



**KENNETT CONSOLIDATED SCHOOL DISTRICT
KENNETT SQUARE, PENNSYLVANIA**

AUDIT REPORT

JUNE 30, 2019

KENNETT CONSOLIDATED SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

November 1, 2019

Members of the Board
Kennett Consolidated School District
Kennett Square, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Kennett Consolidated School District ("the District"), Kennett Square, Pennsylvania, as of and for the year ended June 30, 2019, 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

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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 Kennett Consolidated School District, Kennett Square, Pennsylvania, as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Kennett Consolidated School District's 2018 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information in our report dated November 1, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 16 and the schedule of the District's proportionate share of the net pension liability - PSERS, schedule of District pension contributions - PSERS, schedule of the District's proportionate share of the net OPEB liability - PSERS, schedule of District OPEB contributions - PSERS, and schedule of changes in the District's net OPEB liability - single employer plan on pages 59 through 63 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.

Members of the Board
Kennett Consolidated School District

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards on page 70 is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"), and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 1, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.


BARBACANE, THORNTON & COMPANY LLP

**KENNETT CONSOLIDATED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2019**

This section of the Kennett Consolidated School District's ("the District") annual financial report provides a discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2019. This discussion and analysis should be read in conjunction with the District's accompanying financial statements, which immediately follow this section.

Financial Highlights

- The liabilities and deferred inflows of resources of the District exceeded its assets and deferred outflows of resources at the close of the fiscal year by \$44,349,504. This is due to the recognition of the District's share of the net pension liability of the Public School Employees Retirement System of Pennsylvania ("PSERS") as required by Governmental Accounting Standards Board ("GASB") Statement No. 68, "Accounting and Financial Reporting for Pensions" and the District's net other postemployment benefits ("OPEB") liability as required by GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." The District's allocation of PSERS net pension liability is \$107,819,000 and the District's net OPEB liability is \$13,863,000. As a result, the District's unrestricted net position is \$(103,357,162).
- The District's net position increased by \$6,245,842 during the current fiscal year. The increase in net position is partially attributable to the reduction in the District's net OPEB liability, as well as revenues exceeding expenses.
- At the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$18,070,992, an increase of \$1,940,799 in comparison with the prior year. Approximately 39.0 percent of this total amount, \$7,044,804, is available for spending at the District's discretion.
- At the end of the current fiscal year, the unassigned fund balance for the general fund was \$7,044,084, or 8.4 percent of total general fund expenditures.
- The District's total long-term liabilities decreased by \$14,879,905, or 8.1 percent, during the fiscal year. The decrease is primarily due to changes in actuarial assumptions in regard to the District's other postemployment healthcare benefits (\$6,607,000) and satisfying the District's general obligation bonds (\$5,683,024).
- The net position of business-type activities, the food service operation, decreased by \$12,621, or 4.0 percent this year. The food service operation was allocated one percent of the District's net pension liability for PSERS and net OPEB liability, which is \$1,078,190 and \$138,630 for the current year, respectively. Revenues for the food service operation decreased by 1.8 percent to \$1,759,144 while expenses decreased by 2.5 percent to \$1,771,765.

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 kinds of statements, which present different views of the District. The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status. The remaining statements are fund financial statements that focus on individual parts of

**KENNETT CONSOLIDATED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONT'D
FOR THE YEAR ENDED JUNE 30, 2019**

the District which report the District's operations in more detail than the government-wide statements. The governmental funds 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 and long-term financial information about the activities the District operates like a business, such as food services. Fiduciary funds 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 the scholarship fund. The financial statements also include notes that explain some of the information in the statements, as well as provide more detailed data.

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

Major Features of the Government-wide and Fund Financial Statements

	Government-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	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 Fiduciary Net Position Statement of Changes in Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/deferred outflow of resources/liability/deferred inflow of resources information	All assets and deferred outflows of resources and liabilities and deferred inflows of resources, both financial and capital, short-term and long-term	Generally assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and deferred outflows of resources and liabilities and deferred inflows of resources, both financial and capital, and short-term and long-term	All assets and deferred outflows of resources and liabilities and deferred inflows of resources, 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

**KENNETT CONSOLIDATED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONT'D
FOR THE YEAR ENDED JUNE 30, 2019**

Government-wide Statements

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

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

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

- **Governmental Activities:** Most of the District's basic services are included here, such as regular and special education, maintenance and operation of plant services, transportation services, and administrative services. Property taxes, along with state formula aid, finance most of these activities.
- **Business-type Activities:** The District operates a food service program and charges fees to staff, students, and visitors to help cover costs of the food service operation.

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 used 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 generally focus on (1) how cash and other financial assets can readily be converted into cash inflows and outflows and (2) balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information on a schedule following each of the governmental funds statements explains the relationship (or differences) between them.

**KENNETT CONSOLIDATED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONT'D
FOR THE YEAR ENDED JUNE 30, 2019**

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 government-wide financial statements. Proprietary funds are classified as enterprise or internal service. The District's *Enterprise Fund* (one type of proprietary fund) is the same as its business-type activities but provides more detail and additional information, such as cash flows. The District currently has one enterprise fund, the Food Service Fund. Another type of proprietary fund, an internal service fund, is used to account for the operation of the District's self-insurance program for employee medical, prescription drug, and dental claims.

An internal service fund uses the accrual basis of accounting which is the same as the enterprise fund; however, in the government-wide statements, an internal service fund is included with the governmental activities since it largely supports these activities.

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 government-wide financial statements because it cannot use these assets to finance its operations.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Impact of GASB Statements No. 68 and No. 71

The District follows the accounting guidance of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions," and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measure Date - An Amendment of GASB Statement No. 68." The purpose of these statements is to improve the transparency, consistency, and comparability of the pension information reported by state and local governments (e.g. school districts).

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

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

**KENNETT CONSOLIDATED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONT'D
FOR THE YEAR ENDED JUNE 30, 2019**

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

While the net pension liability is significant to the District's financial statements, it is a liability that the District has limited control over. Over the last six years, the PSERS employer contribution rate has risen significantly, from four percent in 2009 - 2010 to 33.43 percent in 2018 - 2019. These increases are expected to improve the plan's funding level, which should reduce net position in future years. This rate is anticipated to continue to increase to a level of over 36 percent in future years.

Impact of GASB Statement No. 75

The District follows the accounting guidance of GASB Statement No 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." This statement replaces the requirements of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." The purpose of this statement is to improve the transparency, consistency, and comparability of other postemployment benefits provided by state and local governments (e.g. school districts).

The adoption of GASB Statement No. 75 has had and will continue to have a profound effect on the financial statements and net position of school districts and governments not only in Pennsylvania, but across the nation. Prior to the adoption of this standard, the OPEB liability was being recognized on an amortized basis over a term of 30 years in accordance with GASB Statement No. 45.

The following is a summary of the key changes as a result of the adoption of GASB Statement No. 75:

- The District must now recognize the net OPEB liability, as opposed to an amortized portion of the liability (the Net OPEB Obligation).
- The annual OPEB expense replaces the Annual Required Contribution ("ARC"), with faster recognition than what was previously required.
- Entry age normal cost method is required to determine liability.
- Discount rate is based on employer's assets and calculation of Actuarial Determined Contribution if prefunding. Since the District's plan is unfunded, a 20-year tax exempt municipal bond rate is utilized.
- Enhanced disclosures of historical contributions, funded status, and basis for actuarial assumptions is required.
- Description of any benefit and assumption changes as well as an expanded Notes section and Required Supplementary Information ("RSI") required.

Financial Analysis of the District as a Whole

The District's net position was adversely affected by the District's recognition of its proportionate share of the net pension liability of the Public School Employees' Retirement System of Pennsylvania (PSERS) and the District's net OPEB liability. For the current year, the District's share of the PSERS net pension liability

**KENNETT CONSOLIDATED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONT'D
FOR THE YEAR ENDED JUNE 30, 2019**

is \$107,819,000, and the District's net OPEB liability is \$13,863,000. The total net position is \$(44,349,504), resulting in a negative *unrestricted net position* of \$(103,357,162). The following table presents condensed financial information for the net position of the District as of June 30, 2019 and 2018.

Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 33,043,019	\$ 30,292,028	\$ 951,065	\$ 937,497	\$ 33,994,084	\$ 31,229,525
Capital Assets	92,550,635	95,249,479	640,948	681,923	93,191,583	95,931,402
Total Assets	125,593,654	125,541,507	1,592,013	1,619,420	127,185,667	127,160,927
Deferred Outflows of Resources	16,420,649	18,434,373	165,865	186,207	16,586,514	18,620,580
Total Assets and Deferred Outflows of Resources	142,014,303	143,975,880	1,757,878	1,805,627	143,772,181	145,781,507
Long-term liabilities	166,957,878	181,746,610	1,233,048	1,324,219	168,190,926	183,070,829
Other liabilities	10,151,692	9,886,162	122,453	130,400	10,274,145	10,016,562
Total Liabilities	177,109,570	191,632,772	1,355,501	1,454,619	178,465,071	193,087,391
Deferred Inflows of Resources	9,560,924	3,257,762	95,690	31,700	9,656,614	3,289,462
Total Liabilities and Deferred Inflows of Resources	186,670,494	194,890,534	1,451,191	1,486,319	188,121,685	196,376,853
Net position:						
Net investment in capital assets	47,352,086	44,364,140	640,948	681,923	47,993,034	45,046,063
Restricted	11,014,624	9,233,980	-	-	11,014,624	9,233,980
Unrestricted (Deficit)	(103,022,901)	(104,512,774)	(334,261)	(362,615)	(103,357,162)	(104,875,389)
Total Net Position (Deficit)	\$ (44,656,191)	\$ (50,914,654)	\$ 306,687	\$ 319,308	\$ (44,349,504)	\$ (50,595,346)

A significant portion of the District's net position, \$47,993,034, reflects its investment in capital assets (land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the District's net position, \$11,014,624, represents resources that are restricted for capital projects.

At the end of the current fiscal year, the District is reporting a negative unrestricted net position for its governmental and business-type activities due to the application of GASB Statement No. 68 and GASB Statement No. 75. Total net position for the governmental activities is also negative; however, the total net position of the business-type activities is positive. Balances for unrestricted net position for both governmental and business-type activities are also negative for the prior fiscal year.

The District's net position increased by \$6,245,842 during the current fiscal year. The increase in net position is partially attributable to the reduction in the District's net OPEB liability, as well as revenues exceeding expenses. Governmental activities increased the District's net position by \$6,258,463, thereby accounting for all of the total growth in the net position.

**KENNETT CONSOLIDATED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONT'D
FOR THE YEAR ENDED JUNE 30, 2019**

The results of this year's operations as a whole are reported in the statement of activities. All expenses are reported in the first column. Specific charges, grants, revenues, and subsidies that directly relate to specific categories are presented to determine the final amount of the District's activities that are supported by other general revenues. The largest revenues are property taxes and the basic education subsidy provided by the Commonwealth of Pennsylvania.

The following table presents condensed financial information from the statement of activities in a different format.

Changes in Net Position from Operating Results

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues						
Program Revenues:						
Charges for services	\$ 267,495	\$ 219,992	\$ 663,913	\$ 702,816	\$ 931,408	\$ 922,808
Operating grants and contributions	12,281,923	11,943,111	1,076,612	1,078,068	13,358,535	13,021,179
General Revenues:						
Property taxes and other taxes levied for general purposes	66,254,073	64,331,292	-	-	66,254,073	64,331,292
State and federal aid	7,237,240	7,088,002	-	-	7,237,240	7,088,002
Other	1,223,507	707,739	18,619	11,063	1,242,126	718,802
Total Revenues	<u>87,264,238</u>	<u>84,290,136</u>	<u>1,759,144</u>	<u>1,791,947</u>	<u>89,023,382</u>	<u>86,082,083</u>
Expenses:						
Instruction	50,186,950	49,295,717	-	-	50,186,950	49,295,717
Instructional support	5,925,093	5,809,112	-	-	5,925,093	5,809,112
Non-instructional services	23,003,181	21,823,689	-	-	23,003,181	21,823,689
Other	1,890,551	2,563,292	1,771,765	1,817,583	3,662,316	4,380,875
Total Expenses	<u>81,005,775</u>	<u>79,491,810</u>	<u>1,771,765</u>	<u>1,817,583</u>	<u>82,777,540</u>	<u>81,309,393</u>
Increase (Decrease) in Net Position	6,258,463	4,798,326	(12,621)	(25,636)	6,245,842	4,772,690
Beginning Net Position (Deficit)	<u>(50,914,654)</u>	<u>(55,712,980)</u>	<u>319,308</u>	<u>344,944</u>	<u>(50,595,346)</u>	<u>(55,368,036)</u>
Ending Net Position (Deficit)	<u>\$ (44,656,191)</u>	<u>\$ (50,914,654)</u>	<u>\$ 306,687</u>	<u>\$ 319,308</u>	<u>\$ (44,349,504)</u>	<u>\$ (50,595,346)</u>

Governmental Activities. Total revenues increased by \$2,974,102, or 3.5 percent. Property taxes and other taxes levied for general purposes accounted for most of the District's revenue in the amount of \$66,254,073, or 75.9 percent. The increase of \$1,922,781 (3.0 percent) is due to an increase in the millage rate of 1.91 percent and a slight recovery in the tax base, along with an increase in realty transfer and earned income taxes. Another \$7,237,240, or 8.3 percent, came from state and federal aid, such as the basic education subsidy. The remainder, \$13,772,925 or 15.8 percent, came from various sources. Revenue of \$12,281,923 came from operating grants, including funds for special education, student transportation, retirement, and social security. Revenue of \$1,013,328 came from earnings on investments, revenue of \$267,495 came from fees charged for services, and other revenue amounted to \$210,179.

The total cost of all governmental programs and services rose to \$81,005,775, an increase of \$1,513,965, or 1.9 percent. The District's expenses are predominately related to instructing, caring for (instructional support services and operation/maintenance of school facilities), and transporting students, which

**KENNETT CONSOLIDATED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONT'D
FOR THE YEAR ENDED JUNE 30, 2019**

represents \$79,115,224, or 97.7 percent, of total expenses. The growth in expenses includes recognition of the prior year's mild increase of \$918,236 in the employer contributions recognized for the PSERS due to declining increases in the contribution rate. Total revenues exceeded total expenses, which produced an increase in net position of \$6,258,463 over the past year.

Presented below is the cost of four major District activities: instruction, instructional support, non-instructional services, and other. The table also shows each activity's net cost (total cost less fees generated by the activities and governmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions. The net cost of all governmental activities increased by \$1,127,650 to \$68,456,357. The state and federal government subsidized certain programs with capital and operating grants and contributions which totaled \$12,281,923 and charges for certain services also offset the costs by \$267,495.

Net Cost of Governmental Activities

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2019	2018		2019	2018	
Functions/Programs						
Instruction	\$ 50,186,950	\$ 49,295,717	1.8%	\$ 41,887,861	\$ 41,261,334	1.5%
Instructional support	5,925,093	5,809,112	2.0%	5,312,263	5,239,175	1.4%
Non-instructional services	23,003,181	21,823,689	5.4%	19,877,636	18,751,634	6.0%
Other	1,890,551	2,563,292	-26.2%	1,378,597	2,076,564	-33.6%
Total	<u>\$ 81,005,775</u>	<u>\$ 79,491,810</u>	<u>1.9%</u>	<u>\$ 68,456,357</u>	<u>\$ 67,328,707</u>	<u>1.7%</u>

Business-type Activities. Business-type activities decreased the District's net position by \$12,621. Total revenues decreased by \$32,803, or 1.8 percent, over the prior year due to a decrease in the number of meals served. Total expenses also decreased by \$45,818, or 2.5 percent, due mainly to a decrease in contracted labor costs. In addition to the District-wide financial statements, the Food Service program is reported in greater detail in the proprietary fund statements.

The table below reflects the activities of the Food Service program, the only business-type activity of the District.

Net Cost of Business-type Activities

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2019	2018		2019	2018	
Food services	<u>\$ 1,771,765</u>	<u>\$ 1,817,583</u>	<u>-2.5%</u>	<u>\$ 31,240</u>	<u>\$ 36,699</u>	<u>-14.9%</u>

**KENNETT CONSOLIDATED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONT'D
FOR THE YEAR ENDED JUNE 30, 2019**

Financial Analysis of the Government's Funds

Governmental Funds

At the end of June 30, 2019, governmental funds had total fund balances of \$18,070,992, an increase of \$1,940,799 in comparison with the previous year. Approximately 39.0 percent of this total amount, \$7,044,804, constitutes *unassigned fund balance*, which is available for spending at the District's discretion. Fund balance of \$11,564 is classified as nonspendable because it is in a form that cannot be readily converted to liquidate obligations of the District. The remainder of fund balance is *restricted* to indicate that it is not available for new spending because it has already been committed for capital projects or other expenditures.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$7,044,804, which also represents 8.4 percent of total general fund expenditures. The fund balance of the District's general fund increased by \$160,155.

The Capital Projects Fund has a total fund balance of \$189,383, which represents the remaining proceeds of a capital settlement fund for repairs to the District's middle school. The net increase in fund balance during the year of \$3,766 is due to investment income.

The Capital Reserve Fund has a total fund balance of \$10,825,241, all of which is restricted for capital improvements. Receipts for this type of capital reserve fund come from transfers during or at the end of the fiscal year from appropriations in the general fund when there is a surplus. The net increase in fund balance during the current year in the Capital Reserve Fund was \$1,776,878. The Capital Reserve Fund received transfers from the general fund of \$3,393,081. The Capital Reserve Fund had expenditures of \$1,720,108 for a variety of facility improvements including replacements to portions of the roof at the high school and Greenwood Elementary, the installation of secured vestibules at the high school, the middle school, and two elementary schools, and storm water erosion curtailment at the high school and Greenwood Elementary. Other items purchased out of the fund included new doors and windows, HVAC upgrades, and sidewalk and parking lot repairs. Also through the Capital Reserve Fund, the District continued to make an investment in technology (\$207,000) with the finance of Dell Chromebooks and Notebooks along with appropriate storage cabinets.

Proprietary Funds

The unrestricted net position of the Food Service Fund at the end of the year amounted to \$(334,261). The negative unrestricted net position is due to the Food Service operation's shares of the District's net pension liability for the PSERS of \$1,078,190 and the District's net OPEB liability of \$138,630. The net position for this fund decreased by \$12,621. Factors concerning the finances of this fund are addressed in the discussion of the District's business-type activities.

The District's internal service fund is used to account for the operation of its self-insurance program for employee medical, prescription drug, and dental claims. The unrestricted net position of the internal service fund at the end of the year amounted to \$4,067,740 and represents resources accumulated for anticipated future losses. The net position for this fund increased by \$622,984 due to lower than anticipated insurance

**KENNETT CONSOLIDATED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONT'D
FOR THE YEAR ENDED JUNE 30, 2019**

claims and an increase in investment income. This residual balance is reported in the governmental activities since the services provided primarily benefit the governmental activities.

General Fund Budgetary Highlights

During the fiscal year, the Board of School Directors authorizes transfers between functional categories to accommodate differences from the original budget to the actual expenditures. A schedule showing the District's original budget and final budget amounts compared to amounts actually received or disbursed is provided in the financial statements.

The difference in the 2018 - 2019 revenues, expenditures, and other financing sources and uses compared to the budget resulted in an overall favorable variance of \$4,267,566 excluding transfers. While the District's original budget for the general fund anticipated the use of \$714,330 of fund balance in order to balance the budget, the actual results for the year reflected a surplus of \$3,553,236 excluding transfers. An amount of \$3,393,081 was transferred to the District's Capital Reserve Fund for anticipated capital improvements outlined in the District's five-year plan. The net surplus after the transfer increased the general fund's fund balance by \$160,155 to \$7,056,368.

Significant variances between the final budget and actual revenue occurred in local sources of revenues due to greater than anticipated billings for real estate related taxes and favorable interest rates on investments. Both items were the result of a healthier economy. The variance between the final budgeted and actual expenditures was due to a continued change in delivery of Special Education programs, the elimination of variable interest rates on long-term debt, and favorable procurement practices.

The following are the main factors that contributed to the surplus:

- Increases in real estate taxes (regular, interim, and delinquent) resulted in additional revenue of \$910,773.
- Increases in real estate transfer taxes resulted in additional revenue of \$266,938.
- Increases in the interest rates on investments resulted in additional revenue of \$489,344.
- Decreases in contracted services for Special Education programs resulted in a savings of \$1,317,736.
- Decreases in tuition to other schools resulted in a savings of \$258,874.
- Decreases in interest on long-term debt resulted in a savings of \$136,213.
- Decreases in purchases in non-instructional areas such as maintenance, technology, and transportation resulted in a savings of \$354,497.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2019, the District had investments of \$93,191,583 (net of depreciation) in a broad range of capital assets, including land, school buildings, administrative offices, athletic facilities, fixtures, and equipment. This amount represents a decrease of \$2,739,819, or 2.9 percent, for the year. Total depreciation expense for the year amounted to \$4,025,534. More detailed information about capital assets can be found in notes to the financial statements.

**KENNETT CONSOLIDATED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONT'D
FOR THE YEAR ENDED JUNE 30, 2019**

	Governmental Activities		Business-type Activities		Totals		Percentage Change
	2019	2018	2019	2018	2019	2018	
Land	\$ 3,060,599	\$ 3,060,599	\$ -	\$ -	\$ 3,060,599	\$ 3,060,599	0.0%
Construction-in-progress	136,447	34,394	-	-	136,447	34,394	296.7%
Building and building improvements	87,518,752	89,956,932	-	-	87,518,752	89,956,932	-2.7%
Fixtures and equipment	1,834,837	2,197,554	640,948	681,923	2,475,785	2,879,477	-14.0%
Total	<u>\$ 92,550,635</u>	<u>\$ 95,249,479</u>	<u>\$ 640,948</u>	<u>\$ 681,923</u>	<u>\$ 93,191,583</u>	<u>\$ 95,931,402</u>	<u>-2.9%</u>

Long-term Debt

As of June 30, 2019, the District had \$168,190,926 in outstanding long-term debt, a decrease of \$14,879,903, or 8.1 percent, over last year primarily due to changes in actuarial assumptions in regard to the District's other postemployment healthcare benefits ("OPEB") and satisfying the District's general obligation bonds. Along with its annual debt service payments totaling \$5,975,000, the District issued \$19,785,000 of new debt in 2019 to refund obligations totaling \$19,955,000. More detailed information about the District's long-term liabilities is presented in the notes to the financial statements.

Outstanding Long-term Liabilities

	Totals		% Change
	2019	2018	
General Obligation Bonds, Net	\$ 45,387,932	\$ 51,070,956	-11.1%
Compensated Absences	1,120,992	1,146,873	-2.3%
Net OPEB Liability	13,863,000	20,470,000	-32.3%
Net Pension Liability	107,819,000	110,383,000	-2.3%
Total	<u>\$ 168,190,924</u>	<u>\$ 183,070,829</u>	<u>-8.1%</u>

Factors Bearing on the District's Future

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

- June 30, 2021 will mark the expiration of the current five-year teachers' contract. The economic package (salaries and fringe benefits) over the next two years provides for an annual increase of 2.6 percent and 2.7 percent and includes employee contributions for healthcare costs.
- July 31, 2021 will mark the expiration of the current five-year Student Transportation Agreement with the Krapf Bus Company. The agreement represents approximately five percent of the District's annual operating budget. The new agreement has a stipulated increase in the remaining two years tied to the 12-month Calendar Consumer Price Index for Philadelphia-All Urban Consumers with a minimum of two percent. The annual increase for 2019 - 2020 was two percent.

**KENNETT CONSOLIDATED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONT'D
FOR THE YEAR ENDED JUNE 30, 2019**

- After many years of dormant residential housing growth and declining housing market values, new taxable properties are coming online and the real estate market appears vibrant. As a result, tax assessment appeals are down over previous years, while interim taxes and transfer taxes are expected to increase.
- The District is carefully monitoring active and proposed residential developments in our community. There are three active residential communities; when sold out, Pemberton, Sinclair Springs, and Stonehouse will add 202 dwellings to the district. Coming in 2020, another three large scale residential developments, Longwood Preserve, The Flats at Kennett, and Northridge, are underway and will yield a combined dwelling count of 379 units. Additionally, under consideration at the municipal level are three proposed developments that have the potential for 612 new residential units.
- The District's administration is continually exploring changes to the existing elementary school configuration to better match the distribution of the student population with building capacity to ensure that current and future students can be accommodated.
- Consistent with historical trends, the District expects state and federal funding for public education to remain relatively flat, which will result in the need for greater local tax effort to fund instructional programs and services. The Commonwealth of Pennsylvania provided only 20 percent of total revenue sources to fund costs supporting the District's educational programs during the past year. Local sources of revenue, primarily property taxes, now support 78 percent of the costs for educational programs and services in the District. The federal government only provided two percent of the funds to support general operations.
- Special Session of Act 1 of 2006: The law limits real estate tax increases to an index established by the Pennsylvania Department of Education. Districts that cannot balance their budget, even after including revenue to be obtained by increasing taxes to the maximum extent allowed by the index, are eligible to seek back-end referendum exceptions. The exceptions are for costs that are beyond the direct control of local school boards. However, the number of exceptions has been reduced from seven to two, increases in contributions to the employee retirement system, and in mandated special education costs (Act 25 of 2011). The District's adjusted Act 1 Index for 2020 - 2021 is 3.0 percent compared to 2.3 percent in 2019 - 2020. The District does not anticipate needing a referendum for the 2020 - 2021 budget.
- Senate Bill 1 of 2017: The bill offers a significant step toward systemic long-term reform intended to ensure the future sustainability of the pension system. The bill focuses on the long-term advantages by gradually shifting the investment, inflation, and longevity risks away from the state and school districts to future employees. Current employees have a Defined Benefit ("DB") plan, which provides them with a retirement payment determined by a formula that takes into account retirement age, years of service, and final average salary. A Defined Contribution ("DC") plan is a retirement investment program that is designed to offer employees a vehicle to save for retirement in a tax deferred environment. The pension benefit is determined by the amount of the contributions and the investment performance of the member's account. The plan under Senate Bill 1 of 2017 requires future employees starting in 2019 - 2020 to select one of three new plan design options,

**KENNETT CONSOLIDATED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONT'D
FOR THE YEAR ENDED JUNE 30, 2019**

either one of two side-by-side hybrid DB/DC plans or a stand-alone DC plan. No changes are made to retirement benefits for current employees, but they would have the option to choose one of the new plan designs. The PSERS retirement rate increased from 32.57 percent in 2017 - 2018 to 33.43 percent in 2018 - 2019. The PSERS projections indicate that employer contribution rates will increase to 34.29 percent in 2019 - 2020. Rates are projected into the future to increase to over 36 percent by 2023 - 2024. Positive economic performance and plan design changes are expected to slow the employer rate increases and eventually lower them.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Office, Kennett Consolidated School District, 300 East South Street, Kennett Square, PA 19348.

KENNETT CONSOLIDATED SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2019
(With Summarized Comparative Data for June 30, 2018)

	Governmental Activities	Business-type Activities	Totals	
			2019	2018
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
ASSETS:				
Cash and cash equivalents	\$ 2,061,077	\$ 869,254	\$ 2,930,331	\$ 1,917,403
Investments	27,717,083	-	27,717,083	25,423,211
Taxes receivable, net	1,161,238	-	1,161,238	1,654,325
Due from other governments	2,059,470	35,430	2,094,900	2,072,753
Internal balance	777	(777)	-	-
Other receivables	31,810	9,884	41,694	117,190
Prepaid expenses	11,564	-	11,564	7,586
Inventories	-	37,274	37,274	37,057
Land	3,060,599	-	3,060,599	3,060,599
Construction-in-progress	136,447	-	136,447	34,394
Buildings and improvements	140,267,324	-	140,267,324	139,261,458
Furniture and equipment	6,932,944	1,411,220	8,344,164	8,188,800
Accumulated depreciation	(57,846,679)	(770,272)	(58,616,951)	(54,613,849)
TOTAL ASSETS	125,593,654	1,592,013	127,185,667	127,160,927
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred outflows relating to OPEB	1,124,063	11,353	1,135,416	276,047
Deferred outflows relating to pension	15,296,586	154,512	15,451,098	18,344,533
TOTAL DEFERRED OUTFLOWS OF RESOURCES	16,420,649	165,865	16,586,514	18,620,580
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 142,014,303</u>	<u>\$ 1,757,878</u>	<u>\$ 143,772,181</u>	<u>\$ 145,781,507</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)				
LIABILITIES:				
Accounts payable	\$ 2,255,913	\$ 122,453	\$ 2,378,366	\$ 1,856,459
Accrued salaries and benefits	7,641,779	-	7,641,779	7,498,075
Retainage payable	-	-	-	21,265
Accrued interest	254,000	-	254,000	640,763
Long-term liabilities				
Portion due or payable within one year:				
Bonds and notes payable in future years, net	6,196,487	-	6,196,487	6,201,260
Accumulated compensated absences	108,296	461	108,757	141,364
Portion due or payable after one year:				
Bonds and notes payable in future years, net	39,191,445	-	39,191,445	44,869,696
Accumulated compensated absences	996,470	15,767	1,012,237	1,005,509
Net OPEB liability	13,724,370	138,630	13,863,000	20,470,000
Net pension liability	106,740,810	1,078,190	107,819,000	110,383,000
TOTAL LIABILITIES	177,109,570	1,355,501	178,465,071	193,087,391
DEFERRED INFLOWS OF RESOURCES:				
Deferred inflows relating to OPEB	7,394,310	74,690	7,469,000	594,000
Deferred inflows relating to pension	2,079,000	21,000	2,100,000	2,576,000
Deferred amount on bond refunding	87,614	-	87,614	119,462
TOTAL DEFERRED INFLOWS OF RESOURCES	9,560,924	95,690	9,656,614	3,289,462
NET POSITION (DEFICIT):				
Net investment in capital assets	47,352,086	640,948	47,993,034	45,046,063
Restricted - capital projects	11,014,624	-	11,014,624	9,233,980
Unrestricted (deficit)	(103,022,901)	(334,261)	(103,357,162)	(104,875,389)
TOTAL NET POSITION (DEFICIT)	(44,656,191)	306,687	(44,349,504)	(50,595,346)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)	<u>\$ 142,014,303</u>	<u>\$ 1,757,878</u>	<u>\$ 143,772,181</u>	<u>\$ 145,781,507</u>

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

KENNETT CONSOLIDATED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019
(With Summarized Comparative Data for the Year Ended June 30, 2018)

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
GOVERNMENTAL ACTIVITIES:						
Instruction	\$ 50,186,950	\$ 22,075	\$ 8,277,014	\$ -	\$ (41,887,861)	\$ -
Instructional student support	5,925,093	-	612,830	-	(5,312,263)	(41,887,861)
Administrative and financial support services	8,470,982	-	729,752	-	(7,741,230)	(5,312,263)
Operation and maintenance of plant services	7,774,911	-	617,673	-	(7,157,238)	(7,741,230)
Pupil transportation	5,127,163	123,475	1,399,877	-	(3,603,811)	(7,157,238)
Student activities	1,630,125	121,945	132,823	-	(1,375,357)	(3,603,811)
Interest on long-term debt	695,184	-	511,954	-	(183,230)	(1,375,357)
Unallocated depreciation	1,195,367	-	-	-	(1,195,367)	(183,230)
TOTAL GOVERNMENTAL ACTIVITIES	81,005,775	267,495	12,281,923	-	(68,456,357)	(1,195,367)
						(67,328,707)
BUSINESS-TYPE ACTIVITIES:						
Food service	1,771,765	663,913	1,076,612	-	-	(31,240)
TOTAL BUSINESS-TYPE ACTIVITIES	1,771,765	663,913	1,076,612	-	-	(31,240)
						(36,699)
TOTAL PRIMARY GOVERNMENT	\$ 82,777,540	\$ 931,408	\$ 13,358,535	\$ -	(68,456,357)	(68,487,597)
						(67,365,406)
GENERAL REVENUES						
Property taxes, levied for general purposes					60,487,878	-
Taxes levied for specific purposes					5,766,195	-
Grants and entitlements not restricted to specific programs					7,237,240	-
Investment earnings					1,013,328	18,619
Miscellaneous					210,179	-
TOTAL GENERAL REVENUES					74,714,820	18,619
						74,733,439
CHANGE IN NET POSITION					6,258,463	(12,621)
						4,772,690
NET POSITION (DEFICIT), BEGINNING OF YEAR					(50,914,654)	319,308
						(50,595,346)
NET POSITION (DEFICIT), END OF YEAR					\$ (44,656,191)	\$ 306,687
						\$ (50,595,346)

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

KENNETT CONSOLIDATED SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2019
(With Summarized Comparative Data for June 30, 2018)

	General Fund	Capital Projects Fund	Capital Reserve Fund	Totals	
				2019	2018
ASSETS					
Cash and cash equivalents	\$ 51,517	\$ 189,383	\$ 218	\$ 241,118	\$ 196,117
Investments	17,178,266	-	7,538,817	24,717,083	22,423,211
Taxes receivable	1,180,718	-	-	1,180,718	1,673,805
Due from other funds	777	-	3,393,081	3,393,858	3,485,877
Due from other governments	2,059,470	-	-	2,059,470	1,915,457
Other receivables	31,810	-	-	31,810	114,076
Prepaid expenditures	11,564	-	-	11,564	7,586
TOTAL ASSETS	\$ 20,514,122	\$ 189,383	\$ 10,932,116	\$ 31,635,621	\$ 29,816,129
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES:					
Accounts payable	\$ 1,396,819	\$ -	\$ 106,875	\$ 1,503,694	\$ 1,210,824
Due to other funds	3,393,081	-	-	3,393,081	3,485,877
Accrued salaries and benefits	7,641,779	-	-	7,641,779	7,498,075
Accumulated compensated absences	108,296	-	-	108,296	140,768
TOTAL LIABILITIES	12,539,975	-	106,875	12,646,850	12,335,544
DEFERRED INFLOWS OF RESOURCES:					
Unavailable revenues - delinquent taxes	917,779	-	-	917,779	1,350,392
TOTAL DEFERRED INFLOWS OF RESOURCES	917,779	-	-	917,779	1,350,392
FUND BALANCES:					
Nonspendable	11,564	-	-	11,564	7,586
Restricted - capital projects	-	189,383	10,825,241	11,014,624	9,233,980
Unassigned	7,044,804	-	-	7,044,804	6,888,627
TOTAL FUND BALANCES	7,056,368	189,383	10,825,241	18,070,992	16,130,193
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 20,514,122	\$ 189,383	\$ 10,932,116	\$ 31,635,621	\$ 29,816,129

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

**KENNETT CONSOLIDATED SCHOOL DISTRICT
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS
TO STATEMENT OF NET POSITION
JUNE 30, 2019**

TOTAL GOVERNMENTAL FUND BALANCES \$ 18,070,992

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of:

Land	\$ 3,060,599	
Construction-in-progress	136,447	
Buildings and improvements	140,267,324	
Furniture and equipment	6,932,944	
Accumulated depreciation	<u>(57,846,679)</u>	92,550,635

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:

Bonds payable in future years, net	(45,387,932)	
Accumulated compensated absences	(996,470)	
Accrued interest	(254,000)	
Net OPEB liability	(13,724,370)	
Net pension liability	<u>(106,740,810)</u>	(167,103,582)

The establishment of an allowance for doubtful accounts for property taxes receivable is not recorded in the funds because property taxes receivable are recorded as deferred outflows of resources. (19,480)

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. 4,067,740

Some of the District's revenues will be collected after year end but are not available soon enough to pay for the current period's expenditures and, therefore, are unavailable in the funds. 917,779

Refunded debt resulted in deferred inflows of resources which will be amortized over the life of new debt but do not represent current obligations. (87,614)

Deferred inflows and outflows related to the District's net OPEB liability are based on the differences between actuarially determined actual and expected investment returns, changes in the actuarially determined total OPEB liability or proportion of the District's amount of the total OPEB liability, and OPEB contributions made after the measurement date of the net OPEB liability. These amounts will be amortized over the estimated remaining average service life of the employees.

Deferred outflows of resources:		
Deferred OPEB	1,124,063	
Deferred inflows of resources:		
Deferred OPEB	<u>(7,394,310)</u>	<u>(6,270,247)</u>

Deferred inflows and outflows related to the District's net pension liability are based on the differences between actuarially determined actual and expected investment returns, changes in the actuarially determined proportion of the District's amount of the total pension liability, and pension contributions made after the measurement date of the net pension liability. These amounts will be amortized over the estimated remaining average service life of the employees.

Deferred outflows of resources:		
Deferred pension	15,296,586	
Deferred inflows of resources:		
Deferred pension	<u>(2,079,000)</u>	<u>13,217,586</u>

NET DEFICIT OF GOVERNMENTAL ACTIVITIES \$(44,656,191)

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

KENNETT CONSOLIDATED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019
(With Summarized Comparative Data for the Year Ended June 30, 2018)

	General Fund	Capital Projects Fund	Capital Reserve Fund	Totals
				2019 2018
REVENUES				
Local sources	\$67,978,704	\$ 3,766	\$ 103,905	\$68,086,375
State sources	17,844,931	-	-	17,844,931
Federal sources	1,674,233	-	-	1,674,233
TOTAL REVENUES	<u>87,497,868</u>	<u>3,766</u>	<u>103,905</u>	<u>87,605,539</u>
EXPENDITURES				
Current:				
Instruction	48,981,965	-	-	48,981,965
Support services	26,437,352	-	-	26,437,352
Operation of noninstructional services	1,645,931	-	-	1,645,931
Capital outlays	-	-	1,720,108	1,720,108
Debt service	7,138,003	-	-	7,138,003
TOTAL EXPENDITURES	<u>84,203,251</u>	<u>-</u>	<u>1,720,108</u>	<u>85,923,359</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>3,294,617</u>	<u>3,766</u>	<u>(1,616,203)</u>	<u>2,740,410</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from bond refunding	19,785,000	-	-	19,785,000
Premium on bond refunding	842,574	-	-	842,574
Payments to bond refunding agent	(20,376,515)	-	-	(20,376,515)
Sale of capital assets	7,560	-	-	7,560
Interfund transfers	(3,393,081)	-	3,393,081	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(3,134,462)</u>	<u>-</u>	<u>3,393,081</u>	<u>258,619</u>
NET CHANGE IN FUND BALANCES	160,155	3,766	1,776,878	1,940,799
FUND BALANCES, BEGINNING OF YEAR	<u>6,896,213</u>	<u>185,617</u>	<u>9,048,363</u>	<u>16,130,193</u>
FUND BALANCES, END OF YEAR	<u>\$ 7,056,368</u>	<u>\$ 189,383</u>	<u>\$10,825,241</u>	<u>\$16,130,193</u>

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

**KENNETT CONSOLIDATED SCHOOL DISTRICT
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 1,940,799

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense in the statement of activities. This is the effect of these activities:

Capital outlays	\$ 1,285,715	
Depreciation expense	<u>(3,984,559)</u>	(2,698,844)

Because some revenues will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds and are recorded as deferred inflows of resources. Unavailable revenues decreased by this amount this year. (432,613)

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences. 6,145,000

An internal service fund has been established to account for self-insured healthcare costs. The net revenue is reported with governmental activities. 622,984

In the statement of activities, certain operating expenses - compensated absences (vacations and sick leave) - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). (6,054)

Governmental funds report bond premiums as revenue. However, these amounts are reported netted against the outstanding bond liability on the statement of net position and amortized over the life of the debt. This is the amount by which current premiums exceeded net amortization. (461,976)

Interest and deferred amounts on refunding on long-term debt in the statement of activities differs from the amount reported in the governmental funds because deferred amounts on refunding are recognized as an expenditure or other financing use at the time of debt issuance and interest is recognized as an expenditure in the funds when it is due and, thus, requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due and deferred amounts on refunding are amortized over the life of the debt. 418,611

OPEB expenses in the statement of activities differ from the amount reported in the governmental funds because OPEB expenses are recognized on the statement of activities based on the District's estimated future benefit payments and related deferred inflows and deferred outflows, whereas OPEB expenditures are recognized in the governmental funds when a requirement to pay the benefits or to make contributions to the plan exists. 518,306

Pension expenses in the statement of activities differ from the amount reported in the governmental funds because pension expenses are recognized on the statement of activities based on the District's proportionate share of the expenses of the cost-sharing pension plan, whereas pension expenditures are recognized in the governmental funds when a requirement to remit contributions to the plan exists. 212,250

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 6,258,463

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

**KENNETT CONSOLIDATED SCHOOL DISTRICT
BUDGETARY COMPARISON STATEMENT - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual	Variance with
	Original	Final	(GAAP Basis)	Final Budget Positive (Negative)
REVENUES				
Local sources	\$ 66,013,081	\$ 66,305,320	\$ 67,978,704	\$ 1,673,384
State sources	17,872,407	17,872,407	17,844,931	(27,476)
Federal sources	1,602,841	1,720,898	1,674,233	(46,665)
TOTAL REVENUES	<u>85,488,329</u>	<u>85,898,625</u>	<u>87,497,868</u>	<u>1,599,243</u>
EXPENDITURES				
Instruction:				
Regular programs	36,058,945	35,645,556	35,218,786	426,770
Special programs	13,119,239	13,061,870	11,776,826	1,285,044
Vocational programs	1,827,709	1,827,709	1,811,208	16,501
Other instructional programs	276,696	316,187	175,145	141,042
Total Instruction	<u>51,282,589</u>	<u>50,851,322</u>	<u>48,981,965</u>	<u>1,869,357</u>
Support Services:				
Pupil services	2,672,285	2,689,451	2,630,299	59,152
Instructional support	2,314,602	2,552,345	2,497,884	54,461
Administrative support	4,503,535	4,614,348	4,792,962	(178,614)
Pupil health	909,393	918,243	865,515	52,728
Business support	1,149,150	1,207,967	1,120,578	87,389
Operation and maintenance of plant services	6,893,196	7,086,128	7,043,512	42,616
Student transportation	5,235,398	5,249,373	5,126,610	122,763
Central support	2,284,612	2,400,711	2,325,369	75,342
Other support services	37,551	37,551	34,623	2,928
Total Support Services	<u>25,999,722</u>	<u>26,756,117</u>	<u>26,437,352</u>	<u>318,765</u>
Operation of noninstructional services	1,431,132	1,604,300	1,645,931	(41,631)
Capital outlay	125,000	125,000	-	125,000
Debt service	7,274,216	7,274,216	7,138,003	136,213
TOTAL EXPENDITURES	<u>86,112,659</u>	<u>86,610,955</u>	<u>84,203,251</u>	<u>2,407,704</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(624,330)</u>	<u>(712,330)</u>	<u>3,294,617</u>	<u>4,006,947</u>
OTHER FINANCING SOURCES (USES)				
Budgetary reserve	(90,000)	(2,000)	-	2,000
Proceeds from bond refunding	-	-	19,785,000	19,785,000
Premium on bond refunding	-	-	842,574	842,574
General fund	-	-	-	-
Payments to bond refunding agent	-	-	(20,376,515)	(20,376,515)
Sale of fixed assets	-	-	7,560	7,560
Transfers out	-	-	(3,393,081)	(3,393,081)
TOTAL OTHER FINANCING USES	<u>(90,000)</u>	<u>(2,000)</u>	<u>(3,134,462)</u>	<u>(3,132,462)</u>
NET CHANGE IN FUND BALANCE	(714,330)	(714,330)	160,155	874,485
FUND BALANCE, BEGINNING OF YEAR	<u>6,896,213</u>	<u>6,896,213</u>	<u>6,896,213</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 6,181,883</u>	<u>\$ 6,181,883</u>	<u>\$ 7,056,368</u>	<u>\$ 874,485</u>

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

KENNETT CONSOLIDATED SCHOOL DISTRICT
STATEMENTS OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2019
(With Comparative Data for June 30, 2018)

	Major Fund		Internal Service Fund	
	Food Service Fund			
	2019	2018	2019	2018
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 869,254	\$ 740,030	\$ 1,819,959	\$ 981,256
Investments	-	-	3,000,000	3,000,000
Due from other governments	35,430	157,296	-	-
Other receivables	9,884	3,114	-	-
Inventories	37,274	37,057	-	-
Total Current Assets	951,842	937,497	4,819,959	3,981,256
FURNITURE AND EQUIPMENT:				
Net furniture and equipment	640,948	681,923	-	-
TOTAL ASSETS	1,592,790	1,619,420	4,819,959	3,981,256
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows relating to OPEB	11,353	2,760	-	-
Deferred outflows relating to pension	154,512	183,447	-	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	165,865	186,207	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 1,758,655	\$ 1,805,627	\$ 4,819,959	\$ 3,981,256
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION				
LIABILITIES:				
Accounts payable	\$ 122,453	\$ 130,400	\$ 752,219	\$ 536,500
Compensated absences	461	596	-	-
Due to other funds	777	-	-	-
Long-term liabilities:				
Portion due or payable after one year:				
Compensated absences	15,767	15,093	-	-
Net OPEB liability	138,630	204,700	-	-
Net pension liability	1,078,190	1,103,830	-	-
Total Liabilities	1,356,278	1,454,619	752,219	536,500
DEFERRED INFLOWS OF RESOURCES:				
Deferred outflows relating to OPEB	74,690	5,940	-	-
Deferred outflows relating to pension	21,000	25,760	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	95,690	31,700	-	-
NET POSITION:				
Net investment in capital assets	640,948	681,923	-	-
Unrestricted (deficit)	(334,261)	(362,615)	4,067,740	3,444,756
Total Net Position	306,687	319,308	4,067,740	3,444,756
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 1,758,655	\$ 1,805,627	\$ 4,819,959	\$ 3,981,256

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

KENNETT CONSOLIDATED SCHOOL DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019
(With Comparative Data for the Year Ended June 30, 2018)

	Major Fund		Internal Service Fund	
	Food Service Fund			
	2019	2018	2019	2018
OPERATING REVENUES				
Food service revenues	\$ 663,913	\$ 702,816	\$ -	\$ -
Charges for health insurance	-	-	8,292,669	6,802,906
TOTAL OPERATING REVENUES	<u>663,913</u>	<u>702,816</u>	<u>8,292,669</u>	<u>6,802,906</u>
OPERATING EXPENSES				
Salaries	219,630	213,343	-	-
Employee benefits	131,412	145,417	-	-
Other purchased services	1,255,159	1,290,462	-	-
Self-insurance claims	-	-	7,760,997	6,460,260
Supplies	124,589	127,157	-	-
Depreciation	40,975	41,204	-	-
TOTAL OPERATING EXPENSES	<u>1,771,765</u>	<u>1,817,583</u>	<u>7,760,997</u>	<u>6,460,260</u>
OPERATING (LOSS) INCOME	<u>(1,107,852)</u>	<u>(1,114,767)</u>	<u>531,672</u>	<u>342,646</u>
NONOPERATING REVENUES				
Earnings on investments	18,619	11,063	91,312	41,154
State sources	87,771	86,243	-	-
Federal sources	988,841	991,825	-	-
TOTAL NONOPERATING REVENUES	<u>1,095,231</u>	<u>1,089,131</u>	<u>91,312</u>	<u>41,154</u>
CHANGE IN NET POSITION	(12,621)	(25,636)	622,984	383,800
NET POSITION, BEGINNING OF YEAR	<u>319,308</u>	<u>344,944</u>	<u>3,444,756</u>	<u>3,060,956</u>
NET POSITION, END OF YEAR	<u>\$ 306,687</u>	<u>\$ 319,308</u>	<u>\$ 4,067,740</u>	<u>\$ 3,444,756</u>

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

KENNETT CONSOLIDATED SCHOOL DISTRICT
STATEMENTS OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019
(With Comparative Data for the Year Ended June 30, 2018)

	Major Fund		Internal Service Fund	
	Food Service Fund			
	2019	2018	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from users	\$ 657,143	\$ 707,486	\$ 8,292,669	\$ 6,802,906
Payments to suppliers	(1,273,309)	(1,387,318)	-	-
Payments to employees	(358,016)	(345,553)	-	-
Cash payments for health insurance costs	-	-	(7,545,278)	(6,598,183)
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	(974,182)	(1,025,385)	747,391	204,723
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
State sources	93,556	85,783	-	-
Federal sources	991,231	862,127	-	-
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	1,084,787	947,910	-	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of investments	-	-	-	(1,000,000)
Earnings on investments	18,619	11,063	91,312	41,154
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	18,619	11,063	91,312	(958,846)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	129,224	(66,412)	838,703	(754,123)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	740,030	806,442	981,256	1,735,379
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 869,254	\$ 740,030	\$ 1,819,959	\$ 981,256
RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES				
CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating (loss) income	\$ (1,107,852)	\$ (1,114,767)	\$ 531,672	\$ 342,646
Adjustments to reconcile operating (loss) income to net cash (used) provided by operating activities:				
Depreciation	40,975	41,204	-	-
Donated commodities	113,691	118,794	-	-
(Increase) Decrease in:				
Other receivables	(6,770)	4,670	-	-
Inventories	(217)	2,338	-	-
Due from other funds	-	-	-	-
Deferred outflows of resources - OPEB	(8,593)	(280)	-	-
Deferred outflows of resources - pension	28,935	25,148	-	-
Increase (Decrease) in:				
Accounts payable	(7,947)	(1,284)	215,719	(137,923)
Due to other funds	777	(88,951)	-	-
Compensated absences	539	1,333	-	-
Net OPEB liability	(66,070)	(3,430)	-	-
Net pension liability	(25,640)	1,190	-	-
Deferred inflows of resources - OPEB	68,750	5,940	-	-
Deferred inflows of resources - pension	(4,760)	(17,290)	-	-
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	\$ (974,182)	\$ (1,025,385)	\$ 747,391	\$ 204,723
SUPPLEMENTAL DISCLOSURE				
NONCASH NONCAPITAL FINANCING ACTIVITY:				
USDA donated commodities	\$ 113,691	\$ 118,794	\$ -	\$ -

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

KENNETT CONSOLIDATED SCHOOL DISTRICT
STATEMENTS OF NET POSITION - FIDUCIARY FUNDS
JUNE 30, 2019
(With Comparative Data for June 30, 2018)

	Private-Purpose Trust		Agency Fund	
	2019	2018	2019	2018
ASSETS				
Cash	<u>\$ 261,551</u>	<u>\$ 261,488</u>	<u>\$ 40,917</u>	<u>\$ 49,861</u>
TOTAL ASSETS	<u><u>\$ 261,551</u></u>	<u><u>\$ 261,488</u></u>	<u><u>\$ 40,917</u></u>	<u><u>\$ 49,861</u></u>
LIABILITIES AND NET POSITION				
LIABILITIES:				
Other current liabilities	<u>\$ 61</u>	<u>\$ -</u>	<u>\$ 40,917</u>	<u>\$ 49,861</u>
NET POSITION:				
Reserved for trust	<u>261,490</u>	<u>261,488</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 261,551</u></u>	<u><u>\$ 261,488</u></u>	<u><u>\$ 40,917</u></u>	<u><u>\$ 49,861</u></u>

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

KENNETT CONSOLIDATED SCHOOL DISTRICT
STATEMENTS OF CHANGES IN NET POSITION - FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2019
(With Comparative Data for the Year Ended June 30, 2018)

	Private-Purpose Trust	
	2019	2018
ADDITIONS		
Local contributions	\$ 51,778	\$ 50,070
Earnings on investments	4,024	2,523
TOTAL ADDITIONS	55,802	52,593
DEDUCTIONS		
Fees paid and scholarships awarded	55,800	37,700
TOTAL DEDUCTIONS	55,800	37,700
CHANGE IN NET POSITION	2	14,893
NET POSITION, BEGINNING OF YEAR	261,488	246,595
NET POSITION, END OF YEAR	<u>\$ 261,490</u>	<u>\$ 261,488</u>

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

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

NOTE 1 – DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY

The Kennett Consolidated School District ("the District") was formed by state law and began operations on July 1, 1932. The District covers a geographical area of 33 square miles in the southeastern part of Chester County, Pennsylvania, and includes the townships of New Garden and Kennett, and the Borough of Kennett Square.

The District is a political subdivision of the Commonwealth created to assist in the administration of the General Assembly's duties under the Constitution of the Commonwealth to "provide for the maintenance and support of a thorough and efficient system of public education to serve the needs of the Commonwealth."

The District is governed by a Board of nine school directors who are residents of the District and who are elected every two years, on a staggered basis, for a four-year term. The Board of School Directors has the power and duty to establish, equip, furnish, and maintain a sufficient number of elementary, secondary, and other schools necessary to educate every person residing in such District between the ages of six and twenty-one years who may attend.

The Superintendent is the chief administrative officer and chief instructional officer of the Board and the District, and is responsible for the execution of all actions of the Board. Subject to the policies and direction of the Board, the Superintendent is responsible for the administration and operation of the public school system and oversees all matters pertaining to instruction. The Superintendent manages the District with the assistance of the Assistant Superintendent for Curriculum and Instruction, Director of Business Administration, Director of Special Education, Director of Personnel, Director of Construction and Facilities, and the building principals.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in accordance with generally accepted accounting principles ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reporting Entity

In evaluating the District as a reporting entity, management has addressed all potential component units for which the District may or may not be financially accountable and, as such, may or may not be required to include within the District's financial statements. The criteria for including organizations within the District's reporting entity, as set forth in GASB's *Codification of Governmental Accounting and Financial Reporting Standards* ("GASB Codification"), relate to financial accountability. On the basis of these criteria, the District

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

has no other entities that are required to be included in its financial statements, nor is the District includable in the financial statements of any other reporting entity. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Based upon the application of this criteria, the District has determined it does not have any component units for which the District must include in its financial statements.

Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts, which are comprised of each fund's assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses as appropriate. Resources are allocated to and accounted for in the individual funds based on the purposes for which they are to be spent. The three fund types presented are governmental, proprietary, and fiduciary.

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

- **General Fund** – This is the general operating fund of the District. This fund is used to account for all financial resources not accounted for and reported in another fund.
- **Capital Projects Fund** – This fund is used to account for all financial resources restricted, committed, or assigned to expenditures for capital outlays, including capital asset acquisitions, construction, and improvements.
- **Capital Reserve Fund** – This fund is used to account for maintenance and improvement projects under Section 1432 of the Municipal Code.

PROPRIETARY FUNDS – These funds account for District activities that are similar to business operations in the private sector or where the reporting focus is on determining net income, financial position, and changes in financial position. (Economic resources measurement focus proprietary funds are classified as Enterprise Funds or Internal Service Funds.)

- **Enterprise Fund** – The enterprise fund is used to account for operations where the intent of the governmental entity is to recover the costs of providing goods and services to the District's student population and staff primarily through user charges. The food service fund is the only enterprise fund operated by the District. This fund is used to account for the District's food service operations that are financed and operated in a manner similar to private business enterprises. The fund accounts for all revenues, food purchases, and costs and expenses for the Food Service Program.

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- **Internal Service Fund** – The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the District on a cost reimbursement basis. The District's only internal service fund is used to account for the operation of the District's self-insurance program for employee medical, prescription drug, and dental claims on a cost reimbursement basis.

FIDUCIARY FUNDS – These funds are used to account for assets held by the District as trustee or agent. The District excludes these activities from the government-wide financial statements because it cannot use those assets to finance its operations.

- **Private Purpose Trust Funds** – Trust funds are used to account for assets held by the District in a trustee capacity. This fund accounts for various scholarship programs for students.
- **Agency Fund** – This fund accounts for the receipts and disbursements of monies from student activity organizations. These organizations exist with explicit approval and are subject to revocation of the District governing body. This accounting reflects the District's agency relationship with the student activity organizations.

Basis of Presentation

Government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District. As a general rule, the effect of interfund activity has been eliminated from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or segment. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment. In addition, program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund are food service charges. Operating expenses for the District's enterprise fund include food production costs, supplies, administrative costs, and depreciation on capital assets. All revenues or expenses not meeting

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

this definition are reported as non-operating revenues and expenses. The principal operating revenues of the District's internal service fund are charges to the general fund and food service fund for self-insured employee medical, prescription drug, and dental cost reimbursements. Operating expenses for the District's internal service fund include charges for medical, prescription drug, and dental claims paid to insurance providers. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and the fiduciary fund financial statements. (Agency funds have no measurement focus). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) is used as a practical measure of economic resources, and the operating statement includes all transactions and events that increased or decreased net position. Depreciation is charged as expense against current operations, and accumulated depreciation is reported on the statement of net position.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers tax revenue and similar revenue streams to be available if collected within 60 days of the end of the fiscal period. Revenue from federal, state, and other grants designated for payment of specific school district expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are recorded as unearned revenues until earned. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, pension liabilities, and claims and judgments, are recorded only when payment is due.

Budgetary Information

An operating budget is adopted each year for the general fund on a modified accrual basis of accounting.

The Pennsylvania School Code dictates specific procedures, including a timeline of events, relative to adoption of the District's budget and reporting of its financial statements, specifically:

- The District, before levying annual school taxes, is required to adopt an operating budget by June 30 for the succeeding fiscal year.
- The District is required to publish notice by advertisement, at least once in two newspapers of general circulation in the municipality in which it is located, twenty days prior to final budget adoption, that the proposed budget has been prepared and is available for public inspection at the administrative office

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

of the District. Notice that public hearings will be held on the proposed operating budget must be included in the advertisement; such hearings are required to be scheduled at least ten days prior to when final action on adoption is taken by the School Board of Directors.

- The School Board of Directors may make transfers of funds appropriated to any particular item of expenditure by legislative action. An affirmative vote of two-thirds of all members of the Board is required.
- Fund balances in budgetary funds may be appropriated based on resolutions passed by the School Board of Directors, which authorize the District to make expenditures. Appropriations lapse at the end of the fiscal period.
- The general fund budget includes program budgets as prescribed by the state and federal agencies funding the programs. These budgets are approved on a program-by-program basis by the state or federal funding agency.
- Capital budgets are not implemented for capital improvements and capital projects in the Capital Projects Fund. An adopted budget is not presently required due to the fund's recent inception and the limited amount of transactions. Additionally, all transactions of the Capital Projects Fund are approved by the School Board of Directors prior to commitment, thereby constructively achieving budgetary control.
- Proprietary fund budgets are not adopted; however, formal budgets are prepared and approved by management; and expenditures are controlled on the basis of these budgets.
- Trust funds are not formally budgeted; however, each individual expenditure/expense request is reviewed for compliance with trust provisions and for availability of funding.
- There were no supplemental budgetary appropriations or amendments proposed or approved during the year.

Receivables/Payables

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

Cash and Cash Equivalents and Investments

The District's cash and cash equivalents are considered to be cash on hand, certificates of deposit, and liquid asset funds.

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

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

The District's investments are reported at amortized cost, which approximates fair value.

Inventories

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 consistent policy of the District to charge these items to expense upon acquisition.

Inventories of the food service fund consisting of food and paper supplies are carried at cost, using the first-in, first-out method. Federal donated commodities are valued at their fair market value as determined by the U.S. Department of Agriculture at the date of donation. The inventories on hand at June 30, 2019 consist of the purchased food/supplies for use in the food program in the amount of \$37,274.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous asset categories with individual assets less than \$10,000 as composite groups for financial reporting purposes. In addition, capital assets purchased with long-term debt may be capitalized regardless of the thresholds established. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

<u>Assets</u>	<u>Years</u>
School buildings	50
Building improvements	20
Land improvements	25
Furniture	15
Vehicles	10
Equipment	5 - 15

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Compensated Absences

The District accounts for compensated absences in accordance with the GASB Codification, which requires a liability be reported for certain compensated absences as the benefits are earned by employees instead of when they are paid.

The District allows employees to accumulate vacation days and sick leave subject to limits which are paid prior to retirement or termination. At the end of the fiscal year, the amount expected to be paid for compensated absences from current resources is accrued in the general fund and food service fund.

Long-term Obligations

In the entity-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are netted against outstanding principal balances and amortized over the life of the bonds. Bond issuance costs are expensed when incurred. Deferred amounts on refunding are recorded as a deferred inflow or outflow of resources and amortized over the life of the old debt or the life of the new debt, whichever is shorter. All amortization is calculated using the straight-line method.

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

Deferred Inflows and Deferred Outflows of Resources

In addition to assets and liabilities, the statement of net position will sometimes report separate sections for deferred inflows and deferred outflows of resources. These separate financial statement elements represent acquisition or use of net position that applies to a future period(s) and so will not be recognized as an inflow or outflow of resources (revenue or expense) until that time. The District currently has four items that qualify for reporting in this category. Certain changes to the net pension liability, including pension contributions made subsequent to the measurement date and, therefore, not reflected in the net pension liability under full accrual basis reporting, are required to be amortized over a period of years. Additionally, certain changes to the net OPEB liability, including OPEB contributions made subsequent to the measurement date and, therefore, not reflected in the net OPEB liability under full accrual basis reporting, are required to be amortized over a period of years. The unamortized portions of these changes are reflected as deferred outflows and inflows of resources on the entity-wide and proprietary fund statements of net position. Outstanding bond premiums and discounts on bonds refunded are removed from the bonds payable liability on the entity-wide statements of net position and presented as a deferred amount on bond refunding to be amortized over a period of years. Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The District has one type of item that qualifies for reporting in this category. Delinquent taxes not collected within 60 days of year end and, therefore, are not available under modified accrual reporting are reflected as deferred inflows of resources on the general fund balance sheet.

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fund Balances

The District complies with GASB Codification, which provides clearly defined fund balance categories to make the nature and extent of the constraints placed on the District's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- **Nonspendable fund balance** – amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- **Restricted fund balance** – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed fund balance** – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (the School Board of Directors). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.
- **Assigned fund balance** – amounts the District intends to use for a specific purpose. Intent can be expressed by the School Board of Directors or by an official or body to which the School Board of Directors delegates the authority.
- **Unassigned fund balance** – amounts available for any purpose. Positive amounts are reported only in the general fund. Negative unassigned fund balance may be reported in other governmental funds if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

The School Board of Directors establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. Assigned fund balance is established by the School Board of Directors through adoption or amendment of the budget as intended for specific purposes (such as the purchase of fixed assets, construction, debt service, or for other purposes).

The District will typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

In the general fund, the District strives to maintain an unassigned fund balance to be used for unanticipated emergencies of approximately eight percent of the actual GAAP basis expenditures and other financing sources and uses.

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Presentation of prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the District's financial statements for the year ended June 30, 2018, from which the summarized information was derived. Certain amounts presented in the prior year summarized data have been restated consistent with implementation of new standards, as described below.

NOTE 3 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

- Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
- 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.
- Commercial paper, bankers' acceptances, and negotiable certificates of deposit receiving top ratings from at least two nationally recognized statistical ratings organizations.

The deposit and investment policy of the District adheres to state statutes. The administration is not aware of any deposits or investment transactions during the year that were in violation of either state statutes or the policy of the District.

The breakdown of total cash and investments at June 30, 2019 is as follows:

Cash and cash equivalents	\$ 3,232,799
Investments	<u>27,717,083</u>
Total Cash and Investments	<u><u>\$ 30,949,862</u></u>

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2019

NOTE 3 – CASH AND CASH EQUIVALENTS AND INVESTMENTS - continued

Deposits

At year end, the carrying amount of the District's deposits was \$3,232,799, and the bank balance was \$3,243,859. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$229,694 was exposed to custodial credit risk because, in accordance with Act 72 of the Commonwealth of Pennsylvania, it was uninsured and the collateral held by the depository's agent was not in the District's name. The remaining \$2,764,165 was cash equivalents held with the Pennsylvania School District Liquid Asset Fund ("PSDLAF"), which enables governmental units to pool their available funds for investment in instruments authorized by Section 440.1 of the Pennsylvania Public School Code of 1949, as amended.

Investments

In general, all of the District's investments are categorized as either (1) insured or registered for which the securities are held by the government or its agent in the government's name, (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in the government's name, or (3) uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agency, but not in the government's name.

As of June 30, 2019, the District had the following investments:

	<u>Fair Value</u>
Pennsylvania Local Government Investment Trust (PLGIT)	\$ 359,194
Pennsylvania School District Liquid Asset Trust (PSDLAF)	<u>27,357,889</u>
Total Investments	<u>\$ 27,717,083</u>

Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF and PLGIT act like money market mutual funds in that their objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized statistical rating organization, and is subject to an independent audit. The District currently has no investments which are categorized within the fair value hierarchy established by generally accepted accounting principles.

Of the investments, \$21,680,000 is invested in FDIC insured non-negotiable certificates of deposit with maturities of less than one year. The remaining \$6,037,083 is invested in 2a7-like pools. The amortized cost, which approximates fair value of the pool, is determined by the pool's share price. The District has no regulatory oversight for the pools, which are governed by the Board of Trustees. PSDLAF is administered by PMA Financial Network, Inc., and the pool is audited annually by PricewaterhouseCoopers LLP, an independent certified public accounting firm. PLGIT is administered by PFM Fund Distributors, Inc., and the pool is audited annually by Ernst & Young LLP, an independent certified public accounting firm.

Interest Rate Risk

The District does have a formal investment policy that limits maturities to 13 months or less in certain investments as a means of managing its exposure to fair value losses arising from increasing interest rates.

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2019

NOTE 3 – CASH AND CASH EQUIVALENTS AND INVESTMENTS - continued

Credit Risk

The District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2019, the District's investments were rated as:

Investment	Standard & Poor's
Pennsylvania School District Liquid Asset Fund (PSDLAF)	AAAm
Pennsylvania Local Government Investment Fund (PLGIT)	AAAm

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer. As of June 30, 2019, all of the District's investments are in PLGIT and PSDLAF.

Custodial Credit Risk

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

NOTE 4 – REAL ESTATE TAXES RECEIVABLE AND UNAVAILABLE REVENUE

Real estate taxes for the District are collected by the District. The assessed values are established by the County Board of Assessment. The District tax rate for the year ended June 30, 2019 was 30.45 mills (\$30.45 per \$1,000 of assessed valuation) as levied by the School 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 15	-	10% penalty period
December 15	-	Lien date

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.

The allowance as of June 30, 2019 was \$19,480. A portion of the net amount estimated to be collectible, which was measurable and available within 60 days, was recognized as revenue and the balance deferred in the fund financial statements.

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2019

NOTE 4 – REAL ESTATE TAXES RECEIVABLE AND UNAVAILABLE REVENUE - continued

The deferred inflow of resources balance in the general fund of \$917,779 consists of unavailable real estate taxes.

NOTE 5 – INTERNAL RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2019 is as follows:

Due To	Amount	Due From	Amount
Capital Reserve Fund	\$ 3,393,081	General Fund	\$ 3,393,081
General Fund	<u>777</u>	Food Service Fund	<u>777</u>
	<u>\$ 3,393,858</u>		<u>\$ 3,393,858</u>
Transfer To	Amount	Transfer From	Amount
Capital Reserve Fund	\$ 3,393,081	General Fund	\$ 3,393,081
	<u>\$ 3,393,081</u>		<u>\$ 3,393,081</u>

Interfund balances between funds represent transfers of funds which are carried out at year end subsequent to a final allocation of expenses. The balances generally are paid shortly after year end. Transfers represent funds set aside for the anticipation of future capital needs.

NOTE 6 – UNEARNED REVENUES

The District records unearned revenue for resources that have been received but not yet earned. At the end of the current fiscal year, the District had no unearned revenues.

NOTE 7 – CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019 was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated:				
Land	\$ 3,060,599	\$ -	\$ -	\$ 3,060,599
Construction-in-progress	<u>34,394</u>	<u>136,447</u>	<u>34,394</u>	<u>136,447</u>
Total Capital Assets Not Being Depreciated	<u>3,094,993</u>	<u>136,447</u>	<u>34,394</u>	<u>3,197,046</u>

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2019

NOTE 7 – CHANGES IN CAPITAL ASSETS - continued

(cont'd)	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets being depreciated:				
Buildings and improvements	139,261,458	1,005,866	-	140,267,324
Furniture and equipment	6,777,580	177,796	22,432	6,932,944
Total Capital Assets Being Depreciated	146,039,038	1,183,662	22,432	147,200,268
Less accumulated depreciation for:				
Buildings and improvements	49,304,527	3,444,045	-	52,748,572
Furniture and equipment	4,580,025	540,514	22,432	5,098,107
Total Accumulated Depreciation	53,884,552	3,984,559	22,432	57,846,679
Total Capital Assets Being Depreciated, Net	92,154,486	(2,800,897)	-	89,353,589
Governmental Activities Assets, Net	<u>\$ 95,249,479</u>	<u>\$ (2,664,450)</u>	<u>\$ 34,394</u>	<u>\$ 92,550,635</u>

Business-type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated:				
Equipment	\$ 1,411,220	\$ -	\$ -	\$ 1,411,220
Less accumulated depreciation for:				
Equipment	729,297	40,975	-	770,272
Business-type Activities Capital Assets, Net	<u>\$ 681,923</u>	<u>\$ (40,975)</u>	<u>\$ -</u>	<u>\$ 640,948</u>

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

Governmental Activities:

Instruction	\$ 1,593,825
Administrative and financial support	417,133
Operation and maintenance of plant services	778,234
Unallocated depreciation	<u>1,195,367</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 3,984,559</u>

Depreciation expense was charged to the functions of the business-type activities as follows:

Food Service:

Equipment	<u>\$ 40,975</u>
Total Depreciation Expense - Business-type Activities	<u>\$ 40,975</u>

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2019

NOTE 8 – LONG-TERM LIABILITIES

Long-term liabilities, except for compensated absences, net pension liability, and net other postemployment benefits liability:

General Obligation Bonds - Series of 2012

Series of 2012, maturing through February 15, 2019, bears interest ranging from 1.00% to 3.00%. Interest is payable semi-annually on February 15 and August 15. The Series of 2012 provided funds to refund the Series of 2003A, the Series of 2003B, a portion of the Series of 2007, and a portion of the Series of 2008 bonds. \$ 1,030,000

General Obligation Bonds - Series of 2015

Series of 2015, maturing through February 15, 2026, bears interest ranging from 0.25% to 4.00%. Interest is payable semi-annually on February 15 and August 15. The Series of 2015 provided funds to partially refund the Series of 2005 and Series of 2011 bonds. 6,890,000

General Obligation Bonds - Series of 2016

Series of 2016, maturing through February 15, 2023, bears interest ranging from 0.69% to 4.00%. Interest is payable semi-annually on February 15 and August 15. The Series of 2016 provided funds to partially refund the Series of 2005 bonds. 4,980,000

General Obligation Bonds - Series of 2018 and 2018A

Series of 2018 and 2018A, maturing through October 1, 2024, bears interest ranging from 2.00% to 5.00%. Interest is payable semi-annually on April 1 and October 1. The Series of 2018 provided funds to refund the Series of 2006 and 2011 bonds. The refunding resulted in a cash flows savings of \$520,151 and present value savings of \$427,694. 10,975,000

General Obligation Bonds - Series of 2018AA

Series of 2018AA, maturing through February 15, 2024, bears interest ranging from 2.00% to 4.00%. Interest is payable semi-annually on February 15 and August 15. The Series of 2018AA provided funds to refund the Series of 2010 bonds. The refunding resulted in a cash flows savings of \$155,756 and present value savings of \$153,234. 19,740,000

Total Bonds/Notes Payable \$ 43,615,000

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2019

NOTE 8 – LONG-TERM LIABILITIES - continued

Annual debt service requirements to maturity for general obligation bonds and notes, including interest, are as follows:

<u>Year Ending June 30,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Total Maturities</u>
2020	\$ 6,015,000	\$ 1,495,703	\$ 7,510,703
2021	6,200,000	1,303,926	7,503,926
2022	6,425,000	1,081,106	7,506,106
2023	6,645,000	862,306	7,507,306
2024	6,635,000	592,836	7,227,836
2025 - 2026	11,695,000	421,073	12,116,073
	<u>\$ 43,615,000</u>	<u>\$ 5,756,950</u>	<u>\$ 49,371,950</u>

Changes in Long-term Liabilities

Long-term liability balance and activity for the year ended June 30, 2019 was as follows:

	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2019</u>	<u>Due Within One Year</u>
Governmental Activities					
Bonds and notes payable	\$ 49,760,000	\$19,785,000	\$25,930,000	\$ 43,615,000	\$ 6,015,000
Bond premiums	1,310,956	842,574	380,598	1,772,932	181,487
Net bonds and notes payable	51,070,956	20,627,574	26,310,598	45,387,932	6,196,487
Other liabilities:					
Compensated absences	1,131,184	-	26,420	1,104,764	108,296
Net pension liability	109,279,170	-	2,538,360	106,740,810	-
Net OPEB liability	20,265,300	-	6,540,930	13,724,370	-
Total Governmental Long-term Liabilities	<u>\$ 181,746,610</u>	<u>\$20,627,574</u>	<u>\$35,416,308</u>	<u>\$ 166,957,876</u>	<u>\$ 6,304,783</u>
	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2019</u>	<u>Due Within One Year</u>
Business-type Activities					
Compensated absences	\$ 15,689	\$ 539	\$ -	\$ 16,228	\$ 461
Net pension liability	1,103,830	-	25,640	1,078,190	-
Net OPEB liability	204,700	-	66,070	138,630	-
Total Business-type Long-term Liabilities	<u>\$ 1,324,219</u>	<u>\$ 539</u>	<u>\$ 91,710</u>	<u>\$ 1,233,048</u>	<u>\$ 461</u>

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2019

NOTE 8 – LONG-TERM LIABILITIES - continued

Governmental activities long-term liabilities are liquidated by the general fund, and business-type activities long-term liabilities are liquidated by the food service fund. Total interest expense during the year ended June 30, 2019 was \$695,184.

NOTE 9 – EMPLOYEE RETIREMENT PLAN

Plan Description

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

Benefits Provided

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

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

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

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2019

NOTE 9 – EMPLOYEE RETIREMENT PLAN - continued

members, or who has at least five years of credited service for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

Member Contributions

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

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

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

Members who joined the system after June 30, 2011 automatically contribute at the Membership Class T-E rate of 7.50 percent (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.30 percent (base rate) of the member's qualifying compensation. Membership Class T-E and T-F are affected by a "shared risk" provision in Act 120 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.50 percent and 9.50 percent, and Membership Class T-F contribution rate to fluctuate between 10.30 percent and 12.30 percent.

Employer Contributions

The District's contractually required annual contribution is based on an actuarially determined amount that, when combined with the employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2019, the rate of the employer contribution was 33.43 percent of covered payroll, which was comprised of 32.60 percent for pension contributions and 0.83 percent for healthcare contributions. The District's contribution to PSERS for pension contributions for the year ended June 30, 2019 was \$10,193,930.

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

At June 30, 2019, the District reported a liability of \$107,819,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2017 to June 30, 2018. 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, 2018, the District's proportion was 0.2246 percent, which was an increase of 0.0011 percent from its proportion measured as of June 30, 2017.

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2019

NOTE 9 – EMPLOYEE RETIREMENT PLAN - continued

For the year ended June 30, 2019, the District recognized pension expense of \$9,981,680. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources relating to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	\$ 528,000	\$ -
Difference between expected and actual experience	869,000	1,669,000
Change in proportionate share of net pension liability	1,529,000	431,000
Change in assumptions	2,009,000	-
Difference between employer contributions and proportionate share of total contributions	322,168	-
Contributions subsequent to the date of measurement	10,193,930	-
	<u>\$15,451,098</u>	<u>\$ 2,100,000</u>

An amount of \$10,193,930 is reported as deferred outflows of resources resulting from the District's contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts will be reported as deferred outflows of resources and deferred inflows of resources relating to pensions and will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	
2020	\$ 2,515,005
2021	1,869,209
2022	(934,734)
2023	(292,312)
	<u>\$ 3,157,168</u>

Actuarial Assumptions

The total pension liability as of June 30, 2018 was determined by rolling forward the system's total pension liability as of the June 30, 2017 actuarial valuation to June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry age normal, level percentage of pay.
- Investment return – 7.25 percent, including inflation of 2.75 percent.

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2019

NOTE 9 – EMPLOYEE RETIREMENT PLAN - continued

- Salary increases – Effective average of 5.00 percent, which reflects an allowance for inflation of 2.75 percent and real wage growth and merit and seniority increases of 2.25 percent.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global public equity	20.0%	5.2%
Fixed income	36.0%	2.2%
Commodities	8.0%	3.2%
Absolute return	10.0%	3.5%
Risk parity	10.0%	3.9%
Infrastructure/MLPs	8.0%	5.2%
Real estate	10.0%	4.2%
Alternative investments	15.0%	6.7%
Cash	3.0%	0.4%
Financing (LIBOR)	(20.0%)	0.9%
	<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, 2018.

Discount Rate

The discount 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

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2019

NOTE 9 – EMPLOYEE RETIREMENT PLAN - continued

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

Sensitivity of the District's 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 percent) or one percentage point higher (8.25 percent) than the current rate.

	1% Decrease 6.25%	Current Rate Discount Rate 7.25%	1% Increase 8.25%
District's proportionate share of the net pension liability	\$133,650,000	\$107,819,000	\$ 85,979,000

Pension Plan Fiduciary Net Position

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

NOTE 10 – POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description

The District administers a single-employer defined benefit healthcare plan (the Retiree Health Plan) for employees who meet the eligibility requirements upon retirement. The District's retired employees are allowed to continue coverage for themselves and their dependents in the employer's group health plan until the retired employee reaches Medicare age. In order to obtain coverage, retired employees must provide payment equal to the premium determined for the purpose of COBRA. Under the GASB Codification, retiree benefits are viewed as a form of deferred compensation. As such, the benefits are treated as being earned over the working lifetime of the employee so that the cost is fully charged to operations by the earliest date of eligibility under the plan. A plan report is available in the District office.

Funding Policy

The contribution requirements of plan members are established and may be amended by the Board of School Directors. The District has no assets accumulated in a trust or equivalent arrangement for the purpose of administering the OPEB plan. The required contribution is based on projected pay-as-you-go financing requirements, with any additional amount to prefund as determined annually by the Board of School Directors. For fiscal year 2019, the District paid \$731,000 to plan members eligible for receiving benefits.

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2019

NOTE 10 – POSTEMPLOYMENT HEALTHCARE PLAN - continued

Actuarial Assumptions and Other Inputs

The total OPEB liability was measured as of June 30, 2019. The total OPEB liability as of June 30, 2019 was determined by rolling forward the plan's total OPEB liability as of the June 30, 2017 actuarial valuation to the June 30, 2019 measurement date using the actuarial assumptions noted below.

Discount Rate

The discount used to measure the total OPEB liability was 3.50 percent for the measurement date of June 30, 2019.

Health Cost Trend

Healthcare costs and premium rates are assumed to increase as shown in the following table (selected years shown):

<u>Fiscal Year Ending June 30</u>	<u>Increase in Health Cost Over Prior Year</u>
2020	6.70%
2021	6.30%
2022	5.60%
2023	5.20%
2024	5.20%
2029	5.70%
2039	5.50%
2049	5.20%
2059	4.90%
2092 and later	3.90%

The Society of Actuaries ("SOA") Long-Run Medical Cost Trend Model was used to develop the medical trend schedule used in projecting per capita claim costs and premiums for this report. The model's projections are based on an econometric analysis of historical U.S. medical expenditures and the judgments of experts in the field. The long-run baseline projection and input variables have been developed under the guidance of an SOA Project Oversight Group and have been modified slightly to reflect the District's actuary's expectations for long-term inflation. In addition, the estimated impact of the excise tax due to healthcare reform is incorporated through an adjustment to the healthcare trend assumption.

Dental and vision costs are assumed to increase 4.0 percent annually.

Census Data

As of July 1, 2018, the plan consisted of 425 active participants, 46 retired participants receiving benefits, and 2 spouses of retired participants receiving benefits.

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2019

NOTE 10 – POSTEMPLOYMENT HEALTHCARE PLAN - continued

Mortality Rates

RP-2014 Mortality Tables are adjusted to reflect Mortality Improvement Scale MP-2018 from 2006 base year and projected forward on a generational basis with Scale MP-2018 (based on recommendation of Society of Actuaries' Retirement Plans Experience Committee). As a generational table, it reflects mortality improvements both before and after the measurement date.

Salary Increases

For purposes of cost method allocation and projection of support staff retirement bonuses, assumed salary increases are based on the rates utilized in the June 30, 2017 actuarial valuation for the Pennsylvania PSERS and vary by age. Illustrative rates are shown below.

<u>Age</u>	<u>Rate</u>
25	9.25%
35	6.75%
45	4.75%
55	3.25%

Medicare Participation

It is assumed that current active administrators who were hired before January 1, 2000 will participate in Medicare upon retirement. Current retired administrators who were hired before January 1, 2000 were valued based on individual data regarding Medicare participation.

Inflation Rate

The inflation rate used to measure the total OPEB liability was 2.30 percent.

Sensitivity Analysis

The following presents the net OPEB liability, calculated using the valuation discount rate of 3.50 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

	<u>1% Decrease 2.50%</u>	<u>Current Rate Discount Rate 3.50%</u>	<u>1% Increase 4.50%</u>
Total OPEB liability	\$ 10,106,000	\$ 9,180,000	\$ 8,365,000
Fiduciary net position	<u>-</u>	<u>-</u>	<u>-</u>
Net OPEB liability	<u>\$ 10,106,000</u>	<u>\$ 9,180,000</u>	<u>\$ 8,365,000</u>

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2019

NOTE 10 – POSTEMPLOYMENT HEALTHCARE PLAN - continued

The following presents the net OPEB liability, calculated using the valuation healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is one percentage point lower each year or one percentage point higher each year than the current rate.

	1% Decrease	Current Rate Discount Rate	1% Increase
Total OPEB liability	\$ 8,378,000	\$ 9,180,000	\$ 10,131,000
Fiduciary net position	-	-	-
Net OPEB liability	<u>\$ 8,378,000</u>	<u>\$ 9,180,000</u>	<u>\$ 10,131,000</u>

Changes in Total OPEB Liability

Total OPEB liability as of June 30, 2018	\$ 15,916,000
Service cost	521,000
Interest on OPEB designation	602,000
Effect of liability gains or losses	832,000
Effect of assumption changes or inputs	(7,960,000)
Benefit payments	(731,000)
Total OPEB liability as of June 30, 2019	<u>\$ 9,180,000</u>

The amount of OPEB expense for the single employer plan recognized by the District was \$294,900 for the year ended June 30, 2019. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources relating to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	\$ -	\$ 7,292,000
Difference between actual and expected experience	728,000	-
	<u>\$ 728,000</u>	<u>\$ 7,292,000</u>

Deferred inflows of resources due to the change in assumptions will be recognized in OPEB expense as follows:

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2019

NOTE 10 – POSTEMPLOYMENT HEALTHCARE PLAN - continued

Year Ending June 30,

2020	\$ (946,000)
2021	(946,000)
2022	(946,000)
2023	(946,000)
2024	(946,000)
Thereafter	<u>(1,834,000)</u>
	<u>\$ (6,564,000)</u>

NOTE 11 – PUBLIC SCHOOL EMPLOYEES’ RETIREMENT SYSTEM OTHER POSTEMPLOYMENT BENEFITS PLAN

Health Insurance Premium Assistance Program

PSERS provides premium assistance, which is a governmental cost-sharing, multiple-employer other postemployment benefit plan (“OPEB”) for all eligible retirees who qualify and elect to participate. Employer contribution rates for premium assistance are established to provide reserves in the health insurance account that are sufficient for the payment of premium assistance benefits for each succeeding year. Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS’ Health Options Program. As of June 30, 2018, there were no assumed future benefit increases to participating eligible retirees.

Premium Assistance Eligibility Criteria

Retirees of the system can participate in the premium assistance program if they satisfy the following criteria:

- Have 24½ or more years of service, or
- Are a disability retiree, or
- Have 15 or more years of service and retired after reaching superannuation age, and
- Participate in the HOP or employer-sponsored health insurance program.

OPEB Plan Description

The District contributes to the Public School Employees’ Retirement System (“PSERS”), a governmental cost-sharing multiple-employer defined benefit OPEB plan that provides postemployment benefits to public

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2019

NOTE 11 – PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM OTHER POSTEMPLOYMENT BENEFITS PLAN - continued

school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the PSERS plan include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available comprehensive annual financial report that includes the financial statements and required supplementary information for the plan. A copy of this report may be obtained by writing to the Public School Employees' Retirement System, P.O. Box 125, Harrisburg, Pennsylvania, 17108-0125, or by visiting the PSERS website at www.psers.state.pa.us.

Benefits Provided

Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. Benefit terms and contributions may be amended by passing bills in the Pennsylvania Senate and House of Representatives and sending them to the Governor for approval. As of June 30, 2018 there were no assumed future benefit increases to participating eligible retirees.

Employer Contributions

The Districts' contractually required contribution rate for the fiscal year ended June 30, 2018 was 0.83 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. Contributions to the OPEB plan from the District were \$260,406 for the year ended June 30, 2019.

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

At June 30, 2019, the District reported a liability of \$4,683,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the system's total OPEB liability as of June 30, 2017 to June 30, 2018. The District's proportion of the net OPEB 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, 2018, the District's proportion was 0.2246 percent, which was an increase of 0.0011 from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the District recognized OPEB expense of \$483,812. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources relating to OPEB from the following sources:

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2019

NOTE 11 – PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM OTHER POSTEMPLOYMENT BENEFITS PLAN - continued

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	\$ 8,000	\$ -
Change in proportionate share of net pension liability	35,000	-
Difference between expected and actual experience	29,000	-
Change in assumptions	74,000	177,000
Difference between employer contributions and proportionate share of total contributions	1,010	-
Contributions subsequent to the date of measurement	260,406	-
	<u>\$ 407,416</u>	<u>\$ 177,000</u>

An amount of \$260,406 is reported as deferred outflows of resources resulting from the District's contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts will be reported as deferred outflows and resources and deferred inflows of resources relating to pensions and will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	
2020	\$ (8,882)
2021	(8,882)
2022	(8,882)
2023	(10,099)
2024	(11,168)
Thereafter	<u>17,923</u>
	<u>\$ (29,990)</u>

Actuarial Assumptions

The total OPEB liability as of June 30, 2018, was determined by rolling forward the system's total OPEB liability as of June 30, 2017 to June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - entry age normal - level percent of pay
- Investment return – 2.98 percent - S&P 20-year Municipal Bond Rate
- Salary growth - effective average of 5.00 percent, comprised of inflation of 2.75 percent and 2.25 percent for real wage growth and for merit or seniority increases

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2019

NOTE 11 – PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM OTHER POSTEMPLOYMENT BENEFITS PLAN - continued

- Premium assistance reimbursement is capped at \$1,200 per year.
- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Participation rate:
 - Eligible retirees will elect to participate pre-age 65 at 50 percent.
 - Eligible retirees will elect to participate post-age 65 at 70 percent.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2016 determined the employer contribution rate for fiscal year 2018.
- Cost Method: Amount necessary to assure solvency of premium assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value
- Participation rate: 63 percent of eligible retirees are assumed to elect premium assistance.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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

The OPEB plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Under the program, as defined in the retirement code, employer contribution rates for premium assistance are established to provide reserves in the health insurance account that are sufficient for the payment of premium assistance benefits for each succeeding year.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Cash	5.9%	0.3%
U.S. Core Fixed Income	92.8%	1.2%
Non-U.S. Developed Fixed	1.3%	0.4%
	<u>100.0%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2018.

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2019

NOTE 11 – PUBLIC SCHOOL EMPLOYEES’ RETIREMENT SYSTEM OTHER POSTEMPLOYMENT BENEFITS PLAN - continued

Discount Rate

The discount rate used to measure the total OPEB liability was 2.98 percent. Under the plan’s funding policy, contributions are structured for short-term funding of premium assistance. The funding policy sets contribution rates necessary to assure solvency of premium assistance through the third fiscal year after the actuarial valuation date. The premium assistance account is funded to establish reserves that are sufficient for the payment of premium assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan’s fiduciary net position was not projected to be sufficient to meet projected future benefit payments; therefore, the plan is considered a “pay-as-you-go” plan. A discount rate of 2.98 percent, which represents the S&P 20-year Municipal Bond Rate at June 30, 2018, was applied to all projected benefit payments to measure the total OPEB liability.

Sensitivity of the System’s Net OPEB Liability to Change in Healthcare Cost Trend Rates

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual premium assistance. As of June 30, 2018, retirees’ premium assistance benefits are not subject to future healthcare cost increases. The annual premium assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. As of June 30, 2017, 93,380 retirees were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2017, 1,077 members were receiving less than the maximum amount allowed of \$1,200 per year. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on healthcare cost trends as depicted below.

The following presents the system’s net OPEB liability for June 30, 2018, calculated using current healthcare cost trends as well as what the system’s net OPEB liability would be if its healthcare cost trends were one percentage point lower or one percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
District’s proportionate share of the net OPEB liability	\$ 4,682,000	\$ 4,683,000	\$ 4,684,000

Sensitivity of the District’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability, calculated using the discount rate of 2.98 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.98 percent) or one percentage point higher (3.98 percent) than the current rate:

	<u>1% Decrease 1.98%</u>	<u>Current Discount Rate 2.98%</u>	<u>1% Increase 3.98%</u>
District’s proportionate share of the net OPEB liability	\$ 5,326,000	\$ 4,683,000	\$ 4,149,000

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2019

NOTE 11 – PUBLIC SCHOOL EMPLOYEES’ RETIREMENT SYSTEM OTHER POSTEMPLOYMENT BENEFITS PLAN - continued

OPEB Plan Fiduciary Net Position

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

NOTE 12 – NET OTHER POSTEMPLOYMENT BENEFITS LIABILITY

The District’s aggregate net OPEB liability and deferred inflows and outflows of resources are as follows:

	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources
District Plan (See Note 10)	\$ 9,180,000	\$ 728,000	\$ 7,292,000
PSERS Plan (See Note 11)	4,683,000	407,416	177,000
Total	<u>\$ 13,863,000</u>	<u>\$ 1,135,416</u>	<u>\$ 7,469,000</u>

NOTE 13 – FUND BALANCES

As of June 30, 2019, fund balances are composed of the following:

	General Fund	Capital Projects Fund	Capital Reserve Fund	Total Governmental Funds
Nonspendable	\$ 11,564	\$ -	\$ -	\$ 11,564
Restricted:				
Capital projects	-	189,383	10,825,241	11,014,624
Unassigned	<u>7,044,804</u>	<u>-</u>	<u>-</u>	<u>7,044,804</u>
Total Fund Balances	<u>\$ 7,056,368</u>	<u>\$ 189,383</u>	<u>\$ 10,825,241</u>	<u>\$ 18,070,992</u>

Nonspendable fund balance consists of prepaid expenditures.

NOTE 14 – CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

The District participates in both state and federally-assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The District is potentially liable for

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2019

NOTE 14 – CONTINGENCIES AND COMMITMENTS - continued

any expenditure which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

Construction-in-progress

At June 30, 2019, the District had \$136,447 in construction-in-progress, of which \$106,875 was subject to a construction commitment and \$29,572 was not subject to a construction commitment. The total remaining construction commitment as of June 30, 2019 was \$622,125.

NOTE 15 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees;

and natural disasters. Significant losses are covered by commercial insurance for all major programs except for workers' compensation, for which the District retains risk of loss. For insured programs, there were no significant reductions in insurance coverages during the 2018 - 2019 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 16 – DEFICIT NET POSITION

For governmental activities, business-type activities, and the food service fund, the unrestricted net deficit amounts of \$103,022,901, \$334,261, and \$334,261, respectively, include the effect of deferring the recognition of pension and OPEB contributions made subsequent to the measurement date of the net pension and OPEB liabilities, the unamortized portion of contributions made in excess of the District's share of its proportionate contributions to its pension and OPEB plans, and the deferred outflows resulting from the change in the District's share of the net pension and OPEB liabilities. This is offset by the District's actuarially determined pension and OPEB liabilities and the deferred inflows resulting from the differences between projected and actual investment earnings and changes in assumptions.

NOTE 17 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Administrative support	\$	178,614
Operation of noninstructional services	\$	41,631

The excess of expenditures over appropriations was financed with positive budget variances in other functions and revenues in excess of budgeted amounts.

NOTE 18 – SUBSEQUENT EVENTS

The District has evaluated all subsequent events through November 1, 2019, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

KENNETT CONSOLIDATED SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
Pennsylvania Public School Employees' Retirement System (PSERS)

	MEASUREMENT DATE			
	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
District's proportion of the net pension liability	0.2246%	0.2235%	0.2225%	0.2175%
District's proportion of the net pension liability - dollar value	\$ 107,819,000	\$ 110,383,000	\$ 110,264,000	\$ 94,210,000
District's covered employee payroll	\$ 30,382,999	\$ 29,881,260	\$ 28,934,868	\$ 28,164,151
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	354.87%	369.41%	381.08%	334.50%
Plan fiduciary net position as a percentage of the total pension liability	54.00%	51.84%	50.14%	54.36%
				57.24%

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

**KENNETT CONSOLIDATED SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS -
Pennsylvania Public School Employees' Retirement System (PSERS)**

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 10,193,930	\$ 9,643,564	\$ 8,725,328	\$ 7,233,717	\$ 5,773,651
Contributions in relation to the contractually required contribution	10,193,930	9,643,564	8,725,328	7,233,717	5,773,651
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 31,269,723	\$ 30,382,999	\$ 29,881,260	\$ 28,934,868	\$ 28,164,151
Contributions as a percentage of covered-employee payroll	32.60%	31.74%	29.20%	25.00%	20.50%

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

**KENNETT CONSOLIDATED SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY -
Pennsylvania Public School Employees' Retirement System (PSERS)**

	MEASUREMENT DATE	
	<u>June 30, 2018</u>	<u>June 30, 2017</u>
District's proportion of the net OPEB liability	0.2246%	0.2235%
District's proportion of the net OPEB liability - dollar value	\$ 4,683,000	\$ 4,554,000
District's covered employee payroll	\$ 30,382,999	\$ 29,881,260
District's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	15.41%	15.24%
Plan fiduciary net position as a percentage of the total OPEB liability	5.56%	5.73%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**KENNETT CONSOLIDATED SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT OPEB CONTRIBUTIONS -
Pennsylvania Public School Employees' Retirement System (PSERS)**

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Contractually required contribution	\$ 259,539	\$ 252,177
Contributions in relation to the contractually required contribution	<u>259,539</u>	<u>252,177</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 31,269,723	\$ 30,382,999
Contributions as a percentage of covered-employee payroll	0.83%	0.83%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**KENNETT CONSOLIDATED SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB LIABILITY -
SINGLE EMPLOYER PLAN**

	MEASUREMENT DATE	
	June 30, 2019	June 30, 2018
TOTAL OPEB LIABILITY		
Service cost	\$ 521,000	\$ 503,000
Interest on total OPEB liability	602,000	605,000
Effect of assumption changes or inputs	(7,960,000)	(437,000)
Effect of liability gains or losses	832,000	-
Benefit payments	(731,000)	(775,000)
NET CHANGE IN TOTAL OPEB LIABILITY	(6,736,000)	(104,000)
TOTAL OPEB LIABILITY, BEGINNING OF YEAR	15,916,000	16,020,000
TOTAL OPEB LIABILITY, END OF YEAR	<u>\$ 9,180,000</u>	<u>\$ 15,916,000</u>
<u>PLAN FIDUCIARY NET POSITION</u>		
PLAN FIDUCIARY NET POSITION, BEGINNING OF YEAR	<u>\$ -</u>	<u>\$ -</u>
PLAN FIDUCIARY NET POSITION, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>
DISTRICT'S NET OPEB LIABILITY	<u>\$ 9,180,000</u>	<u>\$ 15,916,000</u>
Plan fiduciary net position as a percentage of total OPEB liability	0.00%	0.00%
Covered employee payroll	\$ 30,557,282	\$ 29,587,921
District's net OPEB liability as a percentage of covered payroll	30.04%	53.79%
Expected average remaining service years of all participants	8	8

SINGLE AUDIT SECTION



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

November 1, 2019

Members of the Board
Kennett Consolidated School District
Kennett Square, 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 Kennett Consolidated School District ("the District"), Kennett Square, Pennsylvania, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 1, 2019.

Internal Control Over Financial Reporting

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

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

Members of the Board
Kennett Consolidated School District

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

Purpose of This Report

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


BARBACANE, THORNTON & COMPANY LLP



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

November 1, 2019

Members of the Board
Kennett Consolidated School District
Kennett Square, Pennsylvania

Report on Compliance for the Major Program

We have audited the Kennett Consolidated School District's ("the District") compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2019. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and recommendations.

Management's Responsibility

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

Auditor's Responsibility

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

Members of the Board
Kennett Consolidated School District

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

Opinion on the Major Federal Program

In our opinion, the Kennett Consolidated School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.


Report on Internal Control Over Compliance

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

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

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

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


BARBACANE, THORNTON & COMPANY LLP

KENNETT CONSOLIDATED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

PART A - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Unmodified

Internal control over financial reporting:

- | | | |
|---|-------------------|----------------------------|
| • Material weakness(es) identified? | <u> </u> Yes | <u> X </u> No |
| • Significant deficiency(ies) identified? | <u> </u> Yes | <u> X </u> None reported |
| • Noncompliance material to financial statements noted? | <u> </u> Yes | <u> X </u> No |

Federal Awards

Internal control over major program:

- | | | |
|---|-------------------|----------------------------|
| • Material weakness(es) identified? | <u> </u> Yes | <u> X </u> No |
| • Significant deficiency(ies) identified? | <u> </u> Yes | <u> X </u> None reported |

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

Unmodified

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

 Yes X No

Identification of major program:

CFDA Numbers

Name of Federal Program or Cluster

10.555, 10.553

Child Nutrition Cluster

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

\$ 750,000

Auditee qualified as low-risk auditee?

 X Yes No

KENNETT CONSOLIDATED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

PART B - FINDINGS RELATED TO FINANCIAL STATEMENTS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

PART C - FINDINGS RELATED TO FEDERAL AWARDS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

**KENNETT CONSOLIDATED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019**

FEDERAL GRANTOR/PASS-THROUGH GRANTOR PROJECT TITLE	SOURCE CODE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	GRANT PERIOD BEGINNING/ ENDING DATES	GRANT AMOUNT	TOTAL RECEIVED FOR YEAR	ACCRUED (UNEARNED) REVENUE 7/01/2018	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (UNEARNED) REVENUE 6/30/2019	AMOUNT PASSED THROUGH TO SUBRECIPIENTS
U.S. Department of Education											
Passed through Pennsylvania Department of Education											
Title I - Grants to Local Education Agencies	I	84.010	013-18-0210	08/28/17-09/30/18	\$ 609,769	\$ 261,330	\$ 92,842	\$ 168,488	\$ 168,488	\$ -	\$ -
Title I - Grants to Local Education Agencies	I	84.010	013-19-0210	08/23/18-09/30/19	597,328	340,444	-	441,392	441,392	100,948	-
Total CFDA #84.010						601,774	92,842	609,880	609,880	100,948	-
Title II - Improving Teacher Quality	I	84.367	020-18-0210	08/28/17-09/30/18	114,673	7,707	7,707	-	-	-	-
Title II - Improving Teacher Quality	I	84.367	020-19-0210	08/23/18-09/30/19	120,601	103,130	-	117,370	117,370	14,240	-
Total CFDA #84.367						110,837	7,707	117,370	117,370	14,240	-
Title III - Language Inst LEP	I	84.365	010-18-0210	08/28/17-09/30/18	142,570	40,734	5,649	35,085	35,085	-	-
Title III - Language Inst LEP	I	84.365	010-19-0210	08/23/18-09/30/19	125,615	98,698	-	116,441	116,441	17,743	-
Total CFDA #84.365						139,432	5,649	151,526	151,526	17,743	-
Title IV - Student Support and Academic Enrichment	I	84.424	144-18-0210	08/28/17-09/30/18	13,670	976	976	-	-	-	-
Title IV - Student Support and Academic Enrichment	I	84.424	144-19-0210	08/23/18-09/30/19	43,780	43,780	-	40,802	40,802	(2,978)	-
Total CFDA# 84.424						44,756	976	40,802	40,802	(2,978)	-
Subgrant from U.S. Department of Education											
Passed through Chester County Intermediate Unit											
I.D.E.A. Part B	I	84.027	062-17-0024	07/01/17-06/30/18	537,674	179,225	179,225	-	-	-	-
I.D.E.A. Part B	I	84.027	062-18-0024	07/01/18-06/30/19	483,564	290,138	-	483,564	483,564	193,426	-
Total CFDA #84.027						469,363	179,225	483,564	483,564	193,426	-
I.D.E.A. Part B 619	I	84.173	141-18-0024B	07/01/18-06/30/19	1,700	1,700	-	1,700	1,700	-	-
Total Special Education Cluster						471,063	179,225	485,264	485,264	193,426	-
Total U.S. Department of Education						1,367,862	286,399	1,404,842	1,404,842	323,379	-
U.S. Department of Agriculture											
Passed through Pennsylvania Department of Agriculture											
National School Lunch Program	I	10.555	N/A	09/01/18-06/30/19	N/A	113,691	-	113,691	113,691	-	-
Passed through Pennsylvania Department of Education											
National School Lunch Program	I	10.555	N/A	09/01/17-06/30/18	N/A	130,030	130,030	-	-	-	-
National School Lunch Program	I	10.555	N/A	09/01/18-06/30/19	N/A	732,247	-	761,683	761,683	29,436	-
Total CFDA #10.555						975,968	130,030	875,374	875,374	29,436	-

Continued on next page.

**KENNETT CONSOLIDATED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019**

FEDERAL GRANTOR/PASS-THROUGH GRANTOR PROJECT TITLE		SOURCE CODE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	GRANT PERIOD BEGINNING/ ENDING DATES	GRANT AMOUNT	TOTAL RECEIVED FOR YEAR	ACCRUED (UNEARNED) REVENUE 7/1/2018	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (UNEARNED) REVENUE 6/30/2019	AMOUNT PASSED THROUGH TO SUBRECIPIENTS
(cont'd)												
U.S. Department of Agriculture												
Passed through Pennsylvania Department of Education		I	10.553	N/A	09/01/17-06/30/18	N/A	19,813	19,813	-	-	-	-
Breakfast Program		I	10.553	N/A	09/01/18-06/30/19	N/A	109,141	-	113,467	113,467	4,326	-
Total CFDA #10.553							128,954	19,813	113,467	113,467	4,326	-
Total Child Nutrition Cluster							1,104,922	149,843	988,841	988,841	33,762	-
Total U.S. Department of Agriculture							1,104,922	149,843	988,841	988,841	33,762	-
U.S. Department of Health and Human Services												
Passed through Pennsylvania Department of Health and Human Services		I	93.778	N/A	07/01/17-06/30/18	N/A	11,029	11,029	-	-	-	-
Medical Assistance Program		I	93.778	N/A	07/01/18-06/30/19	N/A	9,687	-	18,187	18,187	8,500	-
Total CFDA# 93.778							20,716	11,029	18,187	18,187	8,500	-
TOTAL FEDERAL AWARDS							\$ 2,493,500	\$ 447,271	\$ 2,411,870	\$ 2,411,870	\$ 365,641	\$ -

Source Code:

I = Indirect Funding

KENNETT CONSOLIDATED SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A SCOPE OF THIS SCHEDULE

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

NOTE B BASIS OF ACCOUNTING

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

NOTE C NONMONETARY FEDERAL AWARDS - DONATED FOOD

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals, and prisons) and to the needy. Expenditures reported in the schedule of expenditures of federal awards under CFDA #10.555, Value of USDA Donated Commodities, represent surplus food consumed by the District during the 2018 - 2019 fiscal year.

NOTE D ACCESS PROGRAM

The ACCESS Program is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding recognized for the year ended June 30, 2019 was \$251,204.

NOTE E INDIRECT COST RATE

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