KENNETT CONSOLIDATED SCHOOL DISTRICT
KENNETT SQUARE, PENNSYLVANIA

AUDIT REPORT

JUNE 30, 2018

KENNETT CONSOLIDATED SCHOOL DISTRICT

TABLE OF CONTENTS

KENNETT CONSOLIDATED SCHOOL DISTRICT

TABLE OF CONTENTS

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

T 302.478.8940
F 302.468.4001
www.btcpa.com

INDEPENDENT AUDITOR'S REPORT

November 1, 2018

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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

BARBACANE THORNTON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

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, 2018, 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.

Emphasis of a Matter

As discussed in Notes 2 and 17 to the financial statements, the Kennett Consolidated School District has adopted the requirements of GASB Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.” This statement modifies the accounting for the District’s other postemployment benefits. As a result, the beginning governmental activities, business-type activities, and food service fund net position has been restated. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Kennett Consolidated School District’s 2017 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 2, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 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 15 and the schedule of the district’s proportionate share of the net pension liability - PSERS on page 59, schedule of district pension contributions - PSERS on page 60, schedule of the district’s proportionate share of the net OPEB liability - PSERS on page 61, schedule of district OPEB contributions - PSERS on page 62, schedule of changes in the district’s total OPEB liability - single employer plan on page 63, and schedule of district contributions - single employer plan on page 64 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

information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other 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 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. 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, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Barbacane, Thornton & Company LLP

BARBACANE, THORNTON & COMPANY LLP

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, 2018. 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 $50,595,346. 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." Adoption of GASB Statement No. 75 resulted in the restatement of the opening net position of the District by $(13,744,405). The District's allocation of PSERS net pension liability is $110,383,000 and the District's net OPEB liability is $20,470,000. As a result, the District's unrestricted net position is $(104,875,389).

- The District's net position increased by $4,772,690 during the current fiscal year. The increase in net position is partially attributable to the reduction in the District's general obligation bonds payable of $5,746,825 and due to revenues exceeding expenses.

- At the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of $16,130,193, an increase of $2,940,078 in comparison with the prior year. Approximately 42.7 percent of this total amount, $6,888,627, 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 $6,888,627, or 8.5 percent of total general fund expenditures.

- The District's total long-term liabilities decreased by $5,898,808, or 3.1 percent, during the fiscal year. The decrease is primarily due to a decrease in the District's general obligation bonds payable of $5,746,825.

- The net position of business-type activities, the food service operation, decreased by $25,636, or 7.4 percent this year. The food service operation was allocated one percent of the PSERS net pension liability, which is $1,103,830 for the current year. Revenues for the food service operation decreased by 1.1 percent to $1,791,947 while expenses decreased by 3.2 percent to $1,817,583.

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 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	• Statement of Net Position • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances	• Statement of Net Position • Statement of Revenues, Expenses, and Changes in Net Position • Statement of Cash Flows	• Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial 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

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.

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.

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 32.57 percent in 2017 - 2018. 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

This year, the District implemented 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 will 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 PSERS and the District's net OPEB liability. For the current year, the District's share of the PSERS net pension liability is $110,383,000, and the District's net OPEB liability is $20,470,000. The total net position is $(50,595,346), resulting in a negative *unrestricted net position* of $(104,875,389). The following table presents condensed financial information for the net position of the District as of June 30, 2018 and 2017.

Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	$ 30,292,028	$ 26,420,455	$ 937,497	$ 910,602	$ 31,229,525	$ 27,331,057
Capital Assets	95,249,479	98,244,070	681,923	723,127	95,931,402	98,967,197
Total Assets	125,541,507	124,664,525	1,619,420	1,633,729	127,160,927	126,298,254
Deferred Outflows of Resources	18,434,373	20,896,396	186,207	211,075	18,620,580	21,107,471
Total Assets and Deferred Outflows of Resources	143,975,880	145,560,921	1,805,627	1,844,804	145,781,507	147,405,725
Long-term liabilities	181,746,610	187,644,511	1,324,219	1,325,126	183,070,829	188,969,637
Other liabilities	9,886,162	9,216,130	130,400	131,684	10,016,562	9,347,814
Total Liabilities	191,632,772	196,860,641	1,454,619	1,456,810	193,087,391	198,317,451
Deferred Inflows of Resources	3,257,762	4,413,260	31,700	43,050	3,289,462	4,456,310
Total Liabilities and Deferred Inflows of Resources	194,890,534	201,273,901	1,486,319	1,499,860	196,376,853	202,773,761
Net position:						
Net investment in capital assets	44,364,140	41,619,899	681,923	723,127	45,046,063	42,343,026
Restricted	9,233,980	6,426,725	-	-	9,233,980	6,426,725
Unrestricted (Deficit)	(104,512,774)	(103,759,604)	(362,615)	(378,183)	(104,875,389)	(104,137,787)
Total Net Position (Deficit)	$ (50,914,654)	$ (55,712,980)	$ 319,308	$ 344,944	$ (50,595,346)	$ (55,368,036)

A significant portion of the District's net position, $45,046,063, 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, $9,233,980, 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 $4,772,690 during the current fiscal year. The increase in net position is partially attributable to the reduction in the District's general obligation bonds payable of $5,746,825, as well as revenues exceeding expenses. Governmental activities increased the District's net position by $4,798,326, thereby accounting for 100 percent of the total growth in the net position.

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	
	2018	2017	2018	2017	2018	2017
Revenues						
Program Revenues:						
Charges for services	$ 219,992	$ 261,483	$ 702,816	$ 692,442	$ 922,808	$ 953,925
Operating grants and contributions	11,943,111	11,290,760	1,078,068	1,115,248	13,021,179	12,406,008
General Revenues:						
Property taxes and other taxes levied for general purposes	64,331,292	63,125,373	-	-	64,331,292	63,125,373
State and federal aid	7,088,002	7,010,842	-	-	7,088,002	7,010,842
Other	707,739	440,408	11,063	5,007	718,802	445,415
Total Revenues	84,290,136	82,128,866	1,791,947	1,812,697	86,082,083	83,941,563
Expenses:						
Instruction	49,295,717	50,130,855	-	-	49,295,717	50,130,855
Instructional support	5,809,112	4,765,349	-	-	5,809,112	4,765,349
Non-instructional services	21,823,689	21,676,525	-	-	21,823,689	21,676,525
Other	2,563,292	2,583,688	1,817,583	1,877,620	4,380,875	4,461,308
Total Expenses	79,491,810	79,156,417	1,817,583	1,877,620	81,309,393	81,034,037
Increase (Decrease) in Net Position	4,798,326	2,972,449	(25,636)	(64,923)	4,772,690	2,907,526
Beginning Net Position (Deficit), Restated	(55,712,980)	(58,685,429)	344,944	409,867	(55,368,036)	(58,275,562)
Ending Net Position (Deficit)	$ (50,914,654)	$ (55,712,980)	$ 319,308	$ 344,944	$ (50,595,346)	$ (55,368,036)

Governmental Activities. Total revenues increased by $2,161,270, or 2.6 percent. Property taxes and other taxes levied for general purposes accounted for most of the District's revenue in the amount of $64,331,292, or 76.3 percent. The increase of $1,205,919 (1.9 percent) is due to an increase in the millage rate of 2.19 percent and a slight recovery in the tax base, along with an increase in realty transfer and earned income taxes. Another $7,088,002, or 8.4 percent, came from state formula aid, such as the basic education subsidy. The remainder, $12,870,842 or 15.3 percent, came from various sources. Revenue of $11,943,111 came from operating grants, including funds for special education, student transportation, retirement, and social security. Revenue of $549,069 came from earnings on investments, revenue of $219,992 came from fees charged for services, and other revenue amounted to $158,670.

The total cost of all governmental programs and services rose to $79,491,810, an increase of $335,393, or 0.4 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 represents $76,928,518, or 96.8 percent, of total expenses. The growth in expenses includes recognition of the prior year's increase of $1,491,612 in the employer contributions recognized for the PSERS due to an increase in the contribution rate. Total revenues exceeded total expenses, which produced an increase in net position of $4,798,326 over the past year.

Business-type Activities. Business-type activities decreased the District's net position by $25,636. Total revenues decreased by $20,750, or 1.1 percent, over the prior year due to a decrease in the number of meals served. Total expenses also decreased by $60,037, or 3.2 percent, due mainly to a decrease in food purchases and maintenance costs. In addition to the District-wide financial statements, the Food Service program is reported in greater detail in the proprietary fund statements.

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 decreased by $275,467 to $67,328,707. The state and federal government subsidized certain programs with capital and operating grants and contributions which totaled $11,943,111.

Net Cost of Governmental Activities

	Total Cost of Services		Percentage	Net Cost of Services		Percentage
	2018	2017	Change	2018	2017	Change
Functions/Programs						
Instruction	$ 49,295,717	$ 50,130,855	-1.7%	$ 41,261,334	$ 42,525,956	-3.0%
Instructional support	5,809,112	4,765,349	21.9%	5,239,175	4,247,906	23.3%
Non-instructional services	21,823,689	21,676,525	0.7%	18,751,634	18,684,765	0.4%
Other	2,563,292	2,583,688	-0.8%	2,076,564	2,145,547	-3.2%
Total	$ 79,491,810	$ 79,156,417	0.4%	$ 67,328,707	$ 67,604,174	-0.4%

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	Net Cost of Services		Percentage
	2018	2017	Change	2018	2017	Change
Food services	$ 1,817,583	$ 1,877,620	-3.2%	$ 36,699	$ 69,930	-47.5%

Financial Analysis of the Government's Funds

Governmental Funds

At the end of June 30, 2018, governmental funds had total fund balances of $16,130,193, an increase of $2,940,078 in comparison with the previous year. Approximately 42.7 percent of this total amount, $6,888,627, constitutes *unassigned fund balance*, which is available for spending at the District's discretion. 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.

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 $6,888,627, which also represents 8.5 percent of total general fund expenditures. The fund balance of the District's general fund increased by $132,823.

The Capital Projects Fund has a total fund balance of $185,617, which represents the remaining proceeds of a capital settlement fund for repairs to the District's Middle School. The net decrease in fund balance during the year of $7,993 is due to expenditures related to the repair of defective concrete at the school.

The Capital Reserve Fund has a total fund balance of $9,048,363, 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 $2,815,248. The Capital Reserve Fund received transfers from the general fund of $3,485,877. The Capital Reserve Fund had expenditures of $761,244 for a variety of facility improvements including new exterior siding, interior hall renovations and a new cooling tower at New Garden Elementary; new acoustical panels and stage lighting for the High School auditorium, and the completed construction of the Middle School baseball field. Also through the Capital Reserve Fund, the District continued to make an investment in technology ($119,360 of the $761,244) with the purchase 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 $(362,615). 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 $1,103,830 and the District's net OPEB liability of $204,700. The net position for this fund decreased by $25,636. 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 $3,444,756 and represents resources accumulated for anticipated future losses. The net position for this fund increased slightly by $383,800 due to a planned decrease in funding resulting from decreased insurance claims. 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 2017 - 2018 revenues and expenditures compared to the budget resulted in an overall favorable variance of $4,133,362. 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 $3,419,032. An amount of $3,485,877 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 unassigned fund balance by $132,823 to $6,888,627.

Significant variances between the final budget and actual revenue occurred in local sources of revenues due to greater than expected collections for earned income taxes and favorable interest rates on investments. The variance between the final budgeted and actual expenditures was due to successful management of health insurance through self-insured programs and a change in delivery of Special Education programs.

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

- Increases in earned income tax collections resulted in additional revenue of $368,266.
- Increase in the interest rates on investments resulted in additional revenue of $335,193.
- Decreases in self-insured health insurance claims resulted in a savings of $1,697,071.
- Decreases in contracted services for Special Education programs resulted in a savings of $1,256,520.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2018, the District had investments of $95,931,402 (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 $3,035,795, or 3.1 percent, for the year. Total depreciation expense for the year amounted to $4,014,609. More detailed information about capital assets can be found in the notes to the financial statements.

	Governmental Activities		Business-type Activities		Totals		Percentage
	2018	2017	2018	2017	2018	2017	Change
Land	$ 3,060,599	$ 3,060,599	$ -	$ -	$ 3,060,599	$ 3,060,599	0.0%
Construction-in-progress	34,394	899,609	-	-	34,394	899,609	-96.2%
Building and building improvements	89,956,932	91,678,496	-	-	89,956,932	91,678,496	-1.9%
Fixtures and equipment	2,197,554	2,605,366	681,923	723,127	2,879,477	3,328,493	-13.5%
Total	$ 95,249,479	$ 98,244,070	$ 681,923	$ 723,127	$ 95,931,402	$ 98,967,197	-3.1%

Long-term Debt

As of June 30, 2018, the District had $183,070,829 in general obligation bonds and other long-term debt outstanding, a decrease of $5,898,808, or 3.1 percent, over last year primarily due the District's general obligation bonds. Along with its annual debt service payments totaling $5,790,000, the District issued $11,425,000 of new debt in 2018 to refund obligations totaling $12,135,000. More detailed information about the District's long-term liabilities is presented in the notes to the financial statements.

Outstanding Long-term Debt

	Totals		
	2018	2017	% Change
General Obligation Bonds, Net	$ 51,070,956	$ 56,817,781	-10.1%
Compensated Absences	1,146,873	1,074,856	6.7%
Net OPEB Liability	20,470,000	20,813,000	-1.6%
Net Pension Liability	110,383,000	110,264,000	0.1%
Total	$183,070,829	$188,969,637	-3.1%

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 three years provides for an annual increase of 2.5 percent, 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 three 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 2018 - 2019 was two percent.

- The District is in the infancy of the national and global uptick in the economic conditions. 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 proposed developments in the Borough of Kennett Square, East Marlborough Township, Kennett Township, and New Garden Township. There are an estimated 800 residential units which are currently under either conditional use or land development. The majority of the dwellings are projected to be higher-end luxury apartments or townhouses.

- The District's administration is currently 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 79 percent of the costs for educational programs and services in the District. The federal government only provided one 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 2019 - 2020 is 2.3 percent, compared to 2.4 percent in 2018 - 2019. The District does not anticipate needing a referendum for the 2019 - 2020 budget.

- The PSERS retirement rate will increase from 30.03 percent in 2016 - 2017 to 32.57 percent in 2017 - 2018. The PSERS projections indicate that employer contribution rates will increase to 34.18 percent in 2018 - 2019. Rates are projected into the future to increase to over 36 percent by 2021 - 2022.

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, 2018
(With Summarized Comparative Data for June 30, 2017)

	Governmental Activities	Business-type Activities	Totals 2018	Totals 2017*
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
ASSETS:				
Cash and cash equivalents	$ 1,177,373	$ 740,030	$ 1,917,403	$ 4,771,236
Investments	25,423,211	-	25,423,211	18,279,907
Taxes receivable, net	1,654,325	-	1,654,325	1,813,267
Due from other governments	1,915,457	157,296	2,072,753	2,274,487
Other receivables	114,076	3,114	117,190	100,187
Prepaid expenses	7,586	-	7,586	52,578
Inventories	-	37,057	37,057	39,395
Land	3,060,599	-	3,060,599	3,060,599
Construction-in-progress	34,394	-	34,394	899,609
Buildings and improvements	139,261,458	-	139,261,458	137,574,482
Furniture and equipment	6,777,580	1,411,220	8,188,800	8,079,378
Accumulated depreciation	(53,884,552)	(729,297)	(54,613,849)	(50,646,871)
TOTAL ASSETS	125,541,507	1,619,420	127,160,927	126,298,254
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred outflows relating to OPEB	273,287	2,760	276,047	248,014
Deferred outflows relating to pension	18,161,086	183,447	18,344,533	20,859,457
TOTAL DEFERRED OUTFLOWS OF RESOURCES	18,434,373	186,207	18,620,580	21,107,471
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 143,975,880	$ 1,805,627	$ 145,781,507	$ 147,405,725
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)				
LIABILITIES:				
Accounts payable	$ 1,726,059	$ 130,400	$ 1,856,459	$ 1,722,533
Accrued salaries and benefits	7,498,075	-	7,498,075	6,937,347
Retainage payable	21,265	-	21,265	53,685
Accrued interest	640,763	-	640,763	634,249
Long-term liabilities				
Portion due or payable within one year:				
Bonds and notes payable in future years, net	6,201,260	-	6,201,260	5,929,026
Accumulated compensated absences	140,768	596	141,364	123,812
Portion due or payable after one year:				
Bonds and notes payable in future years, net	44,869,696	-	44,869,696	50,888,755
Accumulated compensated absences	990,416	15,093	1,005,509	951,044
Net OPEB liability	20,265,300	204,700	20,470,000	20,813,000
Net pension liability	109,279,170	1,103,830	110,383,000	110,264,000
TOTAL LIABILITIES	191,632,772	1,454,619	193,087,391	198,317,451
DEFERRED INFLOWS OF RESOURCES:				
Deferred inflows relating to OPEB	588,060	5,940	594,000	-
Deferred inflows relating to pension	2,550,240	25,760	2,576,000	4,305,000
Deferred amount on bond refunding	119,462	-	119,462	151,310
TOTAL DEFERRED INFLOWS OF RESOURCES	3,257,762	31,700	3,289,462	4,456,310
NET POSITION (DEFICIT):				
Net investment in capital assets	44,364,140	681,923	45,046,063	42,343,026
Restricted - capital projects	9,233,980	-	9,233,980	6,426,725
Unrestricted (deficit)	(104,512,774)	(362,615)	(104,875,389)	(104,137,787)
TOTAL NET POSITION (DEFICIT)	(50,914,654)	319,308	(50,595,346)	(55,368,036)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)	$ 143,975,880	$ 1,805,627	$ 145,781,507	$ 147,405,725

* - Restated

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

KENNETT CONSOLIDATED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018
(With Summarized Comparative Data for the Year Ended June 30, 2017)

		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	Totals 2018	Totals 2017*
GOVERNMENTAL ACTIVITIES:								
Instruction	$ 49,295,717	$ 22,735	$ 8,011,648	$ -	$ (41,261,334)	$ -	$ (41,261,334)	$ (42,525,956)
Instructional student support	5,809,112	-	569,937	-	(5,239,175)	-	(5,239,175)	(4,247,906)
Administrative and financial support services	8,116,912	-	672,375	-	(7,444,537)	-	(7,444,537)	(7,360,011)
Operation and maintenance of plant services	7,173,418	-	596,036	-	(6,577,382)	-	(6,577,382)	(6,733,586)
Pupil transportation	5,017,352	80,973	1,480,781	-	(3,455,598)	-	(3,455,598)	(3,342,242)
Student activities	1,516,007	116,284	125,606	-	(1,274,117)	-	(1,274,117)	(1,248,926)
Interest on long-term debt	1,371,272	-	486,728	-	(884,544)	-	(884,544)	(1,007,690)
Unallocated depreciation	1,192,020	-	-	-	(1,192,020)	-	(1,192,020)	(1,137,857)
TOTAL GOVERNMENTAL ACTIVITIES	79,491,810	219,992	11,943,111	-	(67,328,707)	-	(67,328,707)	(67,604,174)
BUSINESS-TYPE ACTIVITIES:								
Food service	1,817,583	702,816	1,078,068	-	-	(36,699)	(36,699)	(69,930)
TOTAL BUSINESS-TYPE ACTIVITIES	1,817,583	702,816	1,078,068	-	-	(36,699)	(36,699)	(69,930)
TOTAL PRIMARY GOVERNMENT	$ 81,309,393	$ 922,808	$ 13,021,179	$ -	(67,328,707)	(36,699)	(67,365,406)	(67,674,104)
GENERAL REVENUES								
Property taxes, levied for general purposes					58,782,626	-	58,782,626	57,336,108
Taxes levied for specific purposes					5,548,666	-	5,548,666	5,789,265
Grants and entitlements not restricted to specific programs					7,088,002	-	7,088,002	7,010,842
Investment earnings					549,069	11,063	560,132	182,106
Miscellaneous					158,670	-	158,670	263,309
TOTAL GENERAL REVENUES					72,127,033	11,063	72,138,096	70,581,630
CHANGE IN NET POSITION					4,798,326	(25,636)	4,772,690	2,907,526
NET POSITION (DEFICIT), BEGINNING OF YEAR, RESTATED					(55,712,980)	344,944	(55,368,036)	(58,275,562)
NET POSITION (DEFICIT), END OF YEAR					$ (50,914,654)	$ 319,308	$ (50,595,346)	$ (55,368,036)

* - Restated

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

KENNETT CONSOLIDATED SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2018
(With Summarized Comparative Data for June 30, 2017)

	General Fund	Capital Projects Fund	Capital Reserve Fund	Totals 2018	Totals 2017
ASSETS					
Cash and cash equivalents	$ 10,500	$ 185,617	$ -	$ 196,117	$ 229,415
Investments	16,839,460	-	5,583,751	22,423,211	18,279,907
Taxes receivable	1,673,805	-	-	1,673,805	1,850,272
Due from other funds	-	-	3,485,877	3,485,877	388,449
Due from other governments	1,915,457	-	-	1,915,457	2,128,555
Other receivables	114,076	-	-	114,076	92,403
Prepaid expenditures	7,586	-	-	7,586	52,578
TOTAL ASSETS	$ 20,560,884	$ 185,617	$ 9,069,628	$ 29,816,129	$ 23,021,579
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES:					
Accounts payable	$ 1,189,559	$ -	$ 21,265	$ 1,210,824	$ 970,111
Due to other funds	3,485,877	-	-	3,485,877	299,498
Accrued salaries and benefits	7,498,075	-	-	7,498,075	6,937,347
Accumulated compensated absences	140,768	-	-	140,768	123,812
TOTAL LIABILITIES	12,314,279	-	21,265	12,335,544	8,330,768
DEFERRED INFLOWS OF RESOURCES:					
Unavailable revenues - delinquent taxes	1,350,392	-	-	1,350,392	1,500,696
TOTAL DEFERRED INFLOWS OF RESOURCES	1,350,392	-	-	1,350,392	1,500,696
FUND BALANCES:					
Nonspendable	7,586	-	-	7,586	52,578
Restricted - capital projects	-	185,617	9,048,363	9,233,980	6,426,725
Unassigned	6,888,627	-	-	6,888,627	6,710,812
TOTAL FUND BALANCES	6,896,213	185,617	9,048,363	16,130,193	13,190,115
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 20,560,884	$ 185,617	$ 9,069,628	$ 29,816,129	$ 23,021,579

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, 2018

TOTAL GOVERNMENTAL FUND BALANCES		$ 16,130,193
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	34,394	
Buildings and improvements	139,261,458	
Furniture and equipment	6,777,580	
Accumulated depreciation	(53,884,552)	95,249,479
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	(51,070,956)	
Accumulated compensated absences	(990,416)	
Accrued interest	(640,763)	
Net OPEB liability	(20,265,300)	
Net pension liability	(109,279,170)	(182,246,605)
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.		3,444,756
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.		1,350,392
Refunded debt resulted in deferred inflows of resources which will be amortized over the life of new debt but do not represent current rights.		(119,462)
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	273,287	
Deferred inflows of resources:		
Deferred OPEB	(588,060)	(314,773)
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	18,161,086	
Deferred inflows of resources:		
Deferred pension	(2,550,240)	15,610,846
NET DEFICIT OF GOVERNMENTAL ACTIVITIES		$ (50,914,654)

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, 2018
(With Summarized Comparative Data for the Year Ended June 30, 2017)

	General Fund	Capital Projects Fund	Capital Reserve Fund	Totals 2018	Totals 2017
REVENUES					
Local sources	$65,257,926	$ 2,107	$ 90,615	$65,350,648	$63,857,281
State sources	17,382,556	-	-	17,382,556	16,734,075
Federal sources	1,648,557	-	-	1,648,557	1,558,249
TOTAL REVENUES	84,289,039	2,107	90,615	84,381,761	82,149,605
EXPENDITURES					
Current:					
Instruction	47,215,650	-	-	47,215,650	48,798,636
Support services	24,822,962	-	-	24,822,962	23,990,869
Operation of noninstructional services	1,495,196	-	-	1,495,196	1,439,536
Capital outlays	-	10,100	761,244	771,344	2,370,355
Debt service	7,336,199	-	-	7,336,199	7,353,589
TOTAL EXPENDITURES	80,870,007	10,100	761,244	81,641,351	83,952,985
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	3,419,032	(7,993)	(670,629)	2,740,410	(1,803,380)
OTHER FINANCING SOURCES (USES)					
Proceeds from bond refunding	11,425,000	-	-	11,425,000	-
Premium on bond refunding	934,662	-	-	934,662	-
Payments to bond refunding agent	(12,166,894)	-	-	(12,166,894)	-
Refund of prior year expenditures	-	-	-	-	508
Sale of capital assets	6,900			6,900	
Interfund transfers	(3,485,877)	-	3,485,877	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(3,286,209)	-	3,485,877	199,668	508
NET CHANGE IN FUND BALANCES	132,823	(7,993)	2,815,248	2,940,078	(1,802,872)
FUND BALANCES, BEGINNING OF YEAR	6,763,390	193,610	6,233,115	13,190,115	14,992,987
FUND BALANCES, END OF YEAR	$ 6,896,213	$ 185,617	$ 9,048,363	$16,130,193	$13,190,115

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, 2018

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS		$ 2,940,078
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	$ 982,472	
Gain on disposal	(3,658)	
Depreciation expense	(3,973,405)	(2,994,591)
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.		(150,304)
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.		6,500,000
Change in allowance for uncollectible taxes		17,525
An internal service fund has been established to account for self-insured healthcare costs. The net revenue is reported with governmental activities.		383,800
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).		(53,728)
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.		(753,175)
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 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.		25,334
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.		(220,737)
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.		(895,876)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		$ 4,798,326

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, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	(GAAP Basis)	(Negative)
REVENUES				
Local sources	$ 64,475,854	$ 64,475,854	$ 65,257,926	$ 782,072
State sources	17,428,019	17,428,019	17,382,556	(45,463)
Federal sources	1,593,156	1,593,156	1,648,557	55,401
TOTAL REVENUES	83,497,029	83,497,029	84,289,039	792,010
EXPENDITURES				
Instruction:				
Regular programs	34,986,007	34,521,087	33,521,118	999,969
Special programs	13,339,142	13,242,615	11,761,452	1,481,163
Vocational programs	1,751,095	1,751,095	1,748,113	2,982
Other instructional programs	169,711	240,198	184,296	55,902
Nonpublic school programs	-	671	671	-
Total Instruction	50,245,955	49,755,666	47,215,650	2,540,016
Support Services:				
Pupil services	2,502,157	2,539,657	2,413,311	126,346
Instructional support	2,170,839	2,557,929	2,459,414	98,515
Administrative support	4,414,837	4,400,148	4,534,059	(133,911)
Pupil health	906,182	911,057	819,696	91,361
Business support	1,134,594	1,178,034	1,125,278	52,756
Operation and maintenance of plant services	6,703,769	6,618,027	6,368,828	249,199
Student transportation	5,108,619	5,119,460	4,988,368	131,092
Central support	2,193,826	2,162,861	2,079,382	83,479
Other support services	37,551	37,551	34,626	2,925
Total Support Services	25,172,374	25,524,724	24,822,962	701,762
Operation of noninstructional services	1,423,362	1,594,770	1,495,196	99,574
Debt service	7,279,668	7,336,199	7,336,199	-
TOTAL EXPENDITURES	84,121,359	84,211,359	80,870,007	3,341,352
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(624,330)	(714,330)	3,419,032	4,133,362
OTHER FINANCING SOURCES (USES)				
Budgetary reserve	(90,000)	-	-	-
Proceeds from bond refunding	-	-	11,425,000	11,425,000
Premium on bond refunding	-	-	934,662	934,662
Payments to bond refunding agent	-	-	(12,166,894)	(12,166,894)
Sale of fixed assets	-	-	6,900	6,900
Transfers out	-	-	(3,485,877)	(3,485,877)
TOTAL OTHER FINANCING USES	(90,000)	-	(3,286,209)	(3,286,209)
NET CHANGE IN FUND BALANCE	(714,330)	(714,330)	132,823	847,153
FUND BALANCE, BEGINNING OF YEAR	6,763,390	6,763,390	6,763,390	-
FUND BALANCE, END OF YEAR	$ 6,049,060	$ 6,049,060	$ 6,896,213	$ 847,153

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

KENNETT CONSOLIDATED SCHOOL DISTRICT
STATEMENTS OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2018
(With Comparative Data for June 30, 2017)

	Major Fund Food Service Fund 2018	Major Fund Food Service Fund 2017*	Internal Service Fund 2018	Internal Service Fund 2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
CURRENT ASSETS:				
Cash and cash equivalents	$ 740,030	$ 806,442	$ 981,256	$ 1,735,379
Investments	-	-	3,000,000	2,000,000
Due from other governments	157,296	145,932	-	-
Other receivables	3,114	7,784	-	-
Inventories	37,057	39,395	-	-
Total Current Assets	937,497	999,553	3,981,256	3,735,379
FURNITURE AND EQUIPMENT:				
Net furniture and equipment	681,923	723,127	-	-
TOTAL ASSETS	1,619,420	1,722,680	3,981,256	3,735,379
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows relating to OPEB	2,760	2,480	-	-
Deferred outflows relating to pension	183,447	208,595	-	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	186,207	211,075	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 1,805,627	$ 1,933,755	$ 3,981,256	$ 3,735,379
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION				
LIABILITIES:				
Accounts payable	$ 130,400	$ 131,684	$ 536,500	$ 674,423
Compensated absences	596	-	-	-
Due to other funds	-	88,951	-	-
Long-term liabilities:				
Portion due or payable after one year:				
Compensated absences	15,093	14,356	-	-
Net OPEB liability	204,700	208,130	-	-
Net pension liability	1,103,830	1,102,640	-	-
Total Liabilities	1,454,619	1,545,761	536,500	674,423
DEFERRED INFLOWS OF RESOURCES:				
Deferred outflows relating to OPEB	5,940	-	-	-
Deferred outflows relating to pension	25,760	43,050	-	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	31,700	43,050	-	-
NET POSITION (DEFICIT):				
Net investment in capital assets	681,923	723,127	-	-
Unrestricted (deficit)	(362,615)	(378,183)	3,444,756	3,060,956
Total Net Position	319,308	344,944	3,444,756	3,060,956
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)	$ 1,805,627	$ 1,933,755	$ 3,981,256	$ 3,735,379

*Restated

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, 2018
(With Comparative Data for the Year Ended June 30, 2017)

	Major Fund			
	Food Service Fund		Internal Service Fund	
	2018	2017*	2018	2017
OPERATING REVENUES				
Food service revenues	$ 702,816	$ 692,442	$ -	$ -
Charges for health insurance	-	-	6,802,906	8,738,132
TOTAL OPERATING REVENUES	702,816	692,442	6,802,906	8,738,132
OPERATING EXPENSES				
Salaries	213,343	207,591	-	-
Employee benefits	145,417	143,238	-	-
Other purchased services	1,290,462	1,354,616	-	-
Self-insurance claims	-	-	6,460,260	7,108,373
Supplies	127,157	125,213	-	-
Depreciation	41,204	46,962	-	-
TOTAL OPERATING EXPENSES	1,817,583	1,877,620	6,460,260	7,108,373
OPERATING (LOSS) INCOME	(1,114,767)	(1,185,178)	342,646	1,629,759
NONOPERATING REVENUES				
Earnings on investments	11,063	5,007	41,154	10,781
State sources	86,243	84,667	-	-
Federal sources	991,825	1,030,581	-	-
TOTAL NONOPERATING REVENUES	1,089,131	1,120,255	41,154	10,781
CHANGE IN NET POSITION	(25,636)	(64,923)	383,800	1,640,540
NET POSITION, BEGINNING OF YEAR, RESTATED	344,944	409,867	3,060,956	1,420,416
NET POSITION, END OF YEAR	$ 319,308	$ 344,944	$ 3,444,756	$ 3,060,956

*Restated

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, 2018
(With Comparative Data for the Year Ended June 30, 2017)

	Major Fund Food Service Fund		Internal Service Fund	
	2018	2017*	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from users	$ 707,486	$ 698,676	$ 6,802,906	$ 8,904,960
Payments to suppliers	(1,387,318)	(1,335,181)	-	-
Payments to employees	(345,553)	(323,805)	-	-
Cash payments for health insurance costs	-	-	(6,598,183)	(7,068,838)
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	(1,025,385)	(960,310)	204,723	1,836,122
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
State sources	85,783	80,186	-	-
Federal sources	862,127	806,403	-	-
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	947,910	886,589	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Equipment acquisition	-	(13,325)	-	-
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	-	(13,325)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of investments	-	-	(1,000,000)	(2,000,000)
Earnings on investments	11,063	5,007	41,154	10,781
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	11,063	5,007	(958,846)	(1,989,219)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(66,412)	(82,039)	(754,123)	(153,097)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	806,442	888,481	1,735,379	1,888,476
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 740,030	$ 806,442	$ 981,256	$ 1,735,379
RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES				
CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating (loss) income	$ (1,114,767)	$ (1,185,178)	$ 342,646	$ 1,629,759
Adjustments to reconcile operating (loss) income to net cash (used) provided by operating activities:				
Depreciation	41,204	46,962	-	-
Donated commodities	118,794	134,267	-	-
(Increase) Decrease in:				
Other receivables	4,670	6,234	-	-
Inventories	2,338	(22,003)	-	-
Due from other funds	-	12,185	-	166,828
Deferred outflows of resources - OPEB	(280)	-	-	-
Deferred outflows of resources - pension	25,148	(134,311)	-	-
Increase (Decrease) in:				
Accounts payable	(1,284)	4,416	(137,923)	44,878
Due to other funds	(88,951)	26,145	-	(5,343)
Compensated absences	1,333	1,823	-	-
Net OPEB liability	(3,430)	-	-	-
Net pension liability	1,190	160,540	-	-
Deferred inflows of resources - OPEB	5,940	-	-	-
Deferred inflows of resources - pension	(17,290)	(11,390)	-	-
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	$ (1,025,385)	$ (960,310)	$ 204,723	$ 1,836,122
SUPPLEMENTAL DISCLOSURE				
NONCASH NONCAPITAL FINANCING ACTIVITY:				
U.S.D.A. donated commodities	$ 118,794	$ 134,267	$ -	$ -

*Restated

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

KENNETT CONSOLIDATED SCHOOL DISTRICT
STATEMENTS OF NET POSITION - FIDUCIARY FUNDS
JUNE 30, 2018
(With Comparative Data for June 30, 2017)

`

	Private-Purpose Trust		Agency Fund	
	2018	2017	2018	2017
ASSETS				
Cash	$ 261,488	$ 246,595	$ 49,861	$ 39,113
TOTAL ASSETS	$ 261,488	$ 246,595	$ 49,861	$ 39,113
LIABILITIES AND NET POSITION				
LIABILITIES:				
Other current liabilties	$ -	$ -	$ 49,861	$ 39,113
NET POSITION:				
Reserved for trust	261,488	246,595	-	-
TOTAL LIABILITIES AND NET POSITION	$ 261,488	$ 246,595	$ 49,861	$ 39,113

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, 2018
(With Comparative Data for the Year Ended June 30, 2017)

	Private-Purpose Trust	
	2018	2017
ADDITIONS		
Local contributions	$ 50,070	$ 53,713
Earnings on investments	2,523	951
TOTAL ADDITIONS	52,593	54,664
DEDUCTIONS		
Fees paid and scholarships awarded	37,700	62,600
TOTAL DEDUCTIONS	37,700	62,600
CHANGE IN NET POSITION	14,893	(7,936)
NET POSITION, BEGINNING OF YEAR	246,595	254,531
NET POSITION, END OF YEAR	$ 261,488	$ 246,595

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

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

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 fixed 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.

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.

<u>Basis of Presentation</u>

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

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.

<u>Measurement Focus and Basis of Accounting</u>

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.

<u>Budgetary Information</u>

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 of the District. Notice that public hearings will be held on the proposed operating budget must be

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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.

<u>Receivables/Payables</u>

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."

<u>Cash and Cash Equivalents and Investments</u>

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.

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, 2018 consist of the purchased food/supplies for use in the food program in the amount of $37,057.

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:

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

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.

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.

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, 2017, 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.

Implementation of GASB Statement

During the year ended June 30, 2018, the District implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." GASB Statement No. 75 replaces the requirements of GASB Statement No. 45, with the objective of improving the accounting and financial reporting of state and local governments for other postemployment benefits. It requires that state and local governments recognize and record the actuarially determined net other post-employment benefit liability, or, for multi-employer cost sharing plans, the entity's share of the net other post-employment benefit liability, in the entity's financial statements.

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 statues or the policy of the District.

NOTE 3 – CASH AND CASH EQUIVALENTS AND INVESTMENTS - continued

The breakdown of total cash and investments at June 30, 2018 is as follows:

Cash	$ 2,228,752
Investments	25,423,211
Total Cash and Investments	$ 27,651,963

Deposits

At year end, the carrying amount of the District's deposits was $2,228,752, and the bank balance was $2,374,033. Of the bank balance, $230,581 was covered by federal depository insurance, and the remaining $2,143,452 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, 2018, the District had the following investments:

	Fair Value
Pennsylvania Local Government Investment Trust (PLGIT)	$ 382,470
Pennsylvania School District Liquid Asset Trust (PSDLAF)	25,040,741
Total Investments	$ 25,423,211

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.

NOTE 3 – CASH AND CASH EQUIVALENTS AND INVESTMENTS - continued

Of the investments, $19,545,000 is invested in FDIC insured non-negotiable certificates of deposit with maturities of less than one year. The remaining $5,878,211 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.

Credit Risk

The District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2018, the District's investments were rated as:

Investment	Standard & Poor's
PA School District Liquid Asset Fund (PSDLAF)	AAAm
PA 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, 2018, 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, 2018 was 29.88 mills ($29.88

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

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, 2018 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.

The deferred inflow of resources balance in the general fund of $1,350,392 consists of unavailable real estate taxes.

NOTE 5 – INTERNAL RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2018 is as follows:

Due To	Amount	Due From	Amount
Capital Reserve Fund	$ 3,485,877	General Fund	$ 3,485,877
	$ 3,485,877		$ 3,485,877

Transfer To	Amount	Transfer From	Amount
Capital Reserve Fund	$ 3,485,877	General Fund	$ 3,485,877
	$ 3,485,877		$ 3,485,877

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, 2018 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	899,609	223,376	1,088,591	34,394
Total Capital Assets Not Being Depreciated	3,960,208	223,376	1,088,591	3,094,993
Capital assets being depreciated:				
Buildings and building improvements	137,574,482	1,686,976	-	139,261,458
Furniture and equipment	6,668,158	160,711	51,289	6,777,580
Total Capital Assets Being Depreciated	144,242,640	1,847,687	51,289	146,039,038
Less accumulated depreciation for:				
Buildings and building improvements	45,895,985	3,408,541	-	49,304,526
Furniture and equipment	4,062,793	564,864	47,631	4,580,026
Total Accumulated Depreciation	49,958,778	3,973,405	47,631	53,884,552
Total Capital Assets Being Depreciated , Net	94,283,862	(2,125,718)	3,658	92,154,486
Governmental Capital Assets, Net	$ 98,244,070	$(1,902,342)	$ 1,092,249	$ 95,249,479

Business-type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets being depreciated:				
Equipment	$ 1,411,220	$ -	$ -	$ 1,411,220
Less accumulated depreciation for:				
Equipment	688,093	41,204	-	729,297
Business-type Activities Capital Assets, Net	$ 723,127	$ (41,204)	$ -	$ 681,923

NOTE 7 – CHANGES IN CAPITAL ASSETS - continued

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

Governmental Activities:	
Instruction	$ 1,589,363
Administrative and financial support	415,966
Operation and maintenance of plant services	776,056
Unallocated depreciation	1,192,020
Total Depreciation Expense - Governmental Activities	$ 3,973,405

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

Food Service:	
Equipment	$ 41,204
Total Depreciation Expense - Business-type Activities	$ 41,204

NOTE 8 – LONG-TERM LIABILITIES

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

General Obligation Bonds - Series of 2010 Series of 2010, maturing through February 15, 2024, bears interest ranging from 4.83% to 5.43%. Interest is payable semi-annually on February 15 and August 15.	$ 19,955,000
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.	2,525,000
General Obligation Bonds - Series of 2013 Series of 2013, maturing through February 15, 2019, bears interest ranging from 0.50% to 3.00%. Interest is payable semi-annually on February 15 and August 15. The Series of 2013 provided funds to refund the Series of 2008 and Series of 2007 bonds.	2,125,000
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.	7,465,000

NOTE 8 – LONG-TERM LIABILITIES – continued

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.	6,265,000
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.	11,425,000
Total Bonds/Notes Payable	$ 49,760,000

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

Year Ending June 30,	Principal Maturities	Interest Maturities	Total Maturities
2019	$ 5,940,000	$ 1,513,473	$ 7,453,473
2020	6,080,000	1,421,870	7,501,870
2021	6,265,000	1,242,809	7,507,809
2022	6,470,000	1,039,775	7,509,775
2023	6,665,000	844,452	7,509,452
2024 - 2027	18,340,000	1,005,340	19,345,340
	$ 49,760,000	$ 7,067,719	$ 56,827,719

Changes in Long-term Liabilities

Long-term liability balance and activity for the year ended June 30, 2018 was as follows:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Due Within One Year
Governmental Activities					
Bonds and notes payable	$ 56,260,000	$11,425,000	$17,925,000	$ 49,760,000	$ 5,940,000
Bond premiums	557,781	934,662	181,487	1,310,956	261,260
Net bonds and notes payable	56,817,781	12,359,662	18,106,487	51,070,956	6,201,260
Other Liabilities:					
Compensated absences	1,060,100	71,084	-	1,131,184	140,768
Net pension liability	109,161,360	117,810	-	109,279,170	-
Net OPEB liability	20,604,870	-	339,570	20,265,300	-
Total Governmental Long-term Liabilities	$ 187,644,111	$12,548,556	$18,446,057	$ 181,746,610	$ 6,342,028

NOTE 8 – LONG-TERM LIABILITIES - continued

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Due Within One Year
Business-type Activities					
Compensated absences	$ 14,356	$ 1,333	$ -	$ 15,689	$ 596
Net pension liability	1,102,640	1,190	-	1,103,830	-
Net OPEB liability	208,130	-	3,430	204,700	-
Total Business-type Long-term Liabilities	$ 1,325,126	$ 2,523	$ 3,430	$ 1,324,219	$ 596

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, 2018 was $1,371,272.

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. 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.

NOTE 9 – EMPLOYEE RETIREMENT PLAN - continued

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 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, 2018, the rate of the employer contribution was 32.57 percent of covered payroll, which was comprised of 31.74 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, 2018 was $9,643,564.

NOTE 9 – EMPLOYEE RETIREMENT PLAN - continued

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

At June 30, 2018, the District reported a liability of $110,383,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward the system's total pension liability as of June 30, 2016 to June 30, 2017. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2017, the District's proportion was 0.2235 percent, which was an increase of 0.001 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of $10,547,224. At June 30, 2018, 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	$ 2,558,000	$ -
Difference between expected and actual experience	1,152,000	667,000
Change in proportionate share of net pension liability	1,671,000	1,909,000
Change in assumptions	2,999,000	-
Difference between employer contributions and proportionate share of total contributions	320,969	-
Contributions subsequent to the date of measurement	9,643,564	-
	$18,344,533	$ 2,576,000

An amount of $9,643,564 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, 2019. 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:

Year Ending June 30,	
2019	$ 592,489
2020	3,202,002
2021	2,561,209
2022	(230,731)
	$ 6,124,969

NOTE 9 – EMPLOYEE RETIREMENT PLAN - continued

Actuarial Assumptions

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

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global public equity	20.0%	5.1%
Fixed income	36.0%	2.6%
Commodities	8.0%	3.0%
Absolute return	10.0%	3.4%
Risk parity	10.0%	3.8%
Infrastructure/MLPs	8.0%	4.8%
Real estate	10.0%	3.6%
Alternative investments	15.0%	6.2%
Cash	3.0%	0.6%
Financing (LIBOR)	(20.0%)	1.1%
	100.0%	

NOTE 9 – EMPLOYEE RETIREMENT PLAN - continued

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, 2017.

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 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	$135,872,000	$110,383,000	$ 88,863,000

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

NOTE 10 – POSTEMPLOYMENT HEALTHCARE PLAN - continued

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 2018, the District paid $775,000 to plan members eligible for receiving benefits.

Actuarial Assumptions and Other Inputs

The total OPEB liability was measured as of June 30, 2018. The total OPEB liability as of June 30, 2018 was determined by rolling forward the plan's total OPEB liability as of the June 30, 2016 actuarial valuation to the June 30, 2018 measurement date using the actuarial assumptions noted below.

Discount Rate

The discount used to measure the total OPEB liability was 3.87 percent for the measurement date of June 30, 2018.

Health Cost Trend

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

Fiscal Year Ending June 30	Increase in Health Cost Over Prior Year
2018	7.30%
2019	6.90%
2020	6.50%
2021	5.90%
2022	5.60%
2027	6.00%
2032	5.90%
2037	5.80%
2042	5.60%
2047	5.30%
2057	5.10%
2086 and later	4.00%

NOTE 10 – POSTEMPLOYMENT HEALTHCARE PLAN - continued

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.

Mortality Rates

RP-2014 Mortality Tables are adjusted to reflect Mortality Improvement Scale MP-2015 from 2006 base year and projected forward on a generational basis with Scale MP-2015 (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, 2016 actuarial valuation for the Pennsylvania PSERS and vary by age. Illustrative rates are shown below.

Age	Rate
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.

NOTE 10 – POSTEMPLOYMENT HEALTHCARE PLAN - continued

Sensitivity Analysis

The following presents the net OPEB liability, calculated using the valuation discount rate of 3.87% 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.

	1% Decrease 2.87%	Current Rate Discount Rate 3.87%	1% Increase 4.87%
Total OPEB liability	$ 17,273,000	$ 15,916,000	$ 14,410,000
Fiduciary net position	-	-	-
Net OPEB liability	$ 17,273,000	$ 15,916,000	$ 14,410,000

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	$ 14,172,000	$ 15,916,000	$ 18,017,000
Fiduciary net position	-	-	-
Net OPEB liability	$ 14,172,000	$ 15,916,000	$ 18,017,000

Changes in Total OPEB Liability

Total OPEB liability as of June 30, 2017	$ 16,020,000
Service cost	503,000
Interest on OPEB obligation	605,000
Effect of assumption changes or inputs	(437,000)
Benefit payments	(775,000)
Total OPEB liability as of June 30, 2018	$ 15,916,000

The amount of OPEB expense for the single employer plan recognized by the District was $1,053,000 for the year ended June 30, 2018. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources relating to OPEB from the following sources:

NOTE 10 – POSTEMPLOYMENT HEALTHCARE PLAN - continued

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	$ -	$ 382,000

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

Year Ending June 30,	
2019	$ (55,000)
2020	(55,000)
2021	(55,000)
2022	(55,000)
2023	(55,000)
Thereafter	(107,000)
	$ (382,000)

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, 2017, 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

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

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

<u>OPEB Plan Description</u>

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 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.

<u>Benefits Provided</u>

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, 2017 there were no assumed future benefit increases to participating eligible retirees.

<u>Employer Contributions</u>

The Districts' contractually required contribution rate for the fiscal year ended June 30, 2017 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 $252,177 for the year ended June 30, 2018.

<u>OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources</u>

At June 30, 2018, the District reported a liability of $4,554,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, 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, 2016 to June 30, 2017. 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, 2017, the District's proportion was 0.2235 percent, which was an increase of 0.001 from its proportion measured as of June 30, 2016.

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

For the year ended June 30, 2018, the District recognized OPEB expense of $54,976. At June 30, 2018, 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
Net difference between projected and actual investment earnings	$ 5,000	$ -
Change in proportionate share of net pension liability	18,000	-
Change in assumptions	-	212,000
Difference between employer contributions and proportionate share of total contributions	870	-
Contributions subsequent to the date of measurement	252,177	-
	$ 276,047	$ 212,000

An amount of $252,177 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, 2018. 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:

Year Ending June 30,	
2019	$ (30,277)
2020	(30,366)
2021	(30,366)
2022	(30,370)
2023	(31,573)
Thereafter	(35,178)
	$ (188,130)

Actuarial Assumptions

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

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

- Actuarial cost method - Entry Age Normal - level percent of pay
- Investment return - 3.13 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.
- 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, 2015 determined the employer contribution rate for fiscal year 2017.
- 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 and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back three years for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back seven years for males and three years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back three years for both genders assuming the population consists of 25 percent males and 75 percent females is used to determine actuarial equivalent benefits.)

Investments consist primarily of short-term assets designed to protect the principal of the plan assets. The expected rate of return on 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.

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Cash	76.4%	0.6%
Fixed Income	23.6%	1.5%
	100.0%	

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

Discount Rate

The discount rate used to measure the total OPEB liability was 3.13 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 3.13 percent, which represents the S&P 20-year Municipal Bond Rate at June 30, 2017, was applied to all projected benefit payments to measure the total 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, 2017, retirees' Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of $1,200. As of June 30, 2016, 91,797 retirees were receiving the maximum amount allowed of $1,200 per year. As of June 30, 2016, 1,354 members were receiving less than the maximum amount allowed of $1,200 per year. The actual number of retirees receiving less than the $1,200 per year cap is a small percentage of the total population and has a minimal impact on healthcare cost trends as depicted below.

The following presents the system's net OPEB liability for June 30,2017, 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:

	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	$ 4,552,000	$ 4,554,000	$ 4,555,000

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

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 3.13 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 (2.13 percent) or one percentage point higher (4.13 percent) than the current rate:

	1% Decrease 2.13%	Current Discount Rate 3.13%	1% Increase 4.13%
District's proportionate share of the net OPEB liability	$ 5,176,000	$ 4,554,000	$ 4,036,000

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)	$ 15,916,000	$ -	$ 382,000
PSERS Plan (See Note 11)	4,554,000	276,047	212,000
Total	$ 20,470,000	$ 276,047	$ 594,000

NOTE 13 – FUND BALANCES

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

	General Fund	Capital Projects Fund	Capital Reserve Fund	Total Governmental Funds
Nonspendable	$ 7,586	$ -	$ -	$ 7,586
Restricted:				
Capital projects	-	185,617	9,048,363	9,233,980
Unassigned	6,888,627	-	-	6,888,627
Total Fund Balances	$ 6,896,213	$ 185,617	$ 9,048,363	$ 16,130,193

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 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.

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 2017 - 2018 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 $104,512,774, $362,615, and $362,615, 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 – PRIOR PERIOD ADJUSTMENTS

The District has decreased its July 1, 2016 net position in the governmental activities by $13,538,755 due to the effects of implementing GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." The District recorded a beginning deferred outflow for OPEB contributions of $245,534 and a beginning net OPEB liability of $20,604,870. The previously reported $6,820,581 OPEB liability as of June 30, 2017 is no longer recognized due to the change in accounting principle.

The District has decreased its July 1, 2016 net position by $205,650 in the business-type activities and food service fund due to the effects of implementing GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." The District recorded a beginning deferred outflow for OPEB contributions of $2,480 and a beginning net OPEB liability of $208,130.

NOTE 18 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Administrative support	$	133,911

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

NOTE 19 – SUBSEQUENT EVENTS

The District has evaluated all subsequent events through November 1, 2018, 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, 2017	June 30, 2016	June 30, 2015	June 30, 2014
District's proportion of the net pension liability	0.2235%	0.2225%	0.2175%	0.2204%
District's proportion of the net pension liability - dollar value	$ 110,383,000	$ 110,264,000	$ 94,210,000	$ 87,236,000
District's covered employee payroll	$ 29,881,260	$ 28,934,868	$ 28,164,151	$ 28,122,261
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	369.41%	381.08%	334.50%	310.20%
Plan fiduciary net position as a percentage of the total pension liability	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)

	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution	$ 9,643,564	$ 8,725,328	$ 7,233,717	$ 5,773,651
Contributions in relation to the contractually required contribution	9,643,564	8,725,328	7,233,717	5,773,651
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 30,382,999	$ 29,881,260	$ 28,934,868	$ 28,164,151
Contributions as a percentage of covered-employee payroll	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 June 30, 2017
District's proportion of the net OPEB liability	0.2235%
District's proportion of the net OPEB liability - dollar value	$ 4,554,000
District's covered employee payroll	$ 29,881,260
District's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	15.24%
Plan fiduciary net position as a percentage of the total OPEB liability	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)

	June 30, 2018
Contractually required contribution	$ 252,177
Contributions in relation to the contractually required contribution	252,177
Contribution deficiency (excess)	$ -
District's covered-employee payroll	$ 30,382,999
Contributions as a percentage of covered-employee payroll	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 TOTAL OPEB LIABILITY - SINGLE EMPLOYER PLAN

	Measurement Date June 30, 2018
TOTAL OPEB LIABILITY	
Service cost	503,000
Interest on total OPEB liability	605,000
Effect of assumption changes or inputs	(437,000)
Benefit payments	(775,000)
NET CHANGE IN TOTAL OPEB LIABILITY	(104,000)
TOTAL OPEB LIABILITY, BEGINNING OF YEAR	16,020,000
TOTAL OPEB LIABILITY, END OF YEAR	$ 15,916,000
PLAN FIDUCIARY NET POSITION	
PLAN FIDUCIARY NET POSITION, BEGINNING OF YEAR	$ -
PLAN FIDUCIARY NET POSITION, END OF YEAR	$ -
DISTRICT'S NET OPEB LIABILITY	$ 15,916,000
Plan fiduciary net position as a percentage of total OPEB liability	0.00%
Covered employee payroll	$ 29,587,921
District's net OPEB liability as a percentage of covered payroll	53.79%
Expected average remaining service years of all participants	8

KENNETT CONSOLIDATED SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT CONTRIBUTIONS - SINGLE EMPLOYER PLAN

Year	Actuarial Determined Contribution	Contributions from Employer	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Payroll
2018	$ 775,000	$ 775,000	$ -	$ 30,084,735	2.58%

Notes to Schedule:

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.

Valuation Date: July 1, 2016

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age
Asset valuation method	Market value
Discount rate	3.87%
Healthcare trend rates	7.30% in 2018 reducing in steps to 4.00% in 2086 and later
Schedule of changes in benefit terms	The discount rate was changed from 3.58% to 3.87%. The trend assumption was updated. Assumptions for salary, mortality, withdrawal and retirement were updated based on new PSERs assumptions.
	Current director is only eligible for Act 110/43 benefits

SINGLE AUDIT SECTION

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

T 302.478.8940
F 302.468.4001
www.btcpa.com

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, 2018

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 *Governmental 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, 2018, 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, 2018.

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.

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.

BARBACANE THORNTON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

Members of the Board
Kennett Consolidated School District

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

BARBACANE, THORNTON & COMPANY LLP

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

T 302.478.8940
F 302.468.4001
www.btcpa.com

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

November 1, 2018

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, 2018. 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.

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.

BARBACANE THORNTON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

Members of the Board
Kennett Consolidated School District

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, 2018.

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

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?	_____ Yes	X No
• Significant deficiency(ies) identified?	_____ Yes	X None reported
• Noncompliance material to financial statements noted?	_____ Yes	X No

Federal Awards

Internal control over major program:		
• Material weakness(es) identified?	_____ Yes	X No
• Significant deficiency(ies) identified?	_____ Yes	X None reported

Type of auditor's report issued on compliance for major 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

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, 2018

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 7/01/2017	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (UNEARNED) REVENUE 6/30/2018	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	013-17-0210	07/01/16-09/30/17	$ 706,544	$ 325,038	$ 86,938	$ 238,100	$ 238,100	$ -	$ -
Title I - Grants to Local Education Agencies	I	84.010	013-18-0210	07/01/17-09/30/18	609,769	348,439	-	441,281	441,281	92,842	-
Total CFDA #84.010						673,477	86,938	679,381	679,381	92,842	-
Title II - Improving Teacher Quality	I	84.367	020-17-0210	07/01/16-09/30/17	92,574	24,427	22,792	1,635	1,635	-	-
Title II - Improving Teacher Quality	I	84.367	020-18-0210	07/01/17-09/30/18	114,673	106,966	-	114,673	114,673	7,707	-
Total CFDA #84.367						131,393	22,792	116,308	116,308	7,707	-
Title III - Language Inst LEP	I	84.365	010-17-0210	07/01/16-09/30/17	163,054	21,741	12,921	8,820	8,820	-	-
Title III - Language Inst LEP	I	84.365	010-18-0210	07/01/17-09/30/18	142,570	101,836	-	107,485	107,485	5,649	-
Total CFDA #84.365						123,577	12,921	116,305	116,305	5,649	-
Title IV - Student Support and Academic Enrichment	I	84.424	144-18-0210	08/28/17-09/30/18	13,670	12,694	-	13,670	13,670	976	-
Total CFDA# 84.424						12,694	-	13,670	13,670	976	-
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	07/01/16-06/30/17	611,249	233,112	233,112	-	-	-	-
I.D.E.A. Part B	I	84.027	062-18-0024	07/01/17-06/30/18	537,674	358,449	-	537,674	537,674	179,225	-
Total CFDA #84.027						591,561	233,112	537,674	537,674	179,225	-
I.D.E.A. Part B 619	I	84.173	141-17-0024B	07/01/16-06/30/17	1,347	1,347	1,347	-	-	-	-
I.D.E.A. Part B 619	I	84.173	141-18-0024B	07/01/17-06/30/18	1,470	1,470	-	1,470	1,470	-	-
Total Special Education Cluster						594,378	234,459	539,144	539,144	179,225	-
Total U.S. Department of Education						1,535,519	357,110	1,464,808	1,464,808	286,399	-
U.S. Department of Agriculture											
Passed through Pennsylvania Department of Agriculture											
National School Lunch Program	I	10.555	N/A	09/01/17-06/30/18	N/A	118,794	-	118,794	118,794	-	-
Passed through Pennsylvania Department of Education											
National School Lunch Program	I	10.555	N/A	09/01/16-06/30/17	N/A	119,864	119,864	-	-	-	-
National School Lunch Program	I	10.555	N/A	09/01/17-06/30/18	N/A	622,776	-	752,807	752,807	130,031	-
Total CFDA #10.555						861,434	119,864	871,601	871,601	130,031	-

Continued on next page.

KENNETT CONSOLIDATED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

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 7/1/2017	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (UNEARNED) REVENUE 6/30/2018	AMOUNT PASSED THROUGH TO SUBRECIPIENTS
(cont'd)											
U.S. Department of Agriculture											
Passed through Pennsylvania Department of Education											
Breakfast Program	I	10.553	N/A	09/01/16-06/30/17	N/A	19,076	19,076	-	-	-	-
Breakfast Program	I	10.553	N/A	09/01/17-06/30/18	N/A	100,411	-	120,224	120,224	19,813	-
Total CFDA #10.553						119,487	19,076	120,224	120,224	19,813	-
Total Child Nutrition Cluster						980,921	138,940	991,825	991,825	149,844	-
Total U.S. Department of Agriculture						980,921	138,940	991,825	991,825	149,844	-
U.S. Department of Health and Human Services											
Passed through Pennsylvania Department of Health and Human Services											
Medical Assistance Program	I	93.778	N/A	07/01/16-06/30/17	N/A	7,511	7,511	-	-	-	-
Medical Assistance Program	I	93.778	N/A	07/01/17-06/30/18	N/A	6,381	-	17,410	17,410	11,029	-
Total CFDA# 93.778						13,892	7,511	17,410	17,410	11,029	-
TOTAL FEDERAL AWARDS						$ 2,530,332	$ 503,561	$ 2,474,043	$ 2,474,043	$ 447,272	$ -

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 2017 - 2018 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, 2018 was $166,339.

NOTE D 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.