the Lancaster-Lebanon Intermediate Unit No. 13.

The School District did not have any financial transactions with the Joint Authority during the year ended June 30, 2018. Complete financial statements for the Joint Authority can be obtained from the Administrative Office at 1020 New Holland Avenue, Lancaster, PA 17601.

15. Joint ventures (continued):

Lancaster-Lebanon Intermediate Unit (LLIU):

The Lancaster-Lebanon Intermediate Unit (LLIU) Board of Directors consists of 20 members from the LLIU's constituent school districts. The LLIU Board members are school district board members who are elected by the public and are appointed to the LLIU Board by the member school districts' Boards of Directors. Penn Manor School District is responsible for appointing one of these members. The LLIU Board has decision-making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. Penn Manor School District contracts with the LLIU for special education services for School District students. The amount paid for these services and various other support services during the year ended June 30, 2018 was approximately $3,625,000. Complete financial information for LLIU can be obtained from the Administrative Office at 1020 New Holland Avenue, Lancaster, PA 17601.

Lancaster County Academy (Academy):

The Academy is an alternative public school organized by 11 public school districts in Lancaster County to provide services in the county. Each of the public school districts appoints one member to serve on the joint operating committee. As a member district, the School District has an ongoing financial responsibility to fund the operations of the Academy. The amount paid to the Academy in the year ended June 30, 2018 was approximately $41,000. Complete financial information for the Academy can be obtained from the Administrative Office at 1202 Park City Center, Lancaster, PA 17601.

Lancaster County Tax Collection Bureau (Bureau):

The School District participates with all Lancaster County school districts and associated municipalities as prescribed by Act 32 for the collection of earned income taxes and local service tax (LST). The joint operating committee is comprised of representatives from the 17-member school districts and 16 municipal representatives. The Bureau's operating expenditures are deducted from the distributions, which are made quarterly. The School District's portion of the operating expenditures for the year ended June 30, 2018 was approximately $87,000. Financial information for the Bureau can be obtained from the Administrative Office at 1845 William Penn Way, Lancaster, PA 17601.

No member school district exercises specific control over the fiscal policies or operations of these joint ventures. As a result, these entities are not reported as part of the School District's reporting entity.

16. Termination benefits:

According to the School District's negotiated agreement with the Penn Manor Education Association, teachers are eligible for an early retirement incentive if the date of retirement is at the conclusion of the school year, written notice of retirement is provided before April 1 preceding the date of retirement, the employee accepts benefits under the Pennsylvania Employees' Retirement System and the employee has at least 15 consecutive years of service at the School District. The retirement incentive is calculated by multiplying $180 per year for each year of employment and $80 per day for each unused sick and/or personal day with the School District, and the total incentive is limited to a maximum of $35,000. Payments are paid as employer non-elective contributions to employee 403(b) accounts at the time of retirement.

Retiring administrators with at least ten years of service may either elect to receive $250 for each full year of service to the School District, or $500 for each full year of administrative service to the School District and $100 per day for each unused sick and/or personal day. At no time can the monetary compensation to a retiring administrator exceed $36,000.

The School District records retirement incentive expenses and liabilities at the government-wide level and in the proprietary funds. A prorata formula based on years of service is used to calculate the liabilities for employees who have less than the required minimum years of service. The retirement incentive liability related to years of service was included in the statement of net position and totaled $1,067,649 as of June 30, 2018. The portion of the retirement incentive liability related to accrued sick and personal days is reported as compensated absences in the statement of net position (deficit).

17. Commitments:

As of June 30, 2018, the School District was committed under various construction contracts totaling $600,390, including $9,560 for a sign at Eshleman Elementary School, $8,104 for a sign at Central Manor Elementary School and $528,725 for the Tennis Court project. Of these amounts, a total of $80,866 was recorded in accounts payable and retainage payable at year-end.

The District has transportation contract commitments with two different vendors. The contracts run until 2020 and 2025 with amounts approved annually. For the year ended June 30, 2018, $2,380,159 and $940,378 were approved to the two different transportation vendors.

18. Adoption of new accounting principle:

Effective July 1, 2017, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The new standard revises and establishes new financial reporting requirements for other postemployment benefits provided for employees. The following is the adjustment to net position for governmental activities:

	Governmental activities
Beginning net position (deficit) as previously reported at June 30, 2017	$ (6,392,356)
Prior period adjustment, implementation of GASB 75, net other postemployment benefit liability (measurement date)	(2,144,438)
Deferred outflows, net other postemployment benefit liability, District's contribution made during fiscal year 2017	109,549
Prior period adjustment, implementation of GASB 75, net other postemployment benefit liability (HIPAP) (measurement date)	(5,131,000)
Deferred outflows, net other postemployment benefit liability (HIPAP), District's contribution made during fiscal year 2017	266,000
Total prior period adjustment	(6,899,889)
Net position (deficit) as restated, July 1, 2017	$ (13,292,245)

19. Prior period adjustment:

A prior period adjustment was made to report retainage payable at June 30, 2017 in the correct fund.

	Capital reserve	Capital projects
Beginning net position as previously reported at June 30, 2017	$ 11,385,502	$ 2,834,476
Retainage payable reported in Capital Projects that should have been reported in Capital Reserve	(547,477)	547,477
Net position as restated, July 1, 2017	$ 10,838,025	$ 3,381,953

20. Subsequent events:

On September 19, 2018, the District terminated the first of it's two cash settled forward swaps.

On October 24, 2018, the District issued $36,125,000 of General Obligation Bonds, Series of 2018. Proceeds of the Bonds will be used to provide funds to (1) finance various capital projects of the School District; and (2) pay the costs of issuing the Bonds.

The School District has evaluated subsequent events through November 19, 2018, which is the date the financial statements were available to be issued.

PENN MANOR SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(Required Supplementary Information)
(unaudited)

FOR THE VALUATION YEARS ENDED JUNE 30

	2017	2016	2015
School District's proportion of the net pension liability	0.2402 %	0.2382 %	0.2315 %
School District's proportionate share of the net pension liability	$ 118,631,000	$ 118,044,000	$ 100,275,000
School District's covered-employee payroll	$ 31,985,031	$ 30,852,237	$ 29,791,037
School District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	370.90 %	382.61 %	336.59 %
Plan fiduciary net position as a percentage of the total pension liability	51.84 %	50.14 %	54.36 %

PENN MANOR SCHOOL DISTRICT

SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS
(Required Supplementary Information)
(unaudited)

FOR THE VALUATION YEARS ENDED JUNE 30

	2017	2016	2015
Contractually required contribution	$ 10,477,525	$ 9,185,195	$ 7,781,437
Contributions in relation to the contractually required contribution	10,477,525	9,185,195	7,781,437
Contribution deficiency (excess)	$ -	$ -	$ -
School District's covered payroll	$ 33,733,560	$ 32,254,784	$ 31,241,197
Contributions as a percentage of covered employee payroll	31.06%	28.48%	24.91%

PENN MANOR SCHOOL DISTRICT

SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL
OPEB LIABILITY AND RELATED RATIOS
(Required Supplementary Information)
(unaudited)

FOR THE VALUATION YEAR ENDED JUNE 30

	2017
Total other postemployment benefit (OPEB) liability:	
Service cost	$ 264,540
Interest	89,547
Changes in assumptions	101,586
Benefit payments	(109,549)
Net changes in total OPEB liability	346,124
Total OPEB liability - beginning	3,391,054
Total OPEB liabiltiy - ending	$ 3,737,178
Covered-employee payroll	$ 29,747,884
Total OPEB liability as a percentage of covered-employee payroll	12.56%

Note to Schedule:

Changes of assumptions:

The discount rate changed from 2.49% to 3.13%. The trend assumption was updated. Assumptions for salary, mortality, withdrawal and retirement were updated based on new PSERS assumptions.

PENN MANOR SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET OPEB (HIPAP) LIABILITY
(Required Supplementary Information)
(unaudited)

FOR THE VALUATION YEAR ENDED JUNE 30

	2017
District's proportion of the net OPEB (HIPAP) liability	0.2402%
District's proportionate share of the net OPEB (HIPAP) liability	$ 4,894,000
District's covered-employee payroll	$ 31,985,031
District's proportionate share of the net OPEB (HIPAP) liability as a percentage of its covered-employee payroll	15.30%
Plan fiduciary net position as a percentage of the total OPEB (HIPAP) liability	5.73%

PENN MANOR SCHOOL DISTRICT

SCHEDULE OF DISTRICT'S OPEB (HIPAP) CONTRIBUTIONS
(Required Supplementary Information)
(unaudited)

FOR THE VALUATION YEAR ENDED JUNE 30

	2017
Contractually required contribution	$ 276,000
Contributions in relation to the contractually required contribution	276,000
Contribution deficiency (excess)	$ -
District's covered payroll	$ 31,985,031
Contributions as a percentage of covered-employee payroll	0.86%

PENN MANOR SCHOOL DISTRICT

(Required supplementary information)
(unaudited)

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND

YEAR ENDED JUNE 30, 2018

	Budget amounts		Actual budgetary basis	Variance with final budget positive (negative)
	Original	Final		
Revenues:				
Local sources:				
Real estate taxes	$ 47,547,106	$ 47,547,106	$ 47,432,902	$ (114,204)
Other taxes	6,612,887	6,612,887	7,086,130	473,243
Investment income	215,050	215,050	442,076	227,026
Other revenue	1,706,380	1,706,380	1,932,376	225,996
Total local sources	56,081,423	56,081,423	56,893,484	812,061
State sources	23,847,713	23,847,713	25,669,148	1,821,435
Federal sources	986,992	986,992	1,153,549	166,557
Total revenues	80,916,128	80,916,128	83,716,181	2,800,053
Expenditures:				
Instructional services:				
Regular programs	34,551,206	35,257,690	35,257,690	-
Special programs	12,230,560	12,035,817	12,035,817	-
Vocational programs	2,205,372	2,140,872	2,140,872	-
Other instructional programs	110,864	138,226	138,226	-
Support services:				
Pupil personnel	2,336,873	2,288,979	2,288,979	-
Instructional staff	821,576	775,580	775,580	-
Administrative	6,067,505	5,164,007	5,164,007	-
Pupil health	741,428	777,567	777,567	-
Business	914,820	1,045,276	1,045,276	-
Operation and maintenance of plant	5,765,821	5,868,314	5,868,314	-
Student transportation	3,381,082	3,783,463	3,783,463	-
Central and other support	1,597,415	1,569,111	1,569,111	-
Other support services	114,944	70,976	70,976	-

(continued)

PENN MANOR SCHOOL DISTRICT
(Required supplementary information)
(unaudited)

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND (CONTINUED)

YEAR ENDED JUNE 30, 2018

	Budget amounts		Actual budgetary basis	Variance with final budget positive (negative)
	Original	Final		
Expenditures (continued):				
Operation of noninstructional services:				
Student activities	$ 1,408,603	$ 1,417,611	$ 1,417,611	$ -
Community services	18,413	20,763	20,763	-
Scholarships and awards	2,500	1,303	1,303	-
Debt service (principal and interest)	6,808,492	6,581,915	6,581,915	-
Total expenditures	79,077,474	78,937,470	78,937,470	-
Excess of revenues over expenditures	1,838,654	1,978,658	4,778,711	2,800,053
Other financing sources (uses):				
Refund of prior year receipts		(3,203)	(3,203)	-
Proceeds from sale of assets			1,800	1,800
Interfund transfers	(2,903,895)	(3,040,696)	(2,910,468)	130,228
Total other financing sources (uses)	(2,903,895)	(3,043,899)	(2,911,871)	132,028
Net changes in fund balances	$ (1,065,241)	$ (1,065,241)	1,866,840	$ 2,932,081
Fund balances:				
July 1, 2017			16,664,260	
June 30, 2018			$ 18,531,100	

PENN MANOR SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2018

Budgetary data:

Penn Manor School District follows the following procedures in establishing the budgetary data:

a. Prior to May 31, management submits to the School Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the general fund.

b. A public hearing is conducted to obtain taxpayer comments.

c. Prior to June 30, the budget is legally enacted through passage of an ordinance.

d. Legal budgetary control is maintained by the School Board at the departmental level. Transfers between departments, whether between funds or within a fund or revisions that alter the total revenues and expenditures of any fund, must be approved by the Board.

e. Budgetary data is included in the School District's management information system and is employed as a management control device during the year.

f. Unused appropriations lapse at the end of each fiscal year; however, the School District increases the subsequent year's appropriation by an amount equal to outstanding encumbrances and reserves a portion of the fund balance in a like amount. There were no outstanding encumbrances at June 30, 2018.

g. The budget for the general fund is adopted on the modified accrual basis of accounting, except that a budgetary reserve is provided.

h. For budgetary purposes, the School District includes debt service payments (principal and interest) in the general fund. In accordance with generally accepted accounting principles, these amounts are shown as transfers to the debt service fund on the fund level financial statements.

PENN MANOR SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2018

Federal grantor/ pass-through grantor/program title	Source code	Federal CFDA number	Pass-through grantor's number	Grant period beginning/ ending date	Program or award amount	Total received for the year	Accrued (unearned) revenue at July 1, 2017	Revenue recognized	Expenditures	Accrued (unearned) revenue at June 30, 2018	Amounts paid to subrecipients
U.S. Department of Agriculture:											
Passed through the Pennsylvania Department of Education:											
Child Nutrition Cluster:											
School Breakfast Program	I/F	10.553	N/A	7/1/16 - 6/30/17	N/A	$ 36,917	$ 36,917				$ -
National School Lunch Program	I/F	10.555	N/A	7/1/16 - 6/30/17	N/A	139,063	139,063				-
School Breakfast Program	I/F	10.553	N/A	7/1/17 - 6/30/18	N/A	213,850		$ 252,445	$ 252,445	$ 38,595	-
National School Lunch Program	I/F	10.555	N/A	7/1/17 - 6/30/18	N/A	804,449		942,266	942,266	137,817	-
Total passed through the Pennsylvania Department of Education						1,194,279	175,980	1,194,711	1,194,711	176,412	-
Passed through the Pennsylvania Department of Agriculture, National School Lunch Program	I/F	10.555	N/A	7/1/17 - 6/30/18	N/A	187,926 (b)	(13,834) (a)	192,030 (c)	192,030	(9,730) (d)	-
Total Child Nutrition Cluster and U.S. Department of Agriculture						1,382,205	162,146	1,386,741	1,386,741	166,682	-

(continued)

PENN MANOR SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2018

Federal grantor/ pass-through grantor/program title	Source code	Federal CFDA number	Pass-through grantor's number	Grant period beginning/ ending date	Program or award amount	Total received for the year	Accrued (unearned) revenue at July 1, 2017	Revenue recognized	Expenditures	Accrued (unearned) revenue at June 30, 2018	Amounts paid to subrecipients
U.S. Department of Education:											
Passed through the Pennsylvania Department of Education:											
Title I Grants to Local Educational Agencies:	I/F	84.010	013-170324	7/1/16 - 9/30/17	$ 727,024	$ 151,340	$ 151,340				$ -
	I/F	84.010	013-180324	7/18/17 - 9/30/18	864,657	638,348		$ 864,657	$ 864,657	$ 226,309	-
Title II Improving Teacher Quality State Grants:	I/F	84.367	020-170324	7/1/16 - 9/30/17	94,538	19,998	19,998				-
	I/F	84.367	020-180324	7/18/17 - 9/30/18	181,208	121,414		179,520	179,520	58,106	-
Title IV Student Support & Academic Enrichment	I/F	84.424	144-180324	7/18/17 - 9/30/18	19,557	6,519		12,729	12,729	6,210	
Total passed through the Pennsylvania Department of Education						937,619	171,338	1,056,906	1,056,906	290,625	-
Passed through the Lancaster-Lebanon Intermediate Unit #13,											
Special Education Cluster:											
IDEA Part B	I/F	84.027	062-18-0013	7/1/17 - 9/30/18	1,093,808	1,093,808		1,093,808	1,093,808		-
Early Intervention IDEA:	I/F	84.173	131-17-0-013	7/1/16 - 6/30/17	4,559	4,559	4,559				-
	I/F	84.173	131-18-0-013	7/1/17 - 6/30/18	4,872			4,872	4,872	4,872	-
Total Special Education Cluster passed through Intermediate Unit #13						1,098,367	4,559	1,098,680	1,098,680	4,872	-
Total U.S. Department of Education						2,035,986	175,897	2,155,586	2,155,586	295,497	-

(continued)

PENN MANOR SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2018

Federal grantor/ pass-through grantor/program title	Source code	Federal CFDA number	Pass-through grantor's number	Grant period beginning/ ending date	Program or award amount	Total received for the year	Accrued (unearned) revenue at July 1, 2017	Revenue recognized	Expenditures	Accrued (unearned) revenue at June 30, 2018	Amounts paid to subrecipients
U.S. Department of Health and Human Services											
Passed through the Pennsylvania Department of Public Welfare, Access:	I/F	93.778	N/A	7/1/16 - 6/30/17	$ 15,172	$ 6,731	$ 6,731				$ -
	I/F	93.778	N/A	7/1/17 - 6/30/18		4,598		$ 10,257	$ 10,257	$ 5,659	-
Total U.S. Department of Health and Human Services						11,329	6,731	10,257	10,257	5,659	-
Total expenditures of federal awards						$ 3,429,520	$ 344,774	$ 3,552,584	$ 3,552,584	$ 467,838	$ -

(continued)

Source codes:

I = Indirect funding

F = Federal share

CFDA = Catalog of Federal Domestic Assistance

84.010	Title I Grants to Local Educational Agencies	$ 864,657		
	Total expenditures per above	$ 3,552,584	= 24.34%	Program meets the 40% reqirement (20% requirement for low-risk auditee)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1 - Significant accounting policies

The accompanying Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

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

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of School Directors
Penn Manor School District
Millersville, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the remaining fund information of Penn Manor School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated November 19, 2018.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

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

Brown Schultz Sheridan & Fritz

Lancaster, Pennsylvania
November 19, 2018

Independent Auditors' Report on Compliance for the
Major Program and on Internal Control
Over Compliance Required by the Uniform Guidance

Board of School Directors
Penn Manor School District
Millersville, Pennsylvania

Report on Compliance for the Major Federal Program

We have audited Penn Manor School District's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on Penn Manor School District's major federal program for the year ended June 30, 2018. Penn Manor School District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for Penn Manor School District's major federal program 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 standards 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 Penn Manor School District's compliance with those requirements and performing such other procedures as we considered necessary in circumstances.

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

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Opinion on the Major Federal Program

In our opinion, Penn Manor School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

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

Brown Schultz Sheridan & Fritz

Lancaster, Pennsylvania
November 19, 2018

PENN MANOR SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2018

I. SUMMARY OF AUDITORS' RESULTS:

Financial statements

Type of auditors' report issued:	Unmodified			
Internal control over financial reporting:				
Material weakness(es) identified?	______	yes	X	no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	______	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 that are not considered to be material weakness(es)?	______	yes	X	none reported
Type of auditors' report issued on compliance for major programs:	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	______	yes	X	no

(continued)

PENN MANOR SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

I. SUMMARY OF AUDITORS' RESULTS (CONTINUED):

Identification of major programs:

CFDA number(s)	Name of federal program or cluster
84.010	Title I: Grants to Local Educational Agencies

Dollar threshold used to distinguish between type A or type B programs	$750,000
Auditee qualified as low-risk auditee?	X yes ____ no

II. FINANCIAL STATEMENT FINDINGS:

None

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:

None

PENN MANOR SCHOOL DISTRICT

SUMMARY OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2018

There were no prior year audit findings.