



POTTSGROVE SCHOOL DISTRICT

FINANCIAL AND COMPLIANCE REPORT

Year Ended June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

**To the Board of School Directors
Pottsgrove School District
Pottstown, Pennsylvania**

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Pottsgrove School District, as of June 30, 2017, 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison schedule for the general fund, and pension and other postemployment benefit information on pages 69 through 71, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pottsgrove School District's basic 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* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. Such information 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 14, 2017, on our consideration of the Pottsgrove School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pottsgrove School District's internal control over financial reporting and compliance.

Herbein + Company, Inc.

**Reading, Pennsylvania
November 14, 2017**



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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
June 30, 2017

This section of the annual financial report of Pottsgrove School District (the "District") provides Management's Discussion and Analysis (MD&A) of the District's financial performance during the fiscal year ending June 30, 2017. This discussion and analysis should be read in conjunction with the District's financial statements and related notes.

Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments," issued June 1999.

Financial Highlights

- As described in note 9, the District is required to recognize its proportionate share of the unfunded pension obligation of the Pennsylvania School Employees Retirement System (PSERS). While the District's financial status continued to improve based on operations during the 2016-2017 fiscal year, total net position remains in a **deficit** position. The **deficit** net position totaled \$5,482,872, at June 30, 2017 as compared to \$6,265,189, at June 30, 2016. This represents an improvement of 12.5% in total net position. The District's net pension liability is the sole reason for its deficit net position.
- General revenues from governmental activities were \$53,060,854 which represents \$741,341 more than net program expenses.
- The net position of business-type activities – food services – increased by \$40,886 (74.25%) this year.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two types of statements, which present different views of the District. The first two statements are ***District-wide financial statements*** – the Statement of Net Position and the Statement of Activities. These statements provide both *short-term* and *long-term* information about the District's overall financial status. The remaining statements are ***Fund financial statements*** that focus on *individual parts of governmental funds*. These statements indicate how basic services such as regular and special education were financed in the *short term* as well as indicate future spending plans. *Proprietary fund* statements offer *short-term* and *long-term* financial information about the activities the District operates *like a business*, such as food services. *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee* or *agent* for the benefit of others, such as student activity funds and scholarship funds.

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

Figure A-1
Organization of Pottsgrove School District Annual Financial Report

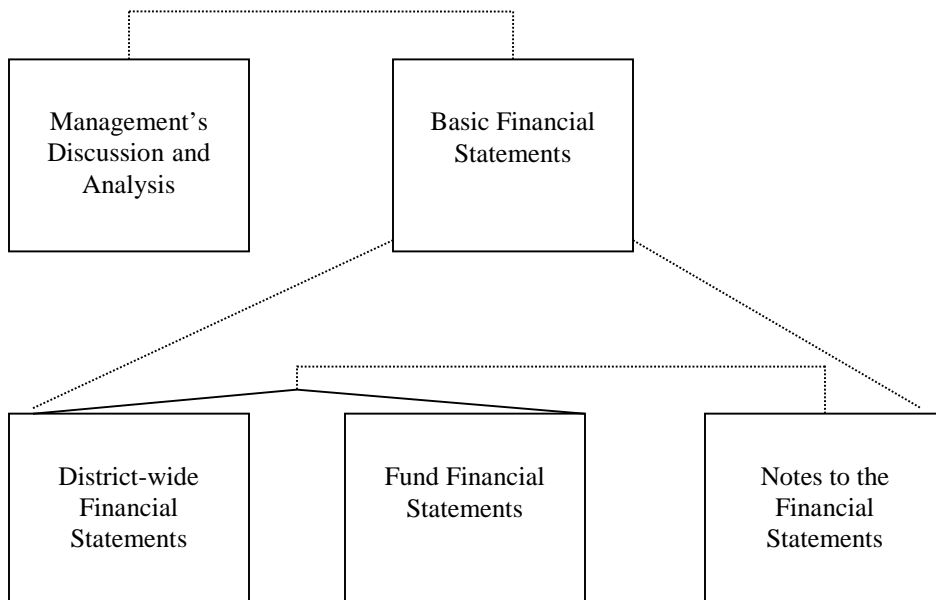


Figure A-2 summarizes the major features of the District's financial statements. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2

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

District-wide Statements

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

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

The District-wide financial statements are divided into two categories as follows:

- ***Governmental Activities:*** Most of the District's basic services are included here, such as regular and special education, maintenance and operation of plant services, transportation services and administrative services. Property taxes and state subsidies finance most of these activities.
- ***Business-type Activities:*** The District charges fees to cover the cost of its food services program.

Fund Financial Statements

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

The District has three types of funds as follows:

Governmental Funds: Most of the District's basic services are included in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. They are reported on the modified accrual method of accounting, which measures cash and all other financial assets that can be readily converted to cash. Consequently, the governmental fund statements provide a detailed short-term view of the District's operations and the services it provides. These statements allow readers to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are reconciled in the financial statements.

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

In addition, the District has established an *Internal Service Fund* (another type of proprietary fund). This fund accounts for contributions from employees and the General Fund toward the District's self-funded health care programs and payment of related claims.

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

Financial Analysis of the District as a Whole

The District's total net position increased by \$782,317 during the year reducing the **deficit** net position to \$5,482,872 at June 30, 2017. (See Figure A-3). The improvement in financial position was primarily generated by governmental activities. Net position of the District's business type activities increased by \$40,886 for the year.

Figure A-3
Condensed Statement of Net Position

	Governmental Activities		Business Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 37,877,981	\$ 39,150,768	\$ 210,853	\$ 152,776	\$ 38,088,834	\$ 39,303,544
Capital Assets	94,333,900	94,208,407	-	-	94,333,900	94,208,407
Total Assets	\$ 132,211,881	\$ 133,359,175	\$ 210,853	\$ 152,776	\$ 132,422,734	\$ 133,511,951
Deferred Charge on Bond Refunding	\$ 204,578	\$ 296,690	\$ -	\$ -	\$ 204,578	\$ 296,690
Deferred Outflows - Pension Expense	10,477,516	1,204,636	-	-	10,477,516	1,204,636
Post Measurement Date Pension Contributions	7,679,792	6,429,056	-	-	7,679,792	6,429,056
Total Deferred Outflows	\$ 18,361,886	\$ 7,930,382	\$ -	\$ -	\$ 18,361,886	\$ 7,930,382
Long-term debt outstanding	\$ 144,485,381	\$ 135,516,532	\$ -	\$ -	\$ 144,485,381	\$ 135,516,532
Other Liabilities	10,850,207	11,569,277	114,904	97,713	10,965,111	11,666,990
Total Liabilities	\$ 155,335,588	\$ 147,085,809	\$ 114,904	\$ 97,713	\$ 155,450,492	\$ 147,183,522
Deferred Inflows - Pension Expense	\$ 817,000	\$ 524,000	\$ -	\$ -	\$ 817,000	\$ 524,000
Total Deferred Inflows	\$ 817,000	\$ 524,000	\$ -	\$ -	\$ 817,000	\$ 524,000
Net Position						
Net investment in capital assets	\$ 46,712,587	\$ 43,564,923	\$ -	\$ -	\$ 46,712,587	\$ 43,564,923
Restricted	13,143,910	13,715,787	-	-	13,143,910	13,715,787
Unrestricted	(65,435,318)	(63,600,962)	95,949	55,063	(65,339,369)	(63,545,899)
Total Net Position	\$ (5,578,821)	\$ (6,320,252)	\$ 95,949	\$ 55,063	\$ (5,482,872)	\$ (6,265,189)

The District's improved financial position is the product of many factors. The local economy has shown modest improvement this year. Overall, revenues remained relatively stable and expenditures remained within anticipated levels. Revenues from earned income taxes and real estate transfer taxes have shown continued growth in the current year generating optimism that the local economy is rebounding. In addition, principal payments on bonds outpaced the depreciation recognized on fixed assets. The District is closing out a significant renovation of its High School. In anticipation of this and other projects, the District has historically invested a portion of its surplus in its capital projects fund. The expectation is that these funds will be used to limit future tax increases related to these projects. All of these factors combined to yield the current year's improvement in financial position.

The results of this year's operations as a whole are presented in the Statement of Activities. All expenses are reported in the first column. Program revenues including specific charges, grants, revenues and subsidies that directly relate to specific expense categories are presented to determine the final amount of the District's activities that are supported by other general revenues. The two largest general revenues are property taxes assessed to community taxpayers (\$38,734,103) and the Basic Education Subsidy provided by the Commonwealth of Pennsylvania (\$8,067,331). These items represent 88% of general revenues. The Basic Education Subsidy was approximately \$218,000 (2.8%) higher than in 2015-2016. The District has seen modest increases in this area in the last couple years.

The total cost of programs and services for governmental for the year ended June 30, 2017 was \$63,615,438. Direct instruction expenses account for 64.7% of this amount. (See Figures A-4 through A-6 for more details)

Figure A-4
Changes in Net Position

	Governmental Activities		Business Type Activities		Total	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<u>Revenues</u>						
Program Revenues:						
Charges for Services	\$ 175,423	\$ 220,619	\$ 671,400	\$ 660,017	\$ 846,823	\$ 880,636
Operating grants and contributions	10,368,702	9,286,648	798,840	756,043	11,167,542	10,042,691
Capital Grants and Contributions	751,890	748,969			751,890	748,969
General Revenues:						
Property taxes levied for general purposes	38,734,103	38,768,647			38,734,103	38,768,647
Other taxes levied for general purposes	4,305,863	4,078,274			4,305,863	4,078,274
Grants, subsidies and contributions, not restricted	9,777,975	9,669,637			9,777,975	9,669,637
Capital Grants and Contributions		2,000,000			-	
Other	<u>242,913</u>	<u>188,431</u>	<u>330</u>	<u>42</u>	<u>243,243</u>	<u>188,473</u>
Total Revenues	\$ 64,356,869	\$ 64,961,225	\$ 1,470,570	\$ 1,416,102	\$ 65,827,439	\$ 64,377,327
<u>Expenses</u>						
Instruction	\$ 41,140,421	\$ 38,654,550			\$ 41,140,421	\$ 38,654,550
Instructional Student Support	5,022,335	4,663,324			5,022,335	4,663,324
Administrative and Financial Support Services	7,367,147	7,535,404			7,367,147	7,535,404
Operation & Maintenance of Plant Services	5,251,872	4,928,993			5,251,872	4,928,993
Pupil Transportation	2,537,365	2,390,915			2,537,365	2,390,915
Other	<u>2,296,298</u>	<u>2,280,972</u>	<u>1,429,684</u>	<u>1,393,513</u>	<u>3,725,982</u>	<u>3,674,485</u>
Total Expenses	\$ 63,615,438	\$ 60,454,158	\$ 1,429,684	\$ 1,393,513	\$ 65,045,122	\$ 61,847,671
Increase(Decrease) in Net Position	\$ 741,431	\$ 4,507,067	\$ 40,886	\$ 22,589	\$ 782,317	\$ 2,529,656

Figure A-5
Governmental Activities: Sources of Revenue for 2016-2017 Fiscal Year

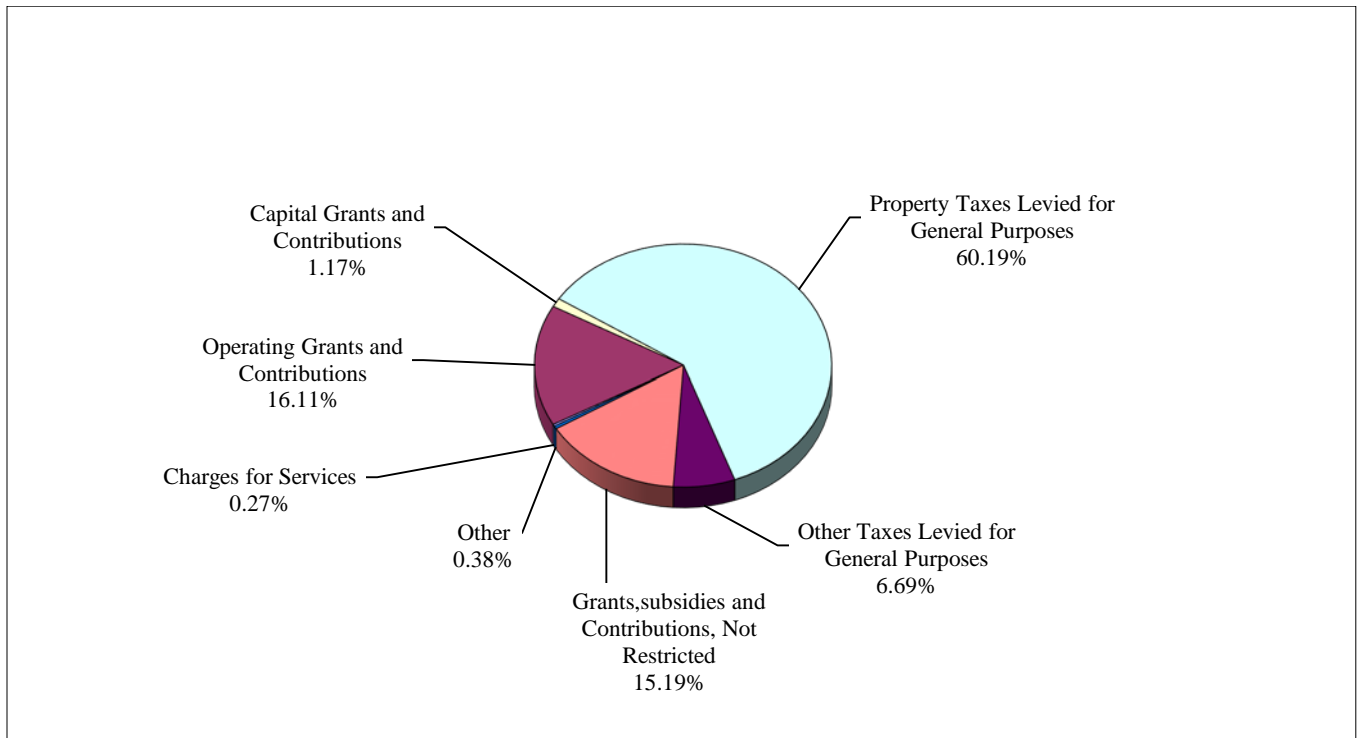


Figure A-6
Governmental Activities: Expenses for 2016-2017 Fiscal Year

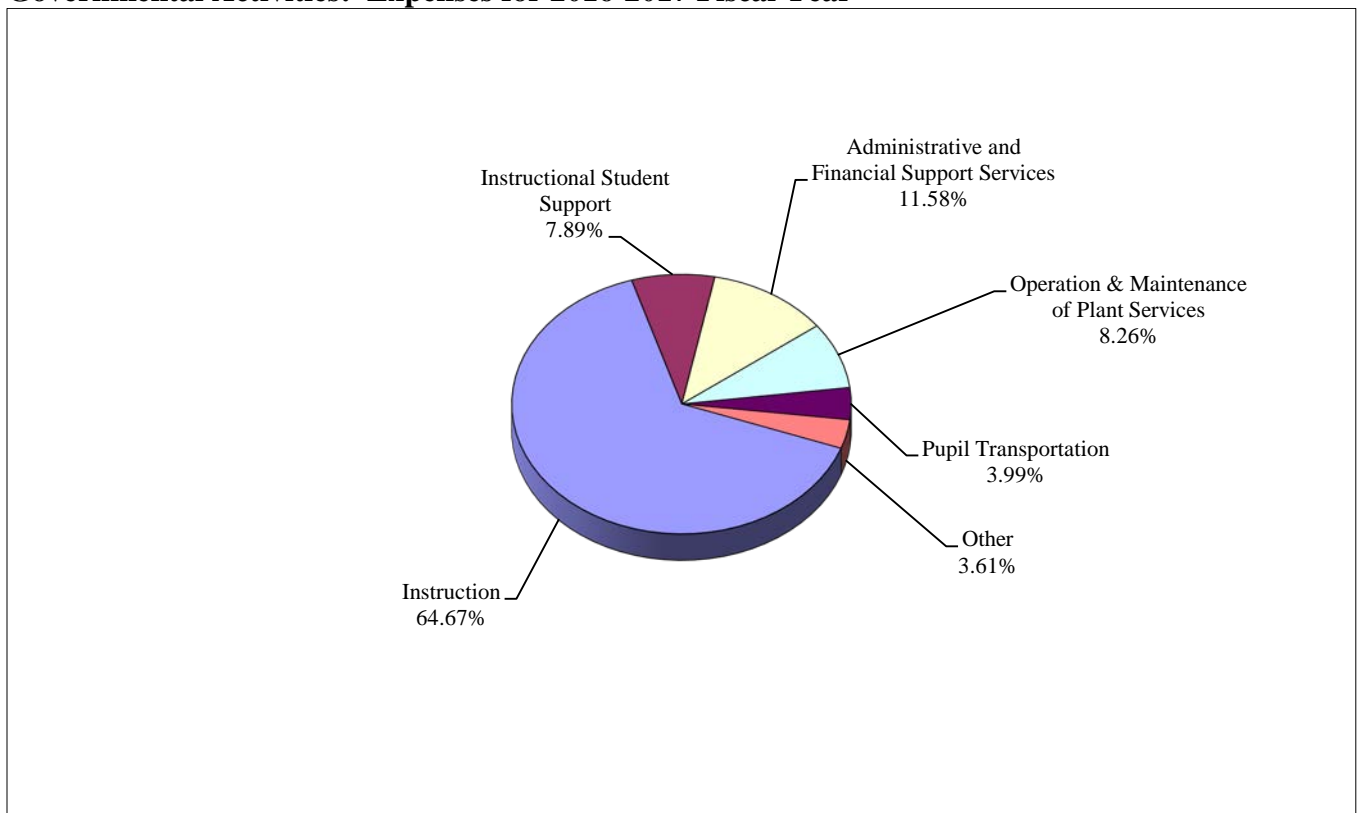


Figure A-7 presents the cost of six (6) major District activities: instruction, instructional student support, administrative and financial support services, operation and maintenance of plant services, pupil transportation, and other. The table also shows each activity's *net cost* (total cost less fees generated by the activities and governmental aid provided for *specific* programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

Figure A-7
Net Cost of Governmental Activities

	Total Cost		Net Cost	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Instruction	\$ 41,140,421	\$ 38,654,550	\$ 33,649,077	\$ 32,035,494
Instructional Student Support	5,022,335	4,663,324	4,257,084	3,930,315
Administrative and Financial Support Services	7,367,147	7,535,404	6,802,633	6,950,364
Operation & Maintenance of Plant Services	5,251,872	4,928,993	4,853,167	4,653,477
Pupil Transportation	2,537,365	2,390,915	1,359,971	1,219,129
Other	<u>2,296,298</u>	<u>2,280,972</u>	<u>1,397,491</u>	<u>1,409,143</u>
Total Expenses	<u>\$ 63,615,438</u>	<u>\$ 60,454,158</u>	<u>\$ 52,319,423</u>	<u>\$ 50,197,922</u>

Revenues from governmental activities exceeded related expenses, resulting in an increase in net position of \$741,431. Revenues exceeded expenses for business-type activities by \$40,886.

Financial Analysis of the District's Funds

At June 30, 2017, governmental funds reported total fund balances of \$24,735,686 which represents a decrease of \$972,627. Included in the fund group are the General Fund, which generated a surplus of \$1,173,441, and the Capital Projects Fund which generated a **deficit** of \$2,146,068. The deficit in the Capital Projects Fund is primarily the result of expending funds for the renovation of the Pottsgrove High School. The funds were borrowed in a prior year.

The District has committed \$8,555,000 of the General Fund Balance to provide for the future payment of post-employment health benefits, accumulated compensated absences, future retirement rate increases and future increases in Pottsgrove's share of the Western Montgomery Career and Technical Center budget. In addition, \$705,965 of General Fund Balance has been assigned as part of the 2017-2018 budget. Please refer to the fund balance section of note 1 to these financial statements for definitions of the terms presented.

As previously noted, the business-type activities produced a profit of \$40,886 for the year ended June 30, 2017. Business-type activities have routinely generated modest profits or losses. In addition to the District-wide financial statements, food services are reported in greater detail in the proprietary fund statements.

The District maintains an internal service fund to service its self-funded healthcare programs. After several years of poor performance, the District took a number of steps for the 2012-2013 school year to improve the financial stability of this fund. The changes included increasing premium contributions, establishing new plan options with lower costs to the employees and the District, and enrollment in the Southeastern Pennsylvania Schools Trust (SEPaST). SEPaST is a healthcare benefits consortium geared toward generating cost savings for participating school districts. As a result of these changes, the internal service fund has accumulated reserves in excess of what is necessary to provide for expected claims utilization. This fund generated a profit of \$237,008 for the year ended June 30, 2017 as compared to an operating loss of \$7,543 for the year ended June 30, 2016.

General Fund Budgetary Highlights

The general fund generated a surplus of \$1,173,441 for the year ended June 30, 2017. The District adopted a budget for the fiscal year projecting a loss of \$934,741. This budget anticipated the need to use \$900,000 of the fund balance committed to defraying the impact of retirement rate increases in the 2016-2017 school year. Since the District generated a surplus for the prior year and the District did not need to use fund balance to offset retirement increases in that year, the increase in retirement contributions for 2016-2017 was not as large as anticipated. Therefore, the School Board agreed to reduce the amount of fund balance to be used in the 2016-2017 fiscal year to \$375,000. Below are a number of other issues that contributed to this relatively strong financial result.

We anticipated that the economy in Pottsgrove School District would remain stable when developing our 2016-2017 budget. Revenues were below expectations by approximately .25%.

Revenues from local sources were very close to budget at approximately 1.2% (\$521,000) over budget. Earned income tax revenue came in approximately \$105,000 (3.6%) higher than budgeted and property transfer tax revenue came in approximately \$268,000 (78%) higher than budgeted. While one large property transfer accounted for the vast majority of the increase in transfer taxes (\$264,000), both of these revenue streams indicate growth in the local economy. Interest earnings continue to rise generating approximately \$64,000 more than budgeted. This reflects a trend in higher interest rates which is expected to continue for the next couple years.

State revenues were below budget by approximately \$621,000 (3.1%). The sole reason for this shortfall related to a budgeting issue in connection with the rental and sinking fund subsidy. The District anticipated the recognition of \$850,000 in rental and sinking fund subsidies in the 2016-2017 fiscal year. These subsidies were related to debt service payments made in the 2015-2016 fiscal year and prior. The payment was delayed until the 2016-2017 fiscal year. The District budgeted this revenue on a cash basis, but later determined that the revenue was to be recognized in the 2015-2016 fiscal year.

Other State subsidies increased offsetting a portion of the shortfall in rental and sinking fund subsidies. The basic education subsidy exceeded the amount budgeted by (\$176,000), the special education subsidy exceeded the amount budgeted by \$62,000, and the retirement subsidy exceeded the amount budgeted by \$155,000. The variance in the retirement subsidy is the result of the District's market value/personal income (MV/PI) aid ratio increasing. The District has historically budgeted a 50% reimbursement of retirement costs from the State. This is accurate for District's whose MV/PI aid ratio is 50% or below. Pottsgrove's MV/PI aid ratio has increased to 55.65% for the year ended June 30, 2017 which resulted in a larger subsidy. The MV/PI aid ratio is an indicator of the relative wealth of the District. An increase in the ratio indicates a reduction in the wealth of the District in comparison to the rest of the State.

Federal revenues were under budget by approximately \$64,000 (6.9%). Since grant expenditures drive federal revenues, expenditures were under budget by a comparable amount.

Expenditures and other financing uses were under budget for the year ended June 30, 2017 (without considering the budgetary reserve of \$625,000) by approximately \$2.2 million. The largest contributor to this shortfall was directly related to the issued discussed above regarding the rental and sinking fund subsidies. The District budgeted an \$850,000 transfer to the Capital Reserve Fund to offset the additional rental and sinking fund subsidies included in the 2016-2017 budget. Since this revenue was recognized in the prior year, this interfund transfer was not made. After eliminating the expenditure savings related to this issue, operating efficiencies of approximately \$1.3 million were achieved in a number of areas during the year. A discussion of some of the major areas of saving are presented below:

- Public education is a service industry. As such, staffing issues arising subsequent to budget preparation can have significant impact on financial performance. There were some significant changes that occurred after the 2016-2017 budget was adopted including the following:
 - There was transition in a number of positions including several administrators this year. These positions either remained open for a portion of the year or were filled at lower rates. There were also a number of areas where staffing was not utilized at the level anticipated in the budget. As a result salaries were approximately \$368,000 under budget. This represents 1.6% of budgeted salaries.
 - Due to lower than anticipated salary levels and changes in benefit levels elected by staff during the year, the District recognized savings of approximately \$542,000 in the area of employee benefits. This includes savings in healthcare and prescription costs totaling approximately \$170,000, and savings in retirement costs of approximately \$207,000.
 - The overall savings in salaries and benefits was approximately \$910,000 which represents 2% of total salaries and benefits.
- As a result of the District's participation in a regional consortium for purchasing utilities, Pottsgrove recognized savings in the purchase of natural gas and electricity. Expenditures in this area increased slightly compared to the prior fiscal year. However, utility costs remained lower than budgeted amounts by approximately \$115,000 for the year ended June 30, 2017.

- The student transportation system recognized a significant reduction in fuel costs in 2016-2017 as a result of attractive fuel prices. The District's overall transportation costs dropped by approximately \$170,000 in the 2015-2016 school-year. Our 2016-2017 budget was based on the total transportation costs for the year ended June 30, 2015 adjusted for inflation. Therefore, the budgeted amount did not take the 2015-2016 reduction in costs into consideration. For 2016-2017, actual transportation expenditures came in approximately \$280,000 below budget.
- Tuitions at a variety of outside educational options were less than what was budgeted this year by approximately \$357,000. Charter school tuitions dropped approximately \$100,000 in the current year generating a budgetary savings of approximately \$157,000. Tuition payments to the Western Montgomery Career & Technical Center were lower than the prior year by approximately \$424,000 as a result of savings generated by refinancing the technical center's debt. This reduction was anticipated in the budget.
- As a result of these savings, administration recommended the transfer of approximately \$784,000 to the capital reserve fund to offset future capital expenditures. Due to the impending election, the Board chose to defer action on this item until the new Board is in place.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2017, the District had investments of \$94,333,900 in a broad range of capital assets, including land, buildings, furniture, and equipment. (See Figure A-8.) More detailed information about capital assets, including the total commitments related to the construction project discussed above can be found in the notes accompanying these financial statements. Total depreciation expense for the year was \$2,603,592.

Figure A-8
Capital Assets (net of depreciation)

	Governmental Activities		Business Type Activities		Total		% Increase (Decrease)
	2017	2016	2017	2016	2017	2016	
Land & Land Improvements	\$ 6,167,855	\$ 3,663,091			\$ 6,167,855	\$ 3,663,091	68.38%
Building & Building Improvements	80,246,191	53,677,668			80,246,191	53,677,668	49.50%
Fixtures & Equipment	7,919,854	5,031,986	-	-	7,919,854	5,031,986	57.39%
Construction in Progress	-	31,835,662	-	-	-	31,835,662	-100.00%
Total	\$ 94,333,900	\$ 94,208,407	\$ -	\$ -	\$ 94,333,900	\$ 94,208,407	0.13%

Long-term Debt

At June 30, 2017, the District had \$47,417,000 in general obligation bonds outstanding. This is a decrease of \$4,107,000 which is due to annual principal contributions paid on the District's debt. More detailed information about the District's long-term liabilities can be found in the notes accompanying these financial statements.

In addition, there was a major change in pension reporting that took effect on July 1, 2014. As the result of implementing Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date*, the District was required to recognize its proportionate share of the unfunded liability of the Public School Employees' Retirement System on its financial statements. This required a restatement of Net Position on the date of implementation as well as the recognition of a net pension liability and a deferred outflow for pension obligations paid subsequent to the measurement data. This is a material change in financial reporting and more completely described in Note 9 to these financial statements. Please note that the Commonwealth of Pennsylvania is obligated to contribute at least 50% of employer contributions to this retirement plan. However, since these payments are remitted to the District in the form of a subsidy, they cannot be used to reduce the liability reflected on these financial statements. Pottsgrove School District's share of the net pension liability at June 30, 2017 is \$98,123,000.

Factors Affecting the District's Future

Many financial and non-financial issues will impact the future fiscal strength of the District. Below are several major issues, which existed at the time these financial statements were prepared that could significantly impact the financial health of the District:

- The appointment of Betsy DeVos as U.S. Education Secretary poses concern to public education. Ms. DeVos is a staunch supporter of school choice. Should the federal government provide incentives supporting school choice, it will likely impact public schools negatively.
- The inability of the Commonwealth to pass its annual budget in a timely manner is becoming a growing concern. As a result of the delay in passage of their 2017-2018 budget, the Commonwealth suffered another downgrade in their bond rating. Measures need to be put in place to require a balanced budget in a timely manner that is based on sustainable recurring revenue streams. Failure to accomplish this will result in continued stress on all components of the Commonwealth budget.
- The current state of the financial markets is impacting everyone. Public schools districts are not exempt. However, the degree of the impact will vary from district to district. Over the years, Pottsgrove School District has been very conservative in its investment and financing practices. As a result, the impact may be less severe in Pottsgrove than in other districts that were more aggressive in these areas.

- Interest rates have been depressed for a number of years. As evidenced by the increase in interest earnings in 2016-2017, those rates have finally begun to rise again. We are now able to achieve a return on our investments of approximately 1-1.5%. We anticipate that rates will continue to rise slowly over the next couple years.
- Financing of construction projects has become more difficult and could potentially become more costly as a result of the failures in the mortgage and financial services markets. Bond insurers are under increasing scrutiny. As a result, it is becoming more important for governments to be able to stand on their own financial strength. Pottsgrove School District was successful in improving its bond rating over the past several years. Bond rating agencies have been pleased with the financial planning and conservative budget models in place at the District.
- The region's real estate market continues to struggle. However, there continues to be modest growth in property transfer tax collections which indicates improvement in this area. The future of this market segment will have an impact on the District's financial outlook.
- The District's earned income tax collections continue to grow year over year. Since this has occurred for several years, it is being viewed as a trend toward higher earning capacity in the local economy.
- There has been a trend toward increasing enrollment in Charter and Cyber Charter School programs in recent years. While there was a decrease in 2016-2017, we anticipate this component of our budget to return to prior year levels. Since these schools are directly funded by district tuition payments, significant increases in enrollment by students residing in Pottsgrove will have a direct impact on the District budget. The District has included \$1.75 million for these tuitions in its 2017-2018 budget.
- The District has negotiated a collective bargaining agreement with our teachers. The agreement provides for average annual increases of approximately 3.48% through the 2018-2019 school year. The agreement will expire on June 30, 2019.
- The District has negotiated a collective bargaining agreement with our custodial, maintenance and grounds staff. This agreement provides for increases ranging from 2.5% to 3% per year beginning July 1, 2016 and ending June 30, 2020.
- The Pennsylvania School Employees Retirement System trustees annually set the rates that school districts must contribute to their plan. The rate in effect for the year ended June 30, 2017 was 30.03% and the rate in effect for the 2017-2018 school year is 32.57%. Rates are projected to increase 1.6 percentage points next year and then moderate for several years before capping out at approximately 37%. Once reaching the high point, rates are expected to remain at relatively high levels for up to 20 years. This will likely cause more extreme challenges to the pension system in the future.

While Pottsgrove School District expects the Commonwealth to pay their share of these required payments, it has committed a portion of its General Fund balance to reduce the impact of the anticipated rate hikes. The committed funds will be used to phase in the impact of this increase over several years beginning in the 2017-2018 school year. The District has currently committed \$6,475,000 of its fund balance for this purpose.

- The District is attempting to close out its \$34 million renovation project at the Pottsgrove High School. The District financed this project in a manner that will not require an increase in property taxes. This has utilized the entire budget allotted to debt service through 2028. As a result, the District will need to rely on its Capital Projects Fund to finance improvements in other District buildings.
- Pennsylvania has historically funded a program entitled PlanCon which provided funding to districts to defray the cost of school building construction if they received approval. The PlanCon program is currently in a moratorium preventing any new project submissions. A commission has been formed to define the future of this program. At a minimum, there is likely to be changes made in the process to achieve approval along with funding levels and timelines. However, there is some concern that the program may be terminated once commitments on existing approved plans are satisfied. Since future projects will likely require substantial debt service payments, the budgetary impact will require careful planning.
- The future source of funding for public education is uncertain. Over time the cost of education has increased while state and federal funding have remained relatively stable. As a result, a larger portion of the budget has been provided by the local tax base. Approximately 69% of revenues for the 2016-2017 school year were provided by local sources.
 - ❖ Property taxes account for nearly 87% of all local revenues. There has been a growing concern among Pennsylvania residents regarding the impact that local property taxes are having on them. In response, the Commonwealth of Pennsylvania enacted Act 1 of 2006 “*The Taxpayer Relief Act*”. This act mandated significant changes that may affect the method in which public education is funded. One significant provision of this law was the introduction of gaming in Pennsylvania with a portion of the revenues assigned to provide property tax relief to resident homeowners. Pottsgrove School District was allocated approximately \$1.5 million to offset property taxes each year since the inception of this funding stream in the 2008-2009 school year.

While this provided some modest relief to taxpayers, their concern over property taxes remains. In the past year, there was a significant push to eliminate property taxes which never reached a vote. A ballot question was placed on the 2017 election asking voters if they would support raising the maximum property tax relief exemption from 50% of the median assessed value of homesteads to 100% of the assessed value of homesteads. Since this legislation merely provides flexibility, it was approved. The challenge will be in identifying where the funding will come from to provide enhanced tax relief. Pottsgrove School District is currently able to provide tax relief of approximately 6.5% of the median assessed value.

It is likely that more legislation will be proposed in the future to address this concern. We anticipate that the discussion regarding elimination of school property taxes will be resurrected again in the near future. Any change in taxing policy will have a significant impact on the funding of public education.

- ❖ The Commonwealth recently adopted a new basic education funding formula. This determines how new funding is allocated to school districts across the state. While this defines a rational division of funds to districts, it does not address the question of the overall adequacy of the funding level.
- ❖ The State appointed a new administrator to oversee its School Based ACCESS program (SBAP) in 2012 resulting in a substantial decline in this revenue stream. Further changes were made to the administration of this program in 2016. While we are still waiting to determine the impact, we anticipate that funding will remain at the lower levels and possibly decrease. Since many special education costs are mandated, any loss of revenue from the SBAP will either result in cuts in other areas or additional taxes on the local tax base.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, parents, students, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Office, Pottsgrove School District, 1301 Kauffman Road, Pottstown, PA 19464-2398.

POTTSGROVE SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2017

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and Investments	\$ 28,526,729	\$ 76,221	\$ 28,602,950
Taxes Receivable, Net	2,770,963	-	2,770,963
Internal Balances	(2,431)	2,431	-
Intergovernmental Receivables	2,737,953	122,240	2,860,193
Other Receivables	39,901	2,739	42,640
Funds Held by Southeastern Pennsylvania Schools Trust	3,804,866	-	3,804,866
Inventories	-	7,222	7,222
Capital Assets Not Being Depreciated:			
Land	623,886	-	623,886
Capital Assets, Net of Accumulated Depreciation	93,710,014	-	93,710,014
TOTAL ASSETS	132,211,881	210,853	132,422,734
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charge on Bond Refunding	204,578	-	204,578
Deferred Outflows of Resources for Pension	10,477,516	-	10,477,516
Pension Contributions Made Subsequent to the Measurement Date	7,679,792	-	7,679,792
TOTAL DEFERRED OUTFLOWS OF RESOURCES	18,361,886	-	18,361,886
LIABILITIES			
Accounts Payable	2,565,490	87,264	2,652,754
Accrued Salaries and Benefits	3,255,666	-	3,255,666
Payroll Deductions and Withholdings	495,437	-	495,437
Accrued Interest	403,631	-	403,631
Unearned Revenues	42,582	27,640	70,222
Noncurrent Liabilities, Due Within One Year	4,087,401	-	4,087,401
Noncurrent liabilities:			
Bonds Payable, Net	44,035,824	-	44,035,824
Long-Term Portion of Compensated Absences	301,031	-	301,031
Long-Term Portion of Retirement Incentives	16,190	-	16,190
Net Pension Liability	98,123,000	-	98,123,000
Other Postemployment Benefit Obligation (OPEB)	2,009,336	-	2,009,336
TOTAL LIABILITIES	155,335,588	114,904	155,450,492
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources for Pension	817,000	-	817,000
NET POSITION			
Net Investment in Capital Assets	46,712,587	-	46,712,587
Restricted for Capital Projects	9,339,044	-	9,339,044
Restricted for Health Claims	3,804,866	-	3,804,866
Unrestricted (Deficit)	(65,435,318)	95,949	(65,339,369)
TOTAL NET POSITION (DEFICIT)	\$ (5,578,821)	\$ 95,949	\$ (5,482,872)

See accompanying notes.

POTTSGROVE SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
Instructional Services:							
Regular Programs - Elementary/Secondary	\$ 28,987,016	\$ 295	\$ 3,801,377	\$ -	\$ (25,185,344)	\$ -	\$ (25,185,344)
Special Programs - Elementary/Secondary	10,304,234	-	3,628,204	-	(6,676,030)	-	(6,676,030)
Vocational Education Programs	1,554,102	-	-	-	(1,554,102)	-	(1,554,102)
Other Instructional Programs - Elementary/Secondary	295,069	-	61,468	-	(233,601)	-	(233,601)
Total Instructional Services	41,140,421	295	7,491,049	-	(33,649,077)	-	(33,649,077)
Support Services:							
Student Services	2,111,987	-	230,335	-	(1,881,652)	-	(1,881,652)
Instructional Staff	2,228,673	-	395,742	-	(1,832,931)	-	(1,832,931)
General Administration	4,123,900	-	367,772	-	(3,756,128)	-	(3,756,128)
Pupil Health	681,675	-	139,174	-	(542,501)	-	(542,501)
Business	857,047	-	75,402	-	(781,645)	-	(781,645)
Operation and Maintenance of Plant	5,251,872	42,954	355,751	-	(4,853,167)	-	(4,853,167)
Student Transportation	2,537,365	97,734	1,079,660	-	(1,359,971)	-	(1,359,971)
Central Support	2,355,626	-	121,340	-	(2,234,286)	-	(2,234,286)
Other Support	30,574	-	-	-	(30,574)	-	(30,574)
Total Support Services	20,178,719	140,688	2,765,176	-	(17,272,855)	-	(17,272,855)
Operation of Noninstructional Services:							
Student Activities	1,163,344	34,440	112,477	-	(1,016,427)	-	(1,016,427)
Community Services	-	-	-	-	-	-	-
Interest on Long-Term Debt	1,132,954	-	-	751,890	(381,064)	-	(381,064)
Total Noninstructional Services	2,296,298	34,440	112,477	751,890	(1,397,491)	-	(1,397,491)
Total Governmental Activities	63,615,438	175,423	10,368,702	751,890	(52,319,423)	-	(52,319,423)
Business-Type Activities							
Food Service	1,429,684	671,400	798,840	-	-	40,556	40,556
Total Primary Government	\$ 65,045,122	\$ 846,823	\$ 11,167,542	\$ 751,890	(52,319,423)	40,556	(52,278,867)
General Revenues and Transfers							
General Revenues:							
Taxes:							
Property Taxes					38,734,103	-	38,734,103
Public Utility Realty, Earned Income, and Mercantile Taxes					4,305,863	-	4,305,863
Grants, Subsidies, and Contributions Not Restricted to a Specific Program					9,777,975	-	9,777,975
Investment Earnings					243,209	34	243,243
Transfers					(296)	296	-
Total General Revenues and Transfers					53,060,854	330	53,061,184
Change in Net Position					741,431	40,886	782,317
Net Position (Deficit) - Beginning of year					(6,320,252)	55,063	(6,265,189)
Net Position (Deficit) - End of year					\$ (5,578,821)	\$ 95,949	\$ (5,482,872)

See accompanying notes.

POTTSGROVE SCHOOL DISTRICT

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2017

	General	Capital Projects	Total Governmental Funds
ASSETS			
Cash and Investments	\$ 17,296,671	\$ 10,382,422	\$ 27,679,093
Taxes Receivable	2,821,272	-	2,821,272
Intergovernmental Receivables	2,737,953	-	2,737,953
Other Receivables	39,901	-	39,901
TOTAL ASSETS	\$ 22,895,797	\$ 10,382,422	\$ 33,278,219
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
LIABILITIES			
Interfund Payables	\$ 228,615	\$ -	\$ 228,615
Accounts Payable	1,131,944	809,445	1,941,389
Accrued Salaries and Benefits	3,300,696	-	3,300,696
Payroll Deductions and Withholdings	495,437	-	495,437
Unearned Revenues	42,582	-	42,582
Current OPEB and Retirement Incentive	18,371	-	18,371
TOTAL LIABILITIES	5,217,645	809,445	6,027,090
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	1,444,709	-	1,444,709
Unavailable Revenue - Earned Income Taxes	1,070,734	-	1,070,734
TOTAL DEFERRED INFLOWS OF RESOURCES	2,515,443	-	2,515,443
FUND BALANCES			
Restricted Fund Balance	-	9,572,977	9,572,977
Committed Fund Balance:			
Future Retirement Rate Increases	6,475,000	-	6,475,000
Compensated Absences	350,000	-	350,000
Postemployment Benefits	1,500,000	-	1,500,000
Vocational Education	230,000	-	230,000
Assigned Fund Balance:			
Athletics	8,129	-	8,129
Budgeted Appropriations 2017-2018	705,965	-	705,965
Unassigned Fund Balance	5,893,615	-	5,893,615
TOTAL FUND BALANCES	15,162,709	9,572,977	24,735,686
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 22,895,797	\$ 10,382,422	\$ 33,278,219

See accompanying notes.

POTTSGROVE SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION

June 30, 2017

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

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 24,735,686

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$139,372,459 and the accumulated depreciation is \$45,038,559. 94,333,900

Property taxes and earned income taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as unavailable revenue in the funds adjusted for allowance for doubtful accounts. 2,465,134

An internal service fund is used by the District to charge the cost of health insurance claims to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities. 4,254,585

The net pension and other postemployment benefit obligations are not reflected on the fund financial statements. (100,132,336)

Deferred outflows and inflows of resources for pensions are recorded and amortized in the statement of net position. 17,340,308

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

Bonds and Notes Payable	\$ (47,417,000)	
Accrued Interest on Bonds	(403,631)	
Unamortized Bond Premium	(642,824)	
Deferred Charge on Bond Refunding	204,578	
Long-Term Portion of Compensated Absences	(301,031)	
Long-Term Portion of Retirement Incentives	(16,190)	(48,576,098)

TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES \$ (5,578,821)

POTTSGROVE SCHOOL DISTRICT

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

For the Year Ended June 30, 2017

	General	Capital Projects	Total Governmental Funds
REVENUES			
Local Sources	\$ 44,382,834	\$ 44,477	\$ 44,427,311
State Sources	19,040,568	-	19,040,568
Federal Sources	852,463	-	852,463
TOTAL REVENUES	64,275,865	44,477	64,320,342
EXPENDITURES			
Current:			
Instructional Services	37,232,111	79,958	37,312,069
Support Services	18,970,636	501,253	19,471,889
Operation of Noninstructional Services	1,123,868	-	1,123,868
Capital Outlay	-	2,033,334	2,033,334
Debt Service:			
Principal	4,107,000	-	4,107,000
Interest	1,244,513	-	1,244,513
TOTAL EXPENDITURES	62,678,128	2,614,545	65,292,673
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,597,737	(2,570,068)	(972,331)
OTHER FINANCING SOURCES (USES)			
Transfers In	-	424,000	424,000
Transfers Out	(424,296)	-	(424,296)
TOTAL OTHER FINANCING SOURCES (USES)	(424,296)	424,000	(296)
NET CHANGE IN FUND BALANCES	1,173,441	(2,146,068)	(972,627)
FUND BALANCES - BEGINNING OF YEAR	13,989,268	11,719,045	25,708,313
FUND BALANCES - END OF YEAR	\$ 15,162,709	\$ 9,572,977	\$ 24,735,686

See accompanying notes.

POTTSGROVE SCHOOL DISTRICT

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

For the Year Ended June 30, 2017

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

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (972,627)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital Outlays	\$ 2,925,786	
Less: Depreciation Expense	(2,603,592)	
Less: Loss on Disposal of Capital Assets	<u>(196,701)</u>	125,493

Because some property taxes and earned income taxes will not be collected for several months after the District's year end, they are not considered as "available" revenues in the governmental funds.

36,822

Issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.

Repayment of Bond Principal	4,107,000	
Amortization of Bond Premium	142,341	
Amortization of Bond Discount	(750)	
Amortization of Deferred Charge on Bond Refunding	<u>(92,112)</u>	4,156,479

Interest expense incurred on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources.

62,080

In the statement of activities, certain operating expenses - compensated absences (vacations and sick days) and retirement incentives are measured by the amounts earned during the year.

60,610

An internal service fund is used by the District to charge the costs of health insurance claims to the individual funds. The net revenue (expense) is reported with governmental activities.

237,008

The change in net pension liability and other postemployment benefit obligation and related deferred outflows and inflows of resources are reflected as an adjustment to expense on the statement of activities, but not included in the fund statements.

(2,964,434)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 741,431

POTTSGROVE SCHOOL DISTRICT

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS**

June 30, 2017

	Business-Type Activities <u>Enterprise Fund</u> <u>Food Service</u>	Governmental Activities <u>Internal</u> <u>Service Fund</u>
ASSETS		
CURRENT ASSETS		
Cash and Investments	\$ 76,221	\$ 847,636
Interfund Receivables	2,431	226,184
Intergovernmental Receivables	122,240	-
Other Receivables	2,739	-
Inventories	7,222	-
Funds Held by Southeastern Pennsylvania Schools Trust	-	3,804,866
TOTAL ASSETS	<u>210,853</u>	<u>4,878,686</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	87,264	624,101
Unearned Revenues	27,640	-
TOTAL LIABILITIES	<u>114,904</u>	<u>624,101</u>
NET POSITION		
Restricted for Health Claims	-	3,804,866
Unrestricted	95,949	449,719
TOTAL NET POSITION	<u>\$ 95,949</u>	<u>\$ 4,254,585</u>

See accompanying notes.

POTTSGROVE SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
PROPRIETARY FUNDS

For the Year Ended June 30, 2017

	Business-Type Activities Enterprise Fund Food Service	Governmental Activities Internal Service Fund
OPERATING REVENUES		
Food Service Revenue	\$ 671,400	\$ -
Charges for Services	-	7,433,576
TOTAL OPERATING REVENUES	671,400	7,433,576
OPERATING EXPENSES		
Contracted Services	1,421,829	-
Supplies	7,701	-
Other Operating Expenses	154	-
Payment for Health Claims and Administrative Services	-	7,200,807
TOTAL OPERATING EXPENSES	1,429,684	7,200,807
OPERATING (LOSS) INCOME	(758,284)	232,769
NONOPERATING REVENUES		
Local Sources - Earnings on Investments	34	4,239
State Sources	36,551	-
Federal Sources	762,289	-
TOTAL NONOPERATING REVENUES	798,874	4,239
INCOME BEFORE TRANSFERS	40,590	237,008
TRANSFERS IN	296	-
CHANGE IN NET POSITION	40,886	237,008
NET POSITION - BEGINNING OF YEAR	55,063	4,017,577
NET POSITION - END OF YEAR	\$ 95,949	\$ 4,254,585

POTTSGROVE SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Year Ended June 30, 2017

	Business-Type Activities Enterprise Fund Food Service	Governmental Activities Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Users	\$ 671,351	\$ 7,207,392
Payments for Contracted Services	(1,322,059)	-
Payments for Other Operating Expenses	(7,855)	-
Payments for Health Claims and Administrative Expenses	-	(7,339,433)
NET CASH USED FOR OPERATING ACTIVITIES	(658,563)	(132,041)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Sources	36,558	-
Federal Sources	676,026	-
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	712,584	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Earnings on Investments	34	4,239
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	54,055	(127,802)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	22,166	975,438
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 76,221</u>	<u>\$ 847,636</u>

POTTSGROVE SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - CONTINUED
PROPRIETARY FUNDS

For the Year Ended June 30, 2017

	Business-Type Activities Enterprise Fund Food Service	Governmental Activities Internal Service Fund
<u>Reconciliation of Operating (Loss) Income to Net Cash</u>		
<u>Used for Operating Activities:</u>		
Operating (Loss) Income	\$ (758,284)	\$ 232,769
Adjustments to Reconcile Operating (Loss) Income to Net Cash		
Used For Operating Activities:		
Donated Commodities Used	84,142	-
Changes in Assets and Liabilities:		
Other Receivables	(263)	-
Interfund Receivables	-	(226,184)
Funds Held by Southeastern Pennsylvania Schools Trust	-	(443,224)
Accounts Payable	15,628	304,598
Unearned Revenues	214	-
Total Adjustments	99,721	(364,810)
NET CASH USED FOR OPERATING ACTIVITIES	\$ (658,563)	\$ (132,041)

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the District used \$84,142 of commodities from the U.S. Department of Agriculture.

POTTSGROVE SCHOOL DISTRICT

STATEMENT OF NET POSITION
FIDUCIARY FUNDS

June 30, 2017

	Private Purpose Trust Funds	Agency Funds (Student Activities)
ASSETS		
CURRENT ASSETS		
Cash and Investments	\$ 60,780	\$ 128,383
TOTAL ASSETS	60,780	<u>\$ 128,383</u>
LIABILITIES		
CURRENT LIABILITIES		
Other Current Liabilities	-	\$ 128,383
TOTAL LIABILITIES	-	<u>\$ 128,383</u>
NET POSITION HELD IN TRUST FOR SCHOLARSHIPS	<u>\$ 60,780</u>	

POTTSGROVE SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS

For the Year Ended June 30, 2017

	Private Purpose Trust Funds
	<u> </u>
ADDITIONS	
Contributions	\$ 4,500
Earnings on Investments	<u>251</u>
TOTAL ADDITIONS	4,751
DEDUCTIONS	
Scholarships	<u>7,200</u>
CHANGE IN NET POSITION	(2,449)
NET POSITION - BEGINNING OF YEAR	<u>63,229</u>
NET POSITION - END OF YEAR	<u><u>\$ 60,780</u></u>

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

Pottsgrove School District (the "District") is located in Montgomery County, Pennsylvania. The District's tax base consists of the townships of Lower Pottsgrove, Upper Pottsgrove, and West Pottsgrove.

Pottsgrove School District was organized July 2, 1956, under the provision of Act 150 of the Pennsylvania legislation. The Pottsgrove School District is governed by a board of nine school directors who are residents of the school district and who are elected every two years, on a staggered basis, for a four-year term. The board of school directors has the power and duty to establish, equip, furnish, and maintain a sufficient number of elementary, secondary, and other schools necessary to educate every person residing in such district, between the ages of six and 21 years, who may attend.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the District (the primary government) and its component units.

The District used guidance contained in generally accepted accounting principles to evaluate the possible inclusion of related entities (authorities, boards, etc.) within its reporting entity. The criteria used by the District for inclusion are financial accountability and the nature and significance of the relationships. In determining financial accountability in a given case, the District reviews the applicability of the following criteria. The District is financially accountable for:

- Organizations that make up the legal District entity.
- Legally separate organizations if District officials appoint a voting majority of the organization's governing body and the 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 financial burdens on, the District as defined below.

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

POTTSGROVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A. Reporting Entity - continued

Financial benefit or burden - Exists if the District (1) is entitled to the organization's resources; (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.

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

Based on the foregoing criteria, the District has determined it has no component units.

Governments commonly enter into special arrangements with each other to provide or obtain needed services. A common type of such an arrangement is a joint venture. In addition to joint ventures, governments also enter into contracts to plan for and address certain activities for their mutual benefits; i.e., a jointly governed organization. The District has one of each of these relationships:

Joint Venture: The District is a participating member of the Western Montgomery Career and Technology Center. See Note 11 for details of involvement and financial information of the joint venture.

Jointly Governed Organizations: The District is a participating member of the Montgomery County Intermediate Unit (MCIU). MCIU is run by a joint committee consisting of members from each participating district. No participating district appoints a majority of the joint committee. The board of school directors of each participating district must approve MCIU's annual operating budget.

MCIU is a self-sustaining organization that provides services for fees to participating districts. As such, the District has no ongoing financial interest or responsibility in MCIU. MCIU contracts with participating districts to supply special education services, computer services, and to act as a conduit for certain federal programs.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Presentation - Government-Wide Financial Statements

Government-wide financial statements (i.e., the statement of net position and the statement of activities) display information about the reporting entity, except for its fiduciary activities. All fiduciary activities are reported only in the fund financial statements. The government-wide statements include separate columns for the governmental and business-type activities of the primary government, as well as any discretely presented component units. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities which rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function to the District are offset by the program revenues related to that function. Direct expenses are those that are directly related to and clearly identified with a function. Program revenues include 1) charges to customers or others who purchase, use, or directly benefit from services or goods provided by a given function; or 2) grants and contributions that are restricted to meet the operational or capital requirements of a function. Taxes and other items properly not included in program revenues are reported as general revenues.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are contributions made to any component units from the District's governmental funds and transfers between governmental funds and business-type and fiduciary funds. Elimination of these contributions would distort the direct costs and program revenues reported for the various functions concerned.

C. Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District Reports the Following Major Governmental Funds:

General Fund: This fund is established to account for resources devoted to financing the general services that the District performs. Intergovernmental revenues and other sources of revenue used to finance the fundamental operations of the District are included in this fund. The fund is charged with all costs of operating the District for which a separate fund has not been established.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

The District Reports the Following Major Governmental Funds: - continued

Capital Projects Fund: This fund is established to account for financial resources to be used for the acquisition or construction of major capital equipment and facilities (other than those financed by proprietary funds).

The District Reports the Following Major Enterprise Fund:

Food Service Fund: This fund accounts for all revenues, food purchases, and costs and expenses for the food service program. The food service fund is the District's only major enterprise fund where the intent of the governing body is that the costs of providing food services are covered by user charges and subsidies received.

Additionally, the District Reports the Following Fund Types:

Internal Service Fund: This fund accounts for the financing of services provided by one department or agency to the other governmental units. The District's internal service fund is a major proprietary fund used to account for the activity related to the District's self-insured medical, dental, and prescription drug plan. Since this fund supports largely governmental activities, its activity is included in governmental activities in the government-wide statements.

Fiduciary Funds: The District's fiduciary funds are trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are, therefore, not available to support the District's own programs. The District's only trust funds are the private-purpose trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's student activity fund is an agency fund.

During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as interfund receivables and payables. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise fund) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Property taxes and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met. If time eligibility requirements are not met, deferred inflows of resources would be recorded. All other revenue items are considered to be measurable and available only when cash is received by the government.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Measurement Focus and Basis of Accounting - continued

The proprietary fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The trust fund is reported using the *accrual basis of accounting*. The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

E. Budgetary Process

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

In accordance with Act 1 of 2006, the board shall annually, but not later than 110 days before the primary election, decide the budget option to be used for the following fiscal year. The board shall approve either the Accelerated Budget Process Option or the Board Resolution Option.

Accelerated Budget Process Option

Under this option, a preliminary budget must be adopted 90 days prior to the primary election. Also, under this option, the preliminary budget must be available for public inspection at least 20 days prior to the budget adoption. The board shall give public notice of its intent to adopt the preliminary budget at least 10 days prior to the adoption.

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

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

Board Resolution Option

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

POTTSGROVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Budgetary Process - continued

Board Resolution Option - continued

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the PDE 2028 when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all 2016/2017 budget transfers.

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance

1. Cash and Investments

For purposes of the statement of cash flows, the proprietary fund type considers all highly-liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments are valued at fair value in accordance with Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*, except for investments in external investment pools, which are valued at amortized costs if required criteria are met as outlined in Governmental Accounting Standards Board Statement No. 79, *Certain External Investment Pools and Pool Participants*.

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

2. Receivables/Payables

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

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

3. Inventories

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

Inventories of the governmental funds, consisting principally of textbooks and instructional supplies, are not valued since it is the policy of the District to charge these items to expense upon acquisition.

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

Donated commodities	<u>\$ 7,222</u>
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4. Capital Assets, Depreciation, and Amortization

The District's property, plant, and equipment, with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Proprietary capital assets are also reported in their respective financial statements. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

The District generally capitalizes assets with cost of \$2,500 or more as purchase and construction outlays occur. Management has elected to include certain homogeneous asset categories with individual assets less than \$2,500 as composite groups for financial reporting purposes. Assets purchased or constructed with long-term debt may be capitalized regardless of the threshold established. 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. 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.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

4. Capital Assets, Depreciation, and Amortization - continued

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

	Years
Building and building improvements	15 - 50
Site improvements	15 - 20
Furniture and equipment	3 - 20

Interest costs incurred during the construction phase of capital assets are capitalized when incurred by proprietary funds and similar component units on debt where proceeds were used to finance the construction of assets.

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has three items that qualify for reporting in this category, which are a deferred charge on bond refunding, a deferred pension contribution, and deferred outflows of resources for pension which are reported in the government-wide statement of net position. A deferred charge on bond refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. A deferred pension contribution results from contributions made to the pension plan subsequent to the measurement date and prior to the District's year end. The contributions will be recognized as a reduction in net pension liability in the following year. Deferred outflows of resources for pension relates to the District's net pension liability and pension expense and arises from changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, changes in the employer's proportion, differences between employer contributions and the proportionate share of total contributions reported by the pension plan, or changes in the internal allocation of the net pension liability between governmental and business-type activities. These amounts are deferred and amortized over either a closed five-year period or the average remaining service life of all employees depending on what gave rise to the deferred outflow.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

5. Deferred Outflows/Inflows of Resources - continued

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two types of items that qualify for reporting in this category. The first item, *deferred inflows of resources for pension*, relates to the District's net pension liability and pension expense and arises from changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, changes in the employer's proportion, or differences between employer contributions and the proportionate share of total contributions reported by the pension plan. These amounts are deferred and amortized over either a closed five-year period or the average remaining service life of all employees depending on what gave rise to the deferred inflow. The second item, *unavailable revenue*, arises only under a modified accrual basis of accounting and is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources - property taxes and earned income taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

6. Unearned Revenues

Revenues that are received but not earned are reported as unearned revenues in the government-wide and fund financial statements. Unearned revenues arise when resources are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has legal claim to the resources, the liability for unearned revenue is removed from the respective financial statements and revenue is recognized.

7. Net Position

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

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

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

8. Fund Balance Policies and Flow Assumptions

The fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The board of school directors is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The business administrator or designee may assign fund balance. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

The unassigned fund balance of the general fund at the end of each fiscal year end shall not be less than five percent of the following year's projected budgeted expenditures. In any fiscal year where the District is unable to maintain this minimum reservation of fund balance as required in this section, the District shall not budget any amount of unassigned fund balance for the purpose of balancing the general fund budget until this level is achieved.

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. The District's policy is to consume unrestricted fund balance in the following order:

- a. 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 school board, committed fund balance will not be reduced by more than the amount designated in the plan.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

8. Fund Balance Policies and Flow Assumptions - continued

- b. Assigned fund balance to the extent that expenditures related to the assignment contributed to the excess of expenditures over revenues.
- c. Unassigned fund balance for any remaining excess of expenditures over revenues.

G. Revenues and Expenditures/Expense

1. Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions (including special assessments) that are restricted to meeting the operations or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Compensated Absences

The District allows employees to accumulate sick leave based on contractual agreements. Reimbursement varies, but starts at \$30 per day.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the food service and internal service funds are charges to customers for sales and services provided. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

H. Other Use of Estimates

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

POTTSGROVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Compliance with Finance Related Legal and Contractual Provisions

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

B. Deficit Fund Balance or Net Position of Individual Funds

For the year ended June 30, 2017, no individual funds had a deficit fund balance or net position.

C. Excess of Expenditures Over Appropriations in Individual Funds

No individual fund, which had a legally adopted budget, had an excess of expenditures over appropriations.

D. Budgetary Compliance

The District's only legally adopted budget is for the General Fund. All budgetary transfers were made within the last nine months of the fiscal year. The District cancels all purchase orders open at year end; therefore, it does not have any outstanding encumbrances at June 30, 2017. In addition, the District includes a portion of the prior year's fund balance represented by unappropriated liquid assets remaining in the fund as budgeted revenue in the succeeding year. The results of operations on a GAAP basis do not recognize the fund balance allocation as revenue as it represents prior period's excess of revenues over expenditures.

NOTE 3 - CASH AND INVESTMENTS

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

The breakdown of total cash and investments at June 30, 2017, is as follows:

Petty cash	\$ 865
Cash	339,941
Pooled cash and investments	<u>28,451,307</u>
	<u>\$ 28,792,113</u>

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. The District does have a policy for custodial credit risk on deposits. At June 30, 2017, the carrying amount of the District's deposits was \$339,941 and the bank balance was \$493,160. Of the bank balance, \$479,440 was covered by federal depository insurance, and \$13,720 was exposed to custodial credit risk, but covered by collateralization requirements in accordance with Act 72 of the 1971 Session of the General Assembly.

Investments

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

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

Deposits in savings accounts, 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, therefore, shall be pledged by the depository.

Pennsylvania Act 10 of 2016 became effective May 25, 2016, and expanded the permitted investment types to include commercial paper, bankers' acceptances, negotiable certificates of deposit, and insured bank deposit reciprocals as long as certain safeguards related to credit quality and maturity are met.

POTTSGROVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

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

	<u>Maturities</u>	<u>Fair Value</u>	<u>Carrying Value</u>
PA Local Government Investment Trust (PLGIT):			
Money Market Funds	< 1 year	\$ 5,299,477	\$ 5,299,477
Certificates of Deposit		247,000	247,000
PA School District Liquid Asset Fund (PSDLAF):			
Fixed Assets	< 1 year	17,980,000	17,980,000
MAX Account Balance		<u>6,236,203</u>	<u>6,236,203</u>
	Total		29,762,680
	Less: Reconciling Items		<u>(1,311,373)</u>
	Total Investments		<u><u>\$ 28,451,307</u></u>

Certain external investments held by the District, based on portfolio maturity, quality, diversification, and liquidity measures, qualify for measurement at amortized cost at both the pool and participating government level consistent with GASB Statement No. 79. The District measures those investments, which include PLGIT and PSDLAF at amortized cost. There are no limitations or restrictions on withdrawals from these accounts.

A portion of the District's deposits are in the Pennsylvania Local Government Investment Trust (PLGIT) and the Pennsylvania School District Liquid Asset Fund (PSDLAF). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, the funds act like money market mutual funds in that their objective is to maintain a stable net asset value of \$1 per share, are rated by a nationally recognized statistical rating organization, and are subject to an independent annual audit.

The District's cash equivalent investments in PLGIT and PSDLAF cannot be classified by risk category because they are not evidenced by securities that exist in physical or book entry form. The fair value of the District's position in the external investment pool is the same as the value of the pool shares. All investments in external investment pools that are not registered with the Securities and Exchange Commission are subject to oversight by the Commonwealth of Pennsylvania.

As of June 30, 2017, the entire PLGIT and PSDLAF book balance of \$28,451,307 is considered to be a cash equivalent for presentation on the government-wide and fund financial statements.

Interest Rate Risk

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

POTTSGROVE SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Credit Risk

The District does not have an investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2017, the District's investments were rated as:

<u>Investments</u>	<u>Standard & Poor's</u>
PLGIT	AAA
PSDLAF	AAA

Concentration of Credit Risk

The District does not have a policy that would limit the amount they may invest in any one issue. As of June 30, 2017, the District has no investments subject to concentration of credit risk.

Custodial Credit Risk

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

NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE

The District has three independently elected tax collectors who are responsible for collecting real estate taxes. Assessed values are established by the County Board of Assessment. All taxable real property was assessed at \$1,081,643,769. In accordance with Act 1 of 2006, the District received \$1,453,545 in property tax reduction funds for the 2016/2017 fiscal year. The District tax rate for the year ended June 30, 2017, was 37.7158 mills (\$37.7158 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 15	Lien date

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE - CONTINUED

The 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 administration. A portion of the net amount estimated to be collectible, which was measurable and available within 60 days, was recognized as revenue and the balance reported as unavailable revenue in the fund financial statements.

The balances at June 30, 2017, are as follows:

	Gross Taxes Receivable	Allowance for Uncollectible Taxes	Net Estimated to be Collectible	Tax Revenue Recognized	Unavailable Revenue
Real estate/interims	\$ 1,619,038	\$ 28,894	\$ 1,590,144	\$ 174,329	\$ 1,444,709
Earned income	1,150,737	21,415	1,129,322	80,003	1,070,734
Other	51,497	-	51,497	51,497	-
	<u>\$ 2,821,272</u>	<u>\$ 50,309</u>	<u>\$ 2,770,963</u>	<u>\$ 305,829</u>	<u>\$ 2,515,443</u>

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES

The following schedule represents net intergovernmental receivables at June 30, 2017:

<u>Name of Government Unit</u>	<u>General</u>	<u>Enterprise Food Service</u>
Commonwealth of PA:		
Retirement	\$ 1,390,463	\$ -
National School Lunch/Breakfast Program	-	6,338
Social Security	363,078	-
Transportation	50,486	-
Montgomery County Intermediate Unit - IDEA - B Special Education	283,276	-
Federal Subsidies:		
Title I Grants to Local Education Agencies	284,874	-
Title II Supportive Effective Instruction State Grant	35,493	-
ACCESS	324,694	-
National School Lunch/Breakfast Program	-	115,902
Other Local Educational Agencies	5,589	-
TOTAL	<u>\$ 2,737,953</u>	<u>\$ 122,240</u>

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 6 - CHANGES IN CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2017, were as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease (Reclass)	Ending Balance
Capital assets not being depreciated:				
Land	\$ 623,886	\$ -	\$ -	\$ 623,886
Construction in progress	31,835,662	1,887,922	(33,723,584)	-
Total not being depreciated	32,459,548	1,887,922	(33,723,584)	623,886
Capital assets being depreciated:				
Building and building improvements	89,090,602	92,240	28,183,230	117,366,072
Site improvements	3,892,082	346,329	2,285,828	6,524,239
Furniture and equipment	11,896,641	599,295	2,362,326	14,858,262
Total being depreciated	104,879,325	1,037,864	32,831,384	138,748,573
Less accumulated depreciation for:				
Building and building improvements	35,412,934	1,720,396	(13,450)	37,119,880
Site improvements	852,877	127,393	-	980,270
Furniture and equipment	6,864,655	755,803	(682,049)	6,938,409
Total accumulated depreciation	43,130,466	2,603,592	(695,499)	45,038,559
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	61,748,859	(1,565,728)	33,526,883	93,710,014
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	\$ 94,208,407	\$ 322,194	\$ (196,701)	\$ 94,333,900

Depreciation expense was charged to functions/program of the governmental activities of the primary government as follows:

Instructional Services:	
Regular Programs	\$ 2,134,938
Support Services:	
General Administration	131,316
Pupil Health	2,405
Operation of Plant and Maintenance	79,593
Student Transportation	224,206
Central Support	31,134
TOTAL DEPRECIATION EXPENSE - GOVERNMENTAL ACTIVITIES	\$ 2,603,592

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 7 - LONG-TERM LIABILITIES

Bonds and notes payable are as follows at June 30, 2017:

<u>General Obligation Bond Issue, Series of 2013</u> , maturing on August 15 through 2018. Interest is payable semi-annually at a rate of 2.00%. The proceeds of this bond were used to currently refund the General Obligation Bond, Series of 2008 and to advance refund a portion of the General Obligation Bond, Series of 2009. The District experienced a savings of \$224,957.	\$ 1,555,000
<u>General Obligation Bond Issue, Series of 2014</u> , maturing on August 15 through 2028. Interest is payable semi-annually at rates varying from 2.00% to 3.25%. The proceeds of this bond were used to finance various capital projects.	15,880,000
<u>General Obligation Bond Issue, Series of 2015</u> , maturing on August 15 through 2027. Interest is payable semi-annually at rates varying from 2.00% to 5.00%. The proceeds of this bond were used to finance various capital projects.	9,465,000
<u>General Obligation Bond Issue, Series A of 2015</u> , maturing on August 15 through 2021. Interest is payable semi-annually at rates varying from 0.40% to 3.00%. The proceeds of this bond were used to currently refund the District's outstanding General Obligation Bonds, Series A of 2009. The District experienced a savings of \$89,784.	1,935,000
<u>General Obligation Note Issue, Series AA of 2015</u> , maturing on August 15 through 2022. Interest is payable semi-annually at a rate of 1.93%. The proceeds of this bond were used to currently refund a portion of the District's outstanding General Obligation Bonds, Series of 2010. The District experienced a savings of \$526,697.	9,897,000
<u>General Obligation Bond Issue, Series of 2016</u> , maturing on October 15 through 2027. Interest is payable semi-annually at rates varying from 0.90% to 4.00%. The proceeds of this bond were used to finance various capital projects.	7,465,000
<u>General Obligation Bond Issue, Series A of 2016</u> , maturing on October 15 through 2017. Interest is payable semi-annually at a rate of 2.00%. The proceeds of this bond were used to currently refund a portion of the District's outstanding General Obligation Bonds, Series of 2010 and to pay the costs of issuing the bonds. The District experienced a savings of \$65,658.	1,220,000
Total Bonds and Notes Payable	<u>\$47,417,000</u>

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 7 - LONG-TERM LIABILITIES - CONTINUED

The future annual payments required to amortize all bonds payable for the years ending June 30 are as follows:

	General Obligation Bonds, Series of 2013	General Obligation Bonds, Series of 2014	General Obligation Bonds, Series of 2015	General Obligation Bonds, Series A of 2015	General Obligation Notes, Series AA of 2015
2018	\$ 765,000	\$ 360,000	\$ 210,000	\$ 740,000	\$ 544,000
2019	790,000	360,000	225,000	760,000	1,796,000
2020	-	830,000	510,000	340,000	1,833,000
2021	-	950,000	595,000	70,000	1,872,000
2022	-	975,000	615,000	25,000	1,907,000
2023-2027	-	8,750,000	5,920,000	-	1,945,000
2028-2029	-	3,655,000	1,390,000	-	-
Total	<u>\$ 1,555,000</u>	<u>\$ 15,880,000</u>	<u>\$ 9,465,000</u>	<u>\$ 1,935,000</u>	<u>\$ 9,897,000</u>

	General Obligation Bonds, Series of 2016	General Obligation Bonds, Series A of 2016	Total Principal	Total Interest
2018	\$ 185,000	\$ 1,220,000	\$ 4,024,000	\$ 1,118,621
2019	185,000	-	4,116,000	1,028,257
2020	500,000	-	4,013,000	924,705
2021	590,000	-	4,077,000	807,026
2022	645,000	-	4,167,000	706,334
2023-2027	4,375,000	-	20,990,000	2,155,415
2028-2029	985,000	-	6,030,000	136,376
Total	<u>\$ 7,465,000</u>	<u>\$ 1,220,000</u>	<u>\$ 47,417,000</u>	<u>\$ 6,876,734</u>

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 7 - LONG-TERM LIABILITIES - CONTINUED

Long-term liability balance and activity, except for the net pension liability and other postemployment benefit obligation, for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities					
General Obligation Debt:					
Bonds and Notes Payable	\$ 51,524,000	\$ -	\$ 4,107,000	\$ 47,417,000	\$ 4,024,000
Less Deferred Amounts:					
Issuance Discounts	(750)	-	(750)	-	-
Issuance Premiums	785,165	-	142,341	642,824	-
Subtotal	52,308,415	-	4,248,591	48,059,824	4,024,000
Other Liabilities:					
Early Retirement Incentives	61,131	-	42,760	18,371	2,181
Compensated Absences	382,254	-	36,193	346,061	45,030
Total Governmental Long-Term Liabilities	<u>\$ 52,751,800</u>	<u>\$ -</u>	<u>\$ 4,327,544</u>	<u>\$ 48,424,256</u>	<u>\$ 4,071,211</u>

Payments on bonds payable are to be funded by the general fund. The compensated absences liabilities will be funded by the general fund. Total interest paid during the year ended June 30, 2017 was \$1,244,513.

NOTE 8 - SPECIAL TERMINATION BENEFITS

Early Retirement Incentive

In certain years, the District has offered an early retirement incentive. To qualify in the years offered, a teacher must have a minimum of 10 years with the Pottsgrove School District and 30 years of teaching service in the Pennsylvania State Employees' Retirement System (PSERS). If qualified, the District will pay the lesser of \$5,000 or the board's contribution (minus PSERS contribution) to the Core Health Plan that was in effect during the retiree's last year. An accrual of the expense has been made to the government-wide financial statements at June 30, 2017, for \$16,190. The current portion of early retirement incentive, \$2,181, is included in accrued salaries and benefits in the general fund.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 - EMPLOYEE RETIREMENT PLANS

Employee Defined Benefit Pension Plan

Summary of Significant Accounting Policies

Pension Plan

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

General Information about the Pension Plan

Plan Description

PSERS is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania under Title 24 Part IV of the Pennsylvania General Assembly. 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

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2.0 percent or 2.5 percent, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after 10 years of service.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information about the Pension Plan - continued

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2.0 percent or 2.5 percent, 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 (10 years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

Contributions

The contribution policy is set by state statute and requires contributions by active members, employees, and the Commonwealth of Pennsylvania.

Member Contributions

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

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

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

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

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information about the Pension Plan - continued

Employer Contributions

The District's contractually required contribution rate for fiscal year ended June 30, 2017, was 29.20 percent 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. The rate was certified by the PSERS board of trustees. Contributions to the pension plan from the District were \$7,679,792 for the year ended June 30, 2017.

The District is also required to contribute a percentage of covered payroll to PSERS for healthcare insurance premium assistance. For the year ended June 30, 2017, the contribution rate was 0.83 percent of covered payroll and the District contributed \$218,295.

Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for no less than one-half of the employer contributions made, including both contributions related to pension and to healthcare. This arrangement does not meet the criteria of a special funding situation in accordance with GASB standards. Therefore, the net pension liabilities and related pension expense represent 100 percent of the District's share of these amounts. The total reimbursement recognized by the District for the year ended June 30, 2017, was \$4,213,474.

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

At June 30, 2017, the District reported a liability of \$98,123,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2015 to June 30, 2016. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2016, the District's proportion was 0.1980 percent, which was an increase of 0.0014 percent from its proportion measured as of June 30, 2015.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee 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, 2017, the District recognized pension expense of \$10,414,176. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	\$ 5,469,000	\$ -
Difference between expected and actual experience	-	817,000
Changes in proportions - plan level	1,211,000	-
Changes in assumptions	3,542,000	-
Difference between employer contributions and proportionate share of total contributions	255,516	-
Contributions subsequent to the measurement date	7,679,792	-
	<u>\$ 18,157,308</u>	<u>\$ 817,000</u>

The \$7,679,792 reported as deferred outflows of resources resulting from District pension contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the years ending June 30:

2018	\$ 2,056,176
2019	2,056,178
2020	3,339,150
2021	2,209,012
	<u>\$ 9,660,516</u>

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

Actuarial Assumptions

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

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

- The investment rate of return was adjusted from 7.50% to 7.25%.
- The inflation assumption was decreased from 3.0% to 2.75%.
- Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

The actuarial assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the five-year period ending June 30, 2015. The recommended assumption changes based on this experience study were adopted by the PSERS Board at its June 10, 2016 Board meeting, and were effective beginning with the June 30, 2016 actuarial valuation.

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

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

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global public equity	22.5%	5.3%
Fixed income	28.5%	2.1%
Commodities	8.0%	2.5%
Absolute return	10.0%	3.3%
Risk parity	10.0%	3.9%
Infrastructure/MLPs	5.0%	4.8%
Real estate	12.0%	4.0%
Alternative investments	15.0%	6.6%
Cash	3.0%	0.2%
Financing (LIBOR)	(14.0%)	0.5%
	<u>100.0%</u>	

The above was the PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2016.

Discount Rate

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

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee 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 of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability calculated using the discount rate of 7.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) 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	\$ 120,030,000	\$ 98,123,000	\$ 79,714,000

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

At June 30, 2017, the District had an accrued balance due to PSERS of \$2,780,925. This amount represents the District's contractually obligated contributions for wages earned in April 2017 through June 2017. The balance will be paid in September 2017.

403(b) Tax Shelter Plan

The District has established a 403(b) tax shelter plan permitting the establishment of accounts for school employees to voluntarily set aside monies to supplement their retirement income. All school employees are eligible to participate. The District does not contribute to the plan.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The Pottsgrove School District administers a single-employer defined benefit healthcare plan (the Retiree Health Plan, the "Plan"). The Plan provides healthcare insurance for eligible retirees and their spouses through the District's health insurance plan, which covers both active and retired members until the member reaches Medicare age. Benefit provisions are established through negotiation with the District and the unions representing the District's employees. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy

Contribution requirements also are negotiated between the District and union representatives. The required contribution is based on pay-as-you-go financing.

Central Office Administrator: The District currently provides central office administrators and spouses with medical, prescription drug, dental, and vision coverage at the cost sharing rate that they were paying in the year of retirement for a period of 10 years after retirement. After 10 years, the central office administrator may continue coverage for all insurances noted above at 100 percent premium cost if they meet the Act 110/43 requirements noted below. The District will also pay 100 percent of the premium for life insurance in the amount of two times the member's salary at retirement for a period of 10 years after retirement. After 10 years, the member must pay the 100 percent of the premium to maintain the coverage for a maximum of 20 years.

Administrators: The District provides current administrators who have reached at least 30 years of PSERS service with at least 10 years at the District as an administrator medical, prescription drug, dental, and vision coverage for 50 percent of total premium for a period of 10 years after retirement. After 10 years, the administrator may continue coverage at 100 percent premium cost if they meet the Act 110/43 requirements noted below.

Under Act 110/43, any employee who is eligible (age 60 with 30 years of service, age 62 with one year of service or 35 years of service regardless of age) is allowed to continue coverage for themselves and their dependents until the member reaches Medicare age. The retiree is responsible for payment equal to the premium determined for the purposes of COBRA.

For the fiscal year ended June 30, 2017, the District contributed \$179,020 to the Plan related to retirees.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation:

Annual required contribution	\$ 412,774
Interest on net OPEB obligation	81,973
Adjustment to annual required contribution	<u>(111,833)</u>
Annual OPEB Cost	382,914
Contributions made (estimated)	<u>(179,020)</u>
Estimated increase in net OPEB obligation	203,894
Net OPEB obligation - beginning of year	<u>1,821,632</u>
 Net OPEB obligation - end of year	 <u><u>\$ 2,025,526</u></u>
 Long-Term Portion of Net OPEB Obligation	 \$ 2,009,336
Current Portion of Net OPEB Obligation	<u>16,190</u>
 Total Net OPEB Obligation	 <u><u>\$ 2,025,526</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2017	\$ 382,914	46.8%	\$ 2,025,526
6/30/2016	376,497	58.9%	1,821,633
6/30/2015	378,298	60.9%	1,666,979

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Funded Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date, the Plan was unfunded. The actuarial accrued liability for benefits was \$2,766,247, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,766,247. The covered payroll (annual payroll of active employees covered by the plan) was \$24,123,414, and the ratio of the UAAL to the covered payroll was 11.47 percent.

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

Actuarial Methods and Assumptions

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

In the July 1, 2016 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5 percent initially, decreasing 0.5 percent per year to an ultimate rate of 5.5 percent in 2018 through 2020. Rates gradually decrease from 5.4 percent in 2021 to 3.8 percent in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. The unfunded actuarial accrued liability is being amortized using single period amortization as of the end of the year based on level dollar, 30 year open period.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 11 - JOINT VENTURE

The District is a joint participant in the ownership and operation of the Western Montgomery Career and Technology Center. The Western Montgomery Career and Technology Center is controlled and governed by a joint board, which is comprised of representative school board members of the participating schools. Direct oversight of Western Montgomery Career and Technology Center operations is the responsibility of the joint board. The District's share of annual operating costs for Western Montgomery Career and Technology Center fluctuates based on the percentage of enrollment. The District's share for the 2016/2017 year was \$1,333,566.

During the year ended June 30, 2009, Western Montgomery Career and Technology Center issued \$40,000,000 of General Obligation Bonds. The proceeds were used to renovate and build an addition to Western Montgomery Career and Technology Center's facilities. Each member district adopted a resolution approving the project and the project's maximum cost. Under the amended Articles of Agreement, each member district is required to pay from current revenues its annual share of the sublease rental based on the District's share of taxable real estate to the total market valuation of the taxable real estate of all participating school districts. In June 2016, the Center refunded the outstanding principal on this bond with savings transferred to the member districts. A resolution was adopted which enabled the member district share to be recalculated based on 60 percent of principal on the five-year membership rate and 40 percent of the principal on the districts' share of total market value of the members. The District's share for the 2016/2017 year was \$220,536.

Summary financial information as of June 30, 2016 (the most recent information available), is as follows:

Western Montgomery Career and Technology Center (Government-Wide - Governmental Activities)	
Total Assets and Deferred Outflows	\$ 34,447,682
Total Liabilities and Deferred Inflows	<u>9,529,374</u>
Total Net Position	<u>\$ 24,918,308</u>

Separate financial statements of the Western Montgomery Career and Technology Center have been prepared and are available upon request.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 12 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a summary of interfund receivables and payables at June 30, 2017:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ -	\$ 228,615
Enterprise Fund - Food Service	2,431	-
Internal Service	226,184	-
	<u>\$ 228,615</u>	<u>\$ 228,615</u>

Interfund receivables and payables exist as a result of a time lag between dates when payments between funds are made. All will be paid within one year.

Interfund transfers are summarized as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 424,296
Capital Projects Fund	424,000	-
Enterprise Fund - Food Service	296	-
	<u>\$ 424,296</u>	<u>\$ 424,296</u>

Transfers were made to fund current and future capital needs and subsidize bad debt in the food service fund.

NOTE 13 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs except for workers' compensation, for which the District retains risk of loss. For insured programs, there were no significant reductions in insurance coverages of the 2016/2017 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 13 - RISK MANAGEMENT - CONTINUED

Currently, the District is self-insured for medical, dental, and prescription insurance for employees and their dependants. The District uses a third party administrator to provide consulting and administrative services to process claims within the self insurance fund. For the year ended June 30, 2017, the District has coverage for claims in excess of \$200,000 per person with no annual aggregate limit.

The following table presents the components of the self insurance fund and the related changes in the funds benefit obligations at June 30:

	<u>2017</u>	<u>2016</u>
Claims payable	<u>\$ 624,101</u>	<u>\$ 319,503</u>

Changes in benefit obligations are as follows for the year ended June 30:

	<u>2017</u>	<u>2016</u>
Claims payable, beginning of year	\$ 319,503	\$ 273,752
Benefits earned	7,200,807	7,372,904
Claims paid	<u>(6,896,209)</u>	<u>(7,327,153)</u>
Claims payable, end of year	<u>\$ 624,101</u>	<u>\$ 319,503</u>

As of June 30, 2017, the District maintains a balance of \$3,804,866 in an escrow account held for future healthcare claims in compliance with the rating and funding policy of the Southeastern Pennsylvania Schools Trust (SEPaST).

NOTE 14 - CONTINGENT LIABILITIES

The District receives federal, state, and local funding through a number of programs. Payments made by these sources under contractual agreements are provisional and subject to redetermination based on filing reports and audits of those reports. Final settlements due from or to these sources are recorded in the year in which the related services are performed. Any adjustments resulting from subsequent examinations are recognized in the year in which the results of such examinations become known. District officials do not expect any significant adjustments as a result of these examinations.

The District is involved in various lawsuits that arise in the normal course of business. Although the outcome of these lawsuits is not presently determinable, in the opinion of the District's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the District.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 15 - COMMITMENTS

The District has the following commitments under long-term construction contracts as of June 30, 2017:

Contractor	Adjusted Contract Amount	Balance Remaining on Contract
In Posse	\$ 112,750	\$ 9,925
ER Stuebner, Inc.	18,595,900	9,363
MBR Construction Services	4,498,614	124,847
Integrity Mechanical	1,494,709	5,100
Vision Architects	79,850	7,290
KCBA Architects	1,820,512	20,708
Saks and Sons	349,874	349,874
Total Commitments	<u>\$ 26,952,209</u>	<u>\$ 527,107</u>

The District plans to use existing resources in the capital projects fund to fulfill the above commitments.

NOTE 16 - FUND BALANCE

Details of the District's governmental fund balance reporting and policy can be found in Note 1, *Summary of Significant Accounting Policies*. Fund balance classifications for the year ended June 30, 2016, were as follows:

General Fund

The general fund has committed funds of \$6,475,000 for future retirement rate increases (of which \$750,000 will be used in 2017/2018), \$350,000 for compensated absences, \$1,500,000 for postemployment benefits, \$230,000 for future vocational education expenses, assigned funds of \$8,129 for athletics, \$705,965 for 2017/2018 budget appropriations, and unassigned fund balance of \$5,893,615. The commitments were authorized by the board of school directors' motion to set aside resources to fund the commitments noted above. The assignments were authorized by the school board through creation of the athletics funds and adoption of the 2017/2018 general fund budget.

Capital Projects

The capital projects fund has restricted funds of \$9,572,977 comprised of \$463,402 of unspent bond funds and \$9,109,575 of surplus moneys transferred from the general fund for the acquisition or construction of capital facilities and qualifying capital assets as authorized by Municipal Code P.L. 145 Act of April 30, 1943.

POTTSGROVE SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 17 - NEW ACCOUNTING PRONOUNCEMENTS

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

- Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* - This statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The scope of this statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This statement is effective for the District's fiscal year ending June 30, 2018.
- Statement No. 84, *Fiduciary Activities* - This statement establishes criteria for identifying fiduciary activities and describes four types of fiduciary funds, as well as provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. This statement is effective for the District's fiscal year ending June 30, 2020.
- Statement No. 87, *Leases* - This statement requires 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. This statement is effective for the District's fiscal year ending June 30, 2021.

The District has not yet completed the analysis necessary to determine the actual financial statement impact of these new pronouncements.

REQUIRED SUPPLEMENTARY INFORMATION

POTTSGROVE SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

For the Year Ended June 30, 2017

	BUDGET		ACTUAL	VARIANCE
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES				
Local Sources	\$ 43,861,638	\$ 43,861,638	\$ 44,382,834	\$ 521,196
State Sources	19,662,050	19,662,050	19,040,568	(621,482)
Federal Sources	916,000	916,000	852,463	(63,537)
TOTAL REVENUES	64,439,688	64,439,688	64,275,865	(163,823)
EXPENDITURES				
INSTRUCTIONAL SERVICES:				
Regular Programs - Elementary/Secondary	25,669,504	26,125,974	25,395,350	730,624
Special Programs - Elementary/Secondary	9,988,489	10,005,575	9,999,501	6,074
Vocational Education Programs	1,572,000	1,572,000	1,554,102	17,898
Other Instructional Programs - Elementary/Secondary	201,135	283,135	283,158	(23)
TOTAL INSTRUCTIONAL SERVICES	37,431,128	37,986,684	37,232,111	754,573
SUPPORT SERVICES:				
Student Services	2,073,192	2,077,933	2,020,070	57,863
Instructional Staff	2,293,233	2,270,897	2,186,241	84,656
General Administration	3,597,727	3,682,311	3,643,066	39,245
Pupil Health	686,523	660,523	631,591	28,932
Business	802,358	831,358	824,291	7,067
Operation and Maintenance of Plant	5,255,490	5,167,790	4,781,370	386,420
Student Transportation	2,827,900	2,827,900	2,546,409	281,491
Central Support	2,642,274	2,607,174	2,307,024	300,150
Other Support	34,000	34,000	30,574	3,426
TOTAL SUPPORT SERVICES	20,212,697	20,159,886	18,970,636	1,189,250
OPERATION OF NONINSTRUCTIONAL SERVICES:				
Student Activities	1,088,085	1,090,040	1,123,868	(33,828)
Community Services	17,000	17,000	-	17,000
TOTAL OPERATION OF NONINSTRUCTIONAL SERVICES	1,105,085	1,107,040	1,123,868	(16,828)
DEBT SERVICE	5,351,519	5,351,519	5,351,513	6
TOTAL EXPENDITURES	64,100,429	64,605,129	62,678,128	1,927,001

POTTSGROVE SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND - CONTINUED

For the Year Ended June 30, 2017

	BUDGET		ACTUAL (GAAP Basis)	VARIANCE Final to Actual
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Transfers Out	(1,274,000)	(1,274,300)	(424,296)	850,004
Budgetary Reserve	(625,000)	(120,000)	-	120,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,899,000)</u>	<u>(1,394,300)</u>	<u>(424,296)</u>	<u>970,004</u>
TOTAL EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>65,999,429</u>	<u>65,999,429</u>	<u>63,102,424</u>	<u>2,897,005</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ (1,559,741)</u>	<u>\$ (1,559,741)</u>	1,173,441	<u>\$ 2,733,182</u>
FUND BALANCE - BEGINNING OF YEAR			<u>13,989,268</u>	
FUND BALANCE - END OF YEAR			<u>\$ 15,162,709</u>	

POTTSGROVE SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND
RELATED RATIOS - PENSION PLAN

June 30, 2017

	2017	2016	2015	2014
District's proportion of the collective net pension liability	0.1980%	0.1966%	0.1947%	0.1933%
District's proportionate share of the collective net pension liability	\$ 98,123,000	\$ 85,158,000	\$ 77,064,000	\$ 79,130,000
District's covered employee payroll	\$ 25,642,133	\$ 25,299,467	\$ 24,842,405	\$ 24,806,966
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	382.66%	336.60%	310.21%	318.98%
Plan fiduciary net position as a percentage of the total pension liability	50.14%	54.36%	57.24%	54.50%

The District's covered employee payroll noted above is as of the measurement date of the net pension liability (June 30, 2016, 2015, 2014, and 2013).

Note: This schedule is to present the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information for only those years for which information is available is shown.

POTTSGROVE SCHOOL DISTRICT

SCHEDULE OF DISTRICT'S CONTRIBUTIONS - PENSION PLAN

LAST 10 FISCAL YEARS

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 7,679,792	\$ 6,429,056	\$ 5,251,695	\$ 3,994,419	\$ 2,873,169	\$ 1,982,049	\$ 1,258,545	\$ 974,436	\$ 915,382	\$ 1,391,762
Contributions in relation to the contractually required contribution	7,679,792	6,429,056	5,251,695	3,994,419	2,873,169	1,982,049	1,258,545	974,436	915,382	1,391,762
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered employee payroll	\$ 26,214,200	\$ 25,642,133	\$ 25,299,467	\$ 24,842,405	\$ 24,806,966					
Contributions as a percentage of covered employee payroll	29.30%	25.07%	20.76%	16.08%	11.58%					

NOTE: This schedule is to present the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information for only those years for which information is available is shown.

POTTSGROVE SCHOOL DISTRICT

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
Teachers	7/1/2016	\$ -	\$ 1,622,829	\$ 1,622,829	0.00%	\$ 17,509,140	9.27%
Administrators and Nonprofessionals	7/1/2016	-	<u>1,143,418</u>	<u>1,143,418</u>	0.00%	<u>6,614,274</u>	17.29%
Total	7/1/2016	-	<u>\$ 2,766,247</u>	<u>\$ 2,766,247</u>	0.00%	<u>\$ 24,123,414</u>	11.47%
Teachers	7/1/2014	\$ -	\$ 1,598,746	\$ 1,598,746	0.00%	\$ 16,958,421	9.43%
Administrators and Nonprofessionals	7/1/2014	-	<u>1,132,140</u>	<u>1,132,140</u>	0.00%	<u>5,785,367</u>	19.57%
Total	7/1/2014	-	<u>\$ 2,730,886</u>	<u>\$ 2,730,886</u>	0.00%	<u>\$ 22,743,788</u>	12.01%
Teachers	7/1/2012	\$ -	\$ 3,740,973	\$ 3,740,973	0.00%	\$ 16,052,784	23.30%
Administrators and Nonprofessionals	7/1/2012	-	<u>2,091,054</u>	<u>2,091,054</u>	0.00%	<u>5,641,142</u>	37.07%
Total	7/1/2012	-	<u>\$ 5,832,027</u>	<u>\$ 5,832,027</u>	0.00%	<u>\$ 21,693,926</u>	26.88%

POTTSGROVE SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2017

BUDGETARY DATA

The budget for the general fund is adopted on the modified accrual basis of accounting which is consistent with generally accepted accounting principles.

SUPPLEMENTARY INFORMATION

POTTSGROVE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Grant Period Beginning/ Ending Dates	Receipts for the Year	Accrued (Unearned) Revenue at July 1, 2016	Revenue Recognized	Expenditures	Accrued (Unearned) Revenue at June 30, 2017
<u>U.S. Department of Education</u>										
Passed through the Commonwealth of Pennsylvania										
Department of Education:										
Title I Grants to Local Education Agencies	I	84.010	013-160347	\$ 350,826	7/1/2015 - 9/30/2016	\$ 122,638	\$ (44,102)	\$ 166,740	\$ 166,740	\$ -
Title I Grants to Local Education Agencies	I	84.010	013-170347	428,531	7/1/2016 - 9/30/2017	-	-	284,874	284,874	284,874
Subtotal						122,638	(44,102)	451,614	451,614	284,874
Supporting Effective Instruction State Grant	I	84.367	020-160347	100,065	7/1/2015 - 9/30/2016	33,233	3,946	29,287	29,287	-
Supporting Effective Instruction State Grant	I	84.367	020-170347	98,335	7/1/2016 - 9/30/2017	-	-	35,493	35,493	35,493
Subtotal						33,233	3,946	64,780	64,780	35,493
Passed through the Montgomery County Intermediate Unit:										
Title III - English Language Acquisition State Grants	I	84.365		2,517	7/1/2015 - 9/30/2016	2,507	-	2,507	2,507	-
Title III - English Language Acquisition State Grants	I	84.365		2,112	7/1/2016 - 9/30/2017	869	-	869	869	-
Subtotal						3,376	-	3,376	3,376	-
IDEA Cluster										
IDEA-B Special Education - Grants to States	I	84.027		619,566	7/1/2015 - 6/30/2016	310,635	310,635	-	-	-
IDEA-B Special Education - Grants to States	I	84.027		629,110	7/1/2016 - 6/30/2017	345,834	-	629,110	629,110	283,276
Section 619 IDEA-B Special Education - Grants to States	I	84.173		2,701	7/1/2016 - 6/30/2017	2,701	-	2,701	2,701	-
Total IDEA Cluster						659,170	310,635	631,811	631,811	283,276
TOTAL U.S. DEPARTMENT OF EDUCATION						818,417	270,479	1,151,581	1,151,581	603,643
<u>U.S. Department of Health and Human Services</u>										
Passed through the Pennsylvania Department of Human Services:										
Medical Reimbursement for Administration, Revenue Code 8820	I	93.778	N/A	N/A	7/1/2016 - 6/30/2017	11,377	-	11,377	11,377	-
<u>U.S. Department of Agriculture</u>										
Child Nutrition Cluster										
Passed through the Commonwealth of Pennsylvania										
Department of Education:										
National School Lunch Program	I	10.555	N/A	N/A	7/1/2015 - 6/30/2016	90,931	90,931	-	-	-
National School Lunch Program	I	10.555	N/A	N/A	7/1/2016 - 6/30/2017	461,774	-	554,949	554,949	93,175
School Breakfast Program	I	10.553	N/A	N/A	7/1/2015 - 6/30/2016	22,850	22,850	-	-	-
School Breakfast Program	I	10.553	N/A	N/A	7/1/2016 - 6/30/2017	100,471	-	123,198	123,198	22,727
Passed through Commonwealth of Pennsylvania										
Department of Agriculture:										
National School Lunch Program	I	10.555	N/A	N/A	7/1/2016 - 6/30/2017	85,491	(5,873)	84,142	84,142	(7,222)
TOTAL CHILD NUTRITION CLUSTER AND U.S. DEPARTMENT OF AGRICULTURE						761,517	107,908	762,289	762,289	108,680
TOTAL FEDERAL AWARDS						<u>\$ 1,591,311</u>	<u>\$ 378,387</u>	<u>\$ 1,925,247</u>	<u>\$ 1,925,247</u>	<u>\$ 712,323</u>

Source Code: I = Indirect

NOTE: No funds were passed through to subrecipients in the year ended June 30, 2017.

See notes to schedule of expenditures of federal awards.

POTTSGROVE SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2017

NOTE 1 - BASIS OF PRESENTATION

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to the reimbursement. Negative amounts shown on the Schedule represent adjustment or credits made in the normal course of business amounts reported as expenditures in prior years.

NOTE 3 - DE MINIMUS RATE FOR INDIRECT COSTS

The District did not elect to use the de minimus rate for indirect costs.

NOTE 4 - FOOD COMMODITIES

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. At June 30, 2017, the District had \$7,222 of food commodity inventory.

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

**To the Board of School Directors
Pottsgrove School District
Pottstown, Pennsylvania**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Pottsgrove School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Pottsgrove School District's basic financial statements, and have issued our report thereon dated November 14, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Herbein + Company, Inc.

Reading, Pennsylvania

November 14, 2017

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

**To the Board of School Directors
Pottsgrove School District
Pottstown, Pennsylvania**

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of the Pottsgrove 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 the Pottsgrove School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Pottsgrove School District's internal control over compliance.

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

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

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

Herbein + Company, Inc.

**Reading, Pennsylvania
November 14, 2017**

POTTSGROVE SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified not considered to be material weaknesses? 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 not considered to be material weaknesses? yes X none reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? yes X no

Identification of major program(s):

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
-----------------------	---

Child Nutrition Cluster

10.553	School Breakfast Program
10.555	National School Lunch Program

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

Auditee qualified as low-risk auditee? X yes no

POTTSGROVE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

Section II - Financial Statement Findings

There were no financial statement findings.

Section III - Federal Awards Findings and Questioned Costs

There were no federal awards findings or questioned costs reported.



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STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

Section II - Financial Statement Findings

There were no financial statement findings reported.

Section III - Federal Awards Findings and Questioned Costs

2016-001

REPORTING - SIGNIFICANT DEFICIENCY

Federal Program

Child Nutrition Cluster 10.553/10.555

Criteria

To receive reimbursement payments for meals served under the National School Lunch Program, the District must submit claims for reimbursement to its administering agency. The claim report includes the number of reimbursable meals served by category and type (lunch/breakfast and free/reduced/paid) during the period covered by the claim. All claim reports submitted must be supported by accurate meal counts and records indicating the number of meals served by category and type.

Condition

The claim report filed for meals served during February 2016 did not report the correct number of paid breakfasts served.

Cause

Claim reports are manually prepared and there is currently no review of the report before it is filed. There is currently no control in place to verify the accuracy of claim reports before they are filed. Total breakfasts served (paid, reduced, and free) were accidentally entered as total paid breakfasts.

Effect

An inaccurate monthly claim report for paid breakfast was submitted which resulted in the overstatement of meals served and a corresponding overpayment of federal subsidy received by the District. The lack of internal controls in place for review of the claim forms before submission did not allow the error to be detected before it was submitted.



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STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

Section III - Federal Awards Findings and Questioned Costs - continued

Questioned Costs

None

Context

Our audit included testing a sample of 3 claim reports filed during the year. From our sample, we noted one report where the total number of paid breakfasts claimed did not agree to the report from the point-of-sale software. Paid breakfasts were overstated by 1,033 meals.

Repeat Finding

No.

Recommendation

We suggest that a procedure be put in place to require all claim reports to be reviewed by someone independent of the preparer before being filed. The review should include a comparison of the claim report to meal count reports from the point-of-sale software. The reviewer should initial the report or otherwise document that the review took place prior to the report being filed.

Current Status of Corrective Action Plan

No similar findings were noted in the current year.