



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

AUDIT REPORT

JUNE 30, 2017

KENNETT CONSOLIDATED SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

November 2, 2017

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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Members of the Board
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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, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Kennett Consolidated School District's 2016 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 3, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 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, schedule of the District's proportionate share of the net pension liability on page 52, and schedule of District contributions on page 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other 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 also not a required part of the basic financial statements. The schedule of expenditures of federal

Members of the Board
Kennett Consolidated School District

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 2, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

**KENNETT CONSOLIDATED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2017**

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, 2017. 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 \$41,623,631. 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 GASB 68, "Accounting and Financial Reporting for Pensions." The District's allocation of PSERS net pension liability is \$110,264,000. As a result, the District's unrestricted net position is \$(90,393,382).
- The District's total net position increased by \$2,907,526. The increase in net position is partially attributable to the reduction in deferred pension expense of \$1,139,000.
- At the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$13,190,115, a decrease of \$1,802,872 in comparison with the prior year. Approximately 50.9 percent of this total amount, \$6,710,812, 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 \$6,710,812, or 8.3 percent of total general fund expenditures.
- The District's total long-term liabilities increased by \$10,901,990, or 6.6 percent, during the fiscal year. The increase is primarily due to an increase in the District's net pension liability of \$16,054,000. The increase is offset by a decrease in general obligation bonds of \$5,502,860.
- The net position of business-type activities, the food service operation, decreased by \$64,923, or 1.2 percent this year. The food service operation was allocated one percent of the PSERS net pension liability, which is \$1,102,640 for the current year. Revenues for the food service operation increased by 1.2 percent to \$1,812,697 while expenses increased by 2.9 percent to \$1,877,620.

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

**KENNETT CONSOLIDATED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONT'D
FOR THE YEAR ENDED JUNE 30, 2017**

services. Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, such as student activity funds and the scholarship fund. The financial statements also include notes that explain some of the information in the statements, as well as provide more detailed data.

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

Major Features of the Government-wide and Fund Financial Statements

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

**KENNETT CONSOLIDATED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONT'D
FOR THE YEAR ENDED JUNE 30, 2017**

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 liabilities. 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 uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law and by bond covenants. The District may establish other funds to control and manage money for particular purposes, such as repaying its long-term debts.

The District has three types of funds as follows:

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

**KENNETT CONSOLIDATED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONT'D
FOR THE YEAR ENDED JUNE 30, 2017**

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 Governmental Accounting Standards Board ("GASB") Statement No. 68, "Accounting and Financial Reporting for Pensions," and GASB statement No. 71, "Pension Transition for Contributions Made Subsequent to the 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 Pennsylvania Public School Employees' Retirement System ("PSERS"), a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. In cost-sharing multi-employer plans, the plan assets and liabilities are shared. Plan assets can be used to pay the pensions of the employees of any employer that provides pensions through the plan. The new standards have shifted pension reporting from a funding-based approach, in which the District reported only its contributions to the plan, to an accounting-based approach. Under this new approach, the District will report its proportionate share of the net pension liability on the statement of net position of the government-wide and proprietary fund financial statements. Reporting in the governmental fund statements is not affected by the implementation of these statements.

**KENNETT CONSOLIDATED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONT'D
FOR THE YEAR ENDED JUNE 30, 2017**

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 30.03 percent in 2016 - 2017. 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.

Financial Analysis of the District as a Whole

The District's net position was adversely affected by the District's recognition of its proportionate share of the net pension liability of the Public School Employees' Retirement System of Pennsylvania (PSERS). For the current year, the District's share of the PSERS net pension liability is \$110,264,000 and total net position is \$(41,623,631), resulting in a negative *unrestricted net position* of \$(90,393,382). The following table presents condensed financial information for the net position of the District as of June 30, 2017 and 2016.

Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 26,420,455	\$ 26,893,612	\$ 910,602	\$ 920,810	\$ 27,331,057	\$ 27,814,422
Capital Assets	98,244,070	98,856,707	723,127	756,764	98,967,197	99,613,471
Total Assets	<u>124,664,525</u>	<u>125,750,319</u>	<u>1,633,729</u>	<u>1,677,574</u>	<u>126,298,254</u>	<u>127,427,893</u>
Deferred Outflows of Resources	20,650,862	7,354,067	208,595	74,284	20,859,457	7,428,351
Total Assets and Deferred Outflows of Resources	<u>145,315,387</u>	<u>133,104,386</u>	<u>1,842,324</u>	<u>1,751,858</u>	<u>147,157,711</u>	<u>134,856,244</u>
Long-term liabilities	173,860,222	163,120,595	1,116,996	954,633	174,977,218	164,075,228
Other liabilities	9,216,130	9,557,747	131,684	127,268	9,347,814	9,685,015
Total Liabilities	<u>183,076,352</u>	<u>172,678,342</u>	<u>1,248,680</u>	<u>1,081,901</u>	<u>184,325,032</u>	<u>173,760,243</u>
Deferred Inflows of Resources	4,413,260	5,572,718	43,050	54,440	4,456,310	5,627,158
Total Liabilities and Deferred Inflows of Resources	<u>187,489,612</u>	<u>178,251,060</u>	<u>1,291,730</u>	<u>1,136,341</u>	<u>188,781,342</u>	<u>179,387,401</u>
Net position:						
Net investment in capital assets	41,619,899	36,394,244	723,127	756,764	42,343,026	37,151,008
Restricted	6,426,725	8,474,047	-	-	6,426,725	8,474,047
Unrestricted (Deficit)	(90,220,849)	(90,014,965)	(172,533)	(141,247)	(90,393,382)	(90,156,212)
Total Net Position (Deficit)	<u>\$ (42,174,225)</u>	<u>\$ (45,146,674)</u>	<u>\$ 550,594</u>	<u>\$ 615,517</u>	<u>\$ (41,623,631)</u>	<u>\$ (44,531,157)</u>

A significant portion of the District's net position, \$42,343,026, 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

**KENNETT CONSOLIDATED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONT'D
FOR THE YEAR ENDED JUNE 30, 2017**

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, \$6,426,725, 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 68. 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 \$2,907,526 during the current fiscal year. The increase is partly due to the reduction in deferred pension expense of \$1,139,000. Governmental activities increased the District's net position by \$2,972,449, 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	
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues:						
Charges for services	\$ 261,483	\$ 200,969	\$ 692,442	\$ 714,040	\$ 953,925	\$ 915,009
Operating grants and contributions	11,290,760	10,462,025	1,115,248	1,075,411	12,406,008	11,537,436
General Revenues:						
Property taxes and other taxes levied for general purposes	63,125,373	61,991,926	-	-	63,125,373	61,991,926
State and federal aid	7,010,842	6,714,900	-	-	7,010,842	6,714,900
Other	440,408	397,902	5,007	1,861	445,415	399,763
Total Revenues	82,128,866	79,767,722	1,812,697	1,791,312	83,941,563	81,559,034
Expenses:						
Instruction	50,130,855	47,394,610	-	-	50,130,855	47,394,610
Instructional support	4,765,349	5,357,520	-	-	4,765,349	5,357,520
Non-instructional services	21,676,525	20,961,236	-	-	21,676,525	20,961,236
Other	2,583,688	2,893,412	1,877,620	1,825,470	4,461,308	4,718,882
Total Expenses	79,156,417	76,606,778	1,877,620	1,825,470	81,034,037	78,432,248
Increase (Decrease) in Net Position Before Transfers	2,972,449	3,160,944	(64,923)	(34,158)	2,907,526	3,126,786
Transfers	-	(4,924)	-	4,924	-	-
Increase (Decrease) in Net Position	2,972,449	3,156,020	(64,923)	(29,234)	2,907,526	3,126,786
Beginning Net Position (Deficit)	(45,146,674)	(48,302,694)	615,517	644,751	(44,531,157)	(47,657,943)
Ending Net Position (Deficit)	<u>\$ (42,174,225)</u>	<u>\$ (45,146,674)</u>	<u>\$ 550,594</u>	<u>\$ 615,517</u>	<u>\$ (41,623,631)</u>	<u>\$ (44,531,157)</u>

**KENNETT CONSOLIDATED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONT'D
FOR THE YEAR ENDED JUNE 30, 2017**

Governmental Activities. Total revenues increased by \$2,361,144, or 3.0 percent. Property taxes and other taxes levied for general purposes accounted for most of the District's revenue in the amount of \$63,125,373, or 76.9 percent. The increase of \$1,133,447 (1.8 percent) is due to an increase in the millage rate of 2.24 percent and a slight recovery in the tax base, along with an increase in realty transfer and earned income taxes. Another \$7,010,842, or 8.5 percent, came from state formula aid, such as the basic education subsidy. The remainder, \$11,992,651 or 14.6 percent, came from various sources. Revenue of \$11,290,760 came from operating grants, including funds for special education, student transportation, retirement, and social security. Revenue of \$177,090 came from earnings on investments, revenue of \$261,483 came from fees charged for services, and other revenue amounted to \$263,318.

The total cost of all governmental programs and services rose to \$79,156,417, an increase of \$2,549,639, or 3.3 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 \$75,100,790, or 94.9 percent, of total expenses. The growth in expenses includes an increase of \$1,445,465 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 \$2,972,449 over the past year.

Business-type Activities. Business-type activities decreased the District's net position by \$64,923. While revenues increased by \$21,385, or 1.2 percent, over the prior year due to an increase in the price of meals served, expenses increased by \$52,150, or 2.9 percent, due mainly to an increase in food 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 increased by \$1,660,390 to \$67,604,174. The state and federal government subsidized certain programs with capital and operating grants and contributions which totaled \$11,290,760.

Net Cost of Governmental Activities

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2017	2016		2017	2016	
Functions/Programs						
Instruction	\$ 50,130,855	\$ 47,394,610	5.8%	\$ 42,525,956	\$ 40,399,429	5.3%
Instructional support	4,765,349	5,357,520	-11.1%	4,247,906	4,907,182	-13.4%
Non-instructional services	21,676,525	20,961,236	3.4%	18,684,765	18,222,065	2.5%
Other	2,583,688	2,893,412	-10.7%	2,145,547	2,415,108	-11.2%
Food services	\$ 79,156,417	\$ 76,606,778	3.3%	\$ 67,604,174	\$ 65,943,784	2.5%

**KENNETT CONSOLIDATED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONT'D
FOR THE YEAR ENDED JUNE 30, 2017**

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

Net Cost of Business-type Activities

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2017	2016		2017	2016	
Functions/Programs						
Food services	\$ 1,877,620	\$ 1,825,470	2.9%	\$ 69,930	\$ 36,019	94.1%

Financial Analysis of the Government's Funds

Governmental Funds

At the end of June 30, 2017, governmental funds had total fund balances of \$13,190,115, a decrease of \$1,802,872 in comparison with the previous year. Approximately 50.9 percent of this total amount, \$6,710,812, 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 \$6,763,390, which also represents 8.3 percent of total general fund expenditures. The fund balance of the District's general fund increased by \$244,450.

The Capital Projects Fund has a total fund balance of \$193,610, 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 \$8,848 is due to expenditures related to the repair of defective concrete at the school.

The Capital Reserve Fund has a total fund balance of \$6,233,115, 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 decrease in fund balance during the current year in the Capital Reserve Fund was \$2,038,474. The Capital Reserve Fund received transfers from the general fund of \$299,498. The Capital Reserve Fund had expenses of \$2,360,706 for a variety of facility improvements including the installation of relocatable classrooms at Greenwood Elementary, renovations to the New Garden Elementary all-purpose room, replacements to portions of the High School roof and construction of the Middle School baseball field. Through the Capital Reserve Fund, the District also made a significant investment in technology (\$518,822) with the purchase of Dell Chromebooks and Notebooks along with appropriate storage cabinets and interactive white boards and projectors.

**KENNETT CONSOLIDATED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONT'D
FOR THE YEAR ENDED JUNE 30, 2017**

Proprietary Funds

Unrestricted net position of the Food Service Fund at the end of the year amounted to \$(172,533). The negative unrestricted net position is due to the Food Service operation's share of the District's net pension liability for PSERS of \$1,102,640. The net position for this fund decreased by \$64,923. 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 \$3,060,956 and represents resources accumulated for anticipated future losses. The net position for this fund increased by \$1,640,540 due to a combination of increased charges for health insurance and 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 2016 - 2017 revenues and expenditures compared to the budget resulted in an overall favorable variance of \$1,257,770. 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 \$543,440. An amount of \$299,498 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 \$213,910 to \$6,710,812.

Significant variances between the original and final budget occurred in local sources of revenues due to greater than expected collections for earned income and realty transfer taxes and interest on investments.

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

- Increases in earned income and realty transfer tax collections of \$997,477.
- Increase in interest on investments of \$103,421.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2017, the District had investments of \$98,967,197 (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 \$646,274, or 0.6 percent, for the year. Total depreciation expense for the year amounted to \$3,839,822. More detailed information about capital assets can be found in the notes to the financial statements.

**KENNETT CONSOLIDATED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONT'D
FOR THE YEAR ENDED JUNE 30, 2017**

Capital Assets

	Governmental Activities		Business-type Activities		Totals		Percentage Change
	2017	2016	2017	2016	2017	2016	
Land	\$ 3,060,599	\$ 3,060,599	\$ -	\$ -	\$ 3,060,599	\$ 3,060,599	0.0%
Construction-in-progress	899,609	324,304	-	-	899,609	324,304	177.4%
Building and building improvements	91,678,496	93,362,950	-	-	91,678,496	93,362,950	-1.8%
Fixtures and equipment	2,605,366	2,108,854	723,127	756,764	3,328,493	2,865,618	16.2%
Total	\$ 98,244,070	\$ 98,856,707	\$ 723,127	\$ 756,764	\$ 98,967,197	\$ 99,613,471	-0.6%

Long-term Debt

As of June 30, 2017, the District had \$175,321,498 in general obligation bonds and other long-term debt outstanding, an increase of \$11,246,270, or 6.9 percent, over last year primarily due the District's net pension liability. The District made annual debt service payments totaling \$5,675,000 and issued no new debt in 2017. More detailed information about the District's long-term liabilities is presented in the notes to the financial statements.

Outstanding Long-term Debt

	Totals		
	2017	2016	% Change
General Obligation Bonds	\$ 56,817,781	\$ 62,664,921	-9.3%
Compensated Absences	1,074,856	1,023,803	5.0%
Other Post-employment Benefits (OPEB)	6,820,581	6,176,504	10.4%
Net Pension Liability	110,264,000	94,210,000	17.0%
Total	\$174,977,218	\$164,075,228	6.6%

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 teacher's contract. The economic package (salaries and fringe benefits) over the next four years provides for an annual increase of 2.3 percent, 2.5 percent, 2.6 percent, and 2.7 percent and includes employee contributions for healthcare costs.

**KENNETT CONSOLIDATED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONT'D
FOR THE YEAR ENDED JUNE 30, 2017**

- 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 four 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 2017 - 2018 was two percent.
- The District is carefully monitoring proposed developments in the Borough of Kennett Square, 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. The District is revisiting the elementary attendance areas annually to ensure future students can be accommodated.
- 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 and logistics.
- 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.
- The current national and global economic conditions continue to affect the District's revenue stream. The continued downturn in new construction in the housing market has resulted in the loss of interim real estate taxes. The number of successful real estate tax assessment appeals in the past few years reached a level to impact the assessment base downward, resulting in the loss of annual real estate tax revenue. The District has seen this stabilize due to the fact that most residential home owners have already appealed their assessment and a reversal of the real estate market. While interest rates have started to increase slowly, low interest rates continue to result in lower income earned on District investments.
- As of this date, there has been no significant progress on the passage of a final state budget, which comprises approximately 19 percent of total revenues. There lacks a completed and agreed upon 2017 - 2018 revenue package. Despite the lack of any coordinated legislative solution, the Governor has made clear that he will take steps to manage the Commonwealth's finances and ensure that education funding is not impacted.
- 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 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

**KENNETT CONSOLIDATED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - CONT'D
FOR THE YEAR ENDED JUNE 30, 2017**

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 2018 - 2019 is 2.4 percent, compared to 2.9 percent in 2017 - 2018. The District does not anticipate needing a referendum for the 2018 - 2019 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, 2017
(With Summarized Comparative Data for June 30, 2016)**

	Governmental Activities	Business-type Activities	Totals	
			2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
ASSETS:				
Cash and cash equivalents	\$ 3,964,794	\$ 806,442	\$ 4,771,236	\$ 3,011,158
Investments	18,279,907	-	18,279,907	20,759,049
Taxes receivable, net	1,813,267	-	1,813,267	1,962,964
Due from other governments	2,128,555	145,932	2,274,487	1,936,488
Internal balance	88,951	(88,951)	-	-
Other receivables	92,403	7,784	100,187	105,333
Prepaid expenses	52,578	-	52,578	22,038
Inventories	-	39,395	39,395	17,392
Land	3,060,599	-	3,060,599	3,060,599
Construction-in-progress	899,609	-	899,609	324,304
Buildings and improvements	137,574,482	-	137,574,482	135,963,293
Furniture and equipment	6,668,158	1,411,220	8,079,378	7,112,655
Accumulated depreciation	(49,958,778)	(688,093)	(50,646,871)	(46,847,380)
TOTAL ASSETS	124,664,525	1,633,729	126,298,254	127,427,893
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred pension contributions	8,638,075	87,253	8,725,328	7,233,717
Deferred pension	12,012,787	121,342	12,134,129	194,634
TOTAL DEFERRED OUTFLOWS OF RESOURCES	20,650,862	208,595	20,859,457	7,428,351
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 145,315,387	\$ 1,842,324	\$ 147,157,711	\$ 134,856,244
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION				
LIABILITIES:				
Accounts payable	\$ 1,590,849	\$ 131,684	\$ 1,722,533	\$ 2,390,161
Accrued salaries and benefits	6,937,347	-	6,937,347	6,602,149
Retainage payable	53,685	-	53,685	21,562
Accrued interest	634,249	-	634,249	663,019
Unearned revenue	-	-	-	8,124
Long-term liabilities				
Portion due or payable within one year:				
Bonds and notes payable in future years, net	5,929,026	-	5,929,026	5,814,026
Accumulated compensated absences	123,812	-	123,812	101,051
Portion due or payable after one year:				
Bonds and notes payable in future years, net	50,888,755	-	50,888,755	56,850,895
Accumulated compensated absences	936,688	14,356	951,044	922,752
Other post-employment benefits	6,820,581	-	6,820,581	6,176,504
Net pension liability	109,161,360	1,102,640	110,264,000	94,210,000
TOTAL LIABILITIES	183,076,352	1,248,680	184,325,032	173,760,243
DEFERRED INFLOWS OF RESOURCES:				
Deferred pension	4,261,950	43,050	4,305,000	5,444,000
Deferred amount on bond refunding	151,310	-	151,310	183,158
TOTAL DEFERRED INFLOWS OF RESOURCES	4,413,260	43,050	4,456,310	5,627,158
NET POSITION (DEFICIT):				
Net investment in capital assets	41,619,899	723,127	42,343,026	37,151,008
Restricted - capital projects	6,426,725	-	6,426,725	8,474,047
Unrestricted (deficit)	(90,220,849)	(172,533)	(90,393,382)	(90,156,212)
TOTAL NET POSITION (DEFICIT)	(42,174,225)	550,594	(41,623,631)	(44,531,157)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 145,315,387	\$ 1,842,324	\$ 147,157,711	\$ 134,856,244

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

KENNETT CONSOLIDATED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017
(With Summarized Comparative Data for the Year Ended June 30, 2016)

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
GOVERNMENTAL ACTIVITIES:						
Instruction	\$ 50,130,855	\$ 7,575,494	\$ -	\$(42,525,956)	\$ -	\$(40,399,429)
Instructional student support	4,765,349	517,443	-	(4,247,906)	-	(4,907,182)
Administrative and financial support services	7,958,298	598,287	-	(7,360,011)	-	(7,184,140)
Operation and maintenance of plant services	7,280,812	547,226	-	(6,733,586)	-	(6,469,281)
Pupil transportation	4,965,476	1,503,572	-	(3,342,242)	-	(3,479,962)
Student activities	1,471,939	110,597	-	(1,248,926)	-	(1,088,682)
Interest on long-term debt	1,445,831	438,141	-	(1,007,690)	-	(1,302,865)
Unallocated depreciation	1,137,857	-	-	(1,137,857)	-	(1,112,243)
TOTAL GOVERNMENTAL ACTIVITIES	79,156,417	11,290,760	-	(67,604,174)	-	(65,943,784)
BUSINESS-TYPE ACTIVITIES:						
Food service	1,877,620	1,115,248	-	-	(69,930)	(36,019)
TOTAL BUSINESS-TYPE ACTIVITIES	1,877,620	1,115,248	-	-	(69,930)	(36,019)
TOTAL PRIMARY GOVERNMENT	\$ 81,034,037	\$ 12,406,008	\$ -	(67,604,174)	(69,930)	(65,979,803)
GENERAL REVENUES						
Property taxes, levied for general purposes				57,336,108	-	57,336,108
Taxes levied for specific purposes				5,789,265	-	5,789,265
Grants and entitlements not restricted to specific programs				7,010,842	-	7,010,842
Investment earnings				177,099	5,007	182,106
Miscellaneous				263,309	-	263,309
TOTAL GENERAL REVENUES				70,576,623	5,007	70,581,630
CHANGE IN NET POSITION				2,972,449	(64,923)	3,126,786
NET POSITION (DEFICIT), BEGINNING OF YEAR				(45,146,674)	615,517	(47,657,943)
NET POSITION (DEFICIT), END OF YEAR				\$(42,174,225)	\$ 550,594	\$(44,531,157)

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

**KENNETT CONSOLIDATED SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017
(With Summarized Comparative Data for June 30, 2016)**

	General Fund	Capital Projects Fund	Capital Reserve Fund	Totals	
				2017	2016
ASSETS					
Cash and cash equivalents	\$ 35,805	\$ 193,610	\$ -	\$ 229,415	\$ 234,201
Investments	12,305,930	-	5,973,977	18,279,907	20,759,049
Taxes receivable	1,850,272	-	-	1,850,272	2,003,025
Due from other funds	75,626	-	312,823	388,449	1,100,212
Due from other governments	2,128,555	-	-	2,128,555	1,884,948
Other receivables	92,403	-	-	92,403	91,315
Prepaid expenditures	52,578	-	-	52,578	22,038
TOTAL ASSETS	\$ 16,541,169	\$ 193,610	\$ 6,286,800	\$ 23,021,579	\$ 26,094,788
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES:					
Accounts payable	\$ 916,426	-	\$ 53,685	\$ 970,111	\$ 1,654,910
Due to other funds	299,498	-	-	299,498	1,211,076
Accrued salaries and benefits	6,937,347	-	-	6,937,347	6,602,149
Unearned revenues	-	-	-	-	8,124
Accumulated compensated absences	123,812	-	-	123,812	101,051
TOTAL LIABILITIES	8,277,083	-	53,685	8,330,768	9,577,310
DEFERRED INFLOWS OF RESOURCES:					
Unavailable revenues - delinquent taxes	1,500,696	-	-	1,500,696	1,524,491
TOTAL DEFERRED INFLOWS OF RESOURCES	1,500,696	-	-	1,500,696	1,524,491
FUND BALANCES:					
Nonspendable	52,578	-	-	52,578	22,038
Restricted - capital projects	-	193,610	6,233,115	6,426,725	8,474,047
Unassigned	6,710,812	-	-	6,710,812	6,496,902
TOTAL FUND BALANCES	6,763,390	193,610	6,233,115	13,190,115	14,992,987
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 16,541,169	\$ 193,610	\$ 6,286,800	\$ 23,021,579	\$ 26,094,788

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, 2017**

TOTAL GOVERNMENTAL FUND BALANCES \$ 13,190,115

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	899,609	
Buildings and improvements	137,574,482	
Furniture and equipment	6,668,158	
Accumulated depreciation	<u>(49,958,778)</u>	98,244,070

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	(56,817,781)	
Accumulated compensated absences	(936,688)	
Accrued interest	(634,249)	
Other post-employment benefits	(6,820,581)	
Net pension liability	<u>(109,161,360)</u>	(174,370,659)

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. (37,005)

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. 3,060,956

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. 1,500,696

Refunded debt resulted in deferred inflows of resources which will be amortized over the life of new debt but do not represent current rights. (151,310)

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 contributions	8,638,075	
Deferred pension	12,012,787	
Deferred inflows of resources:		
Deferred pension	<u>(4,261,950)</u>	<u>16,388,912</u>

NET DEFICIT OF GOVERNMENTAL ACTIVITIES \$ (42,174,225)

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, 2017
(With Summarized Comparative Data for the Year Ended June 30, 2016)

	General Fund	Capital Projects Fund	Capital Reserve Fund	Totals	
				2017	2016
REVENUES					
Local sources	\$ 63,833,746	801	\$ 22,734	\$ 63,857,281	\$ 62,304,449
State sources	16,734,075	-	-	16,734,075	15,655,262
Federal sources	1,558,249	-	-	1,558,249	1,521,663
TOTAL REVENUES	<u>82,126,070</u>	<u>801</u>	<u>22,734</u>	<u>82,149,605</u>	<u>79,481,374</u>
EXPENDITURES					
Current:					
Instruction	48,798,636	-	-	48,798,636	46,141,491
Support services	23,990,869	-	-	23,990,869	23,698,137
Operation of noninstructional services	1,439,536	-	-	1,439,536	1,265,038
Capital outlays	-	9,649	2,360,706	2,370,355	1,438,564
Debt service	7,353,589	-	-	7,353,589	7,851,193
TOTAL EXPENDITURES	<u>81,582,630</u>	<u>9,649</u>	<u>2,360,706</u>	<u>83,952,985</u>	<u>80,394,423</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>543,440</u>	<u>(8,848)</u>	<u>(2,337,972)</u>	<u>(1,803,380)</u>	<u>(913,049)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from bond refunding	-	-	-	-	17,795,000
Premium on bond refunding	-	-	-	-	462,780
Payments to bond refunding agent	-	-	-	-	(17,605,000)
Refund of prior year expenditures	508	-	-	508	33,956
Interfund transfers	(299,498)	-	299,498	-	(4,924)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(298,990)</u>	<u>-</u>	<u>299,498</u>	<u>508</u>	<u>681,812</u>
NET CHANGE IN FUND BALANCES	244,450	(8,848)	(2,038,474)	(1,802,872)	(231,237)
FUND BALANCES, BEGINNING OF YEAR	<u>6,518,940</u>	<u>202,458</u>	<u>8,271,589</u>	<u>14,992,987</u>	<u>15,224,224</u>
FUND BALANCES, END OF YEAR	<u>\$ 6,763,390</u>	<u>\$ 193,610</u>	<u>\$ 6,233,115</u>	<u>\$ 13,190,115</u>	<u>\$ 14,992,987</u>

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

**KENNETT CONSOLIDATED SCHOOL DISTRICT
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (1,802,872)

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	\$ 3,182,621	
Loss on disposal	(2,398)	
Depreciation expense	<u>(3,792,860)</u>	(612,637)

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. (23,795)

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. 5,675,000

Change in allowance for uncollectible taxes 3,056

An internal service fund has been established to account for self-insured healthcare costs. The net revenue is reported with governmental activities. 1,640,540

In the statement of activities, certain operating expenses - compensated absences (vacations and sick leave) and special termination benefits (early retirement) - 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). (26,469)

Other post-employment benefits include post-employment healthcare benefits and all post-employment benefits provided separately from a pension plan, excluding benefits defined as termination offers and benefits. The annual cost represents the employer's contribution to the plan which includes the implicit rate subsidy. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amount actually paid). (644,077)

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 net amortization exceeded current premiums. 172,140

Governmental funds report deferred bond refunding option proceeds as other financing sources. However, these amounts are reported on the statement of net position as deferred outflows of resources and amortized over the life of the refunding debt. 31,848

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and, thus, requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 28,770

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. (1,469,055)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 2,972,449

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, 2017**

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 62,774,699	\$ 62,774,699	\$ 63,833,746	\$ 1,059,047
State sources	16,893,399	16,893,399	16,734,075	(159,324)
Federal sources	1,410,936	1,410,936	1,558,249	147,313
TOTAL REVENUES	<u>81,079,034</u>	<u>81,079,034</u>	<u>82,126,070</u>	<u>1,047,036</u>
EXPENDITURES				
Instruction:				
Regular programs	34,006,018	34,028,609	33,988,345	40,264
Special programs	12,968,147	12,797,472	12,795,121	2,351
Vocational programs	1,751,166	1,706,046	1,705,566	480
Other instructional programs	170,921	320,506	308,963	11,543
Nonpublic school programs	-	874	641	233
Total Instruction	<u>48,896,252</u>	<u>48,853,507</u>	<u>48,798,636</u>	<u>54,871</u>
Support Services:				
Pupil services	2,394,558	2,328,851	2,300,234	28,617
Instructional support	2,157,270	2,190,549	2,180,282	10,267
Administrative support	4,162,249	4,215,201	4,208,339	6,862
Pupil health	897,443	918,097	902,058	16,039
Business support	1,082,956	1,095,363	1,094,098	1,265
Operation and maintenance of plant services	6,473,812	6,408,559	6,393,311	15,248
Student transportation	5,080,321	4,926,575	4,906,625	19,950
Central support	2,046,971	1,986,971	1,971,341	15,630
Other support services	37,551	37,551	34,581	2,970
Total Support Services	<u>24,333,131</u>	<u>24,107,717</u>	<u>23,990,869</u>	<u>116,848</u>
Operation of noninstructional services	1,191,927	1,478,549	1,439,536	39,013
Debt service	7,282,054	7,353,591	7,353,589	2
TOTAL EXPENDITURES	<u>81,703,364</u>	<u>81,793,364</u>	<u>81,582,630</u>	<u>210,734</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(624,330)</u>	<u>(714,330)</u>	<u>543,440</u>	<u>1,257,770</u>
OTHER FINANCING SOURCES (USES)				
Budgetary reserve	(90,000)	-	-	-
Refund of prior year expenditures	-	-	508	508
Transfers out	-	-	(299,498)	(299,498)
TOTAL OTHER FINANCING USES	<u>(90,000)</u>	<u>-</u>	<u>(298,990)</u>	<u>(298,990)</u>
NET CHANGE IN FUND BALANCE	(714,330)	(714,330)	244,450	958,780
FUND BALANCE, BEGINNING OF YEAR	<u>6,543,469</u>	<u>6,543,469</u>	<u>6,518,940</u>	<u>24,529</u>
FUND BALANCE, END OF YEAR	<u>\$ 5,829,139</u>	<u>\$ 5,829,139</u>	<u>\$ 6,763,390</u>	<u>\$ 983,309</u>

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

KENNETT CONSOLIDATED SCHOOL DISTRICT
STATEMENTS OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2017
(With Comparative Data for June 30, 2016)

	Major Fund		Internal Service Fund	
	Food Service Fund		Internal Service Fund	
	2017	2016	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 806,442	\$ 888,481	\$ 1,735,379	\$ 1,888,476
Investments	-	-	2,000,000	-
Due from other governments	145,932	51,540	-	-
Due from other funds	-	12,185	-	166,828
Other receivables	7,784	14,018	-	-
Inventories	39,395	17,392	-	-
Total Current Assets	<u>999,553</u>	<u>983,616</u>	<u>3,735,379</u>	<u>2,055,304</u>
FURNITURE AND EQUIPMENT:				
Net furniture and equipment	<u>723,127</u>	<u>756,764</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>1,722,680</u>	<u>1,740,380</u>	<u>3,735,379</u>	<u>2,055,304</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred pension contributions	87,253	72,337	-	-
Deferred pension	121,342	1,947	-	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>208,595</u>	<u>74,284</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 1,931,275</u>	<u>\$ 1,814,664</u>	<u>\$ 3,735,379</u>	<u>\$ 2,055,304</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION				
LIABILITIES:				
Accounts payable	\$ 131,684	\$ 127,268	\$ 674,423	\$ 629,545
Due to other funds	88,951	62,806	-	5,343
Long-term liabilities:				
Portion due or payable after one year:				
Compensated absences	14,356	12,533	-	-
Net pension liability	1,102,640	942,100	-	-
Total Liabilities	<u>1,337,631</u>	<u>1,144,707</u>	<u>674,423</u>	<u>634,888</u>
DEFERRED INFLOWS OF RESOURCES:				
Deferred pension	<u>43,050</u>	<u>54,440</u>	<u>-</u>	<u>-</u>
NET POSITION (DEFICIT):				
Net investment in capital assets	723,127	756,764	-	-
Unrestricted (deficit)	(172,533)	(141,247)	3,060,956	1,420,416
Total Net Position	<u>550,594</u>	<u>615,517</u>	<u>3,060,956</u>	<u>1,420,416</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 1,931,275</u>	<u>\$ 1,814,664</u>	<u>\$ 3,735,379</u>	<u>\$ 2,055,304</u>

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, 2017
(With Comparative Data for the Year Ended June 30, 2016)

	Major Fund			
	Food Service Fund		Internal Service Fund	
	2017	2016	2017	2016
OPERATING REVENUES				
Food service revenues	\$ 692,442	\$ 714,040	\$ -	\$ -
Charges for health insurance	-	-	8,738,132	8,120,263
TOTAL OPERATING REVENUES	<u>692,442</u>	<u>714,040</u>	<u>8,738,132</u>	<u>8,120,263</u>
OPERATING EXPENSES				
Salaries	207,591	201,102	-	-
Employee benefits	143,238	109,325	-	-
Other purchased services	1,354,616	1,346,473	-	-
Self-insurance claims	-	-	7,108,373	7,808,278
Supplies	125,213	117,392	-	-
Depreciation	46,962	51,178	-	-
TOTAL OPERATING EXPENSES	<u>1,877,620</u>	<u>1,825,470</u>	<u>7,108,373</u>	<u>7,808,278</u>
OPERATING (LOSS) INCOME	<u>(1,185,178)</u>	<u>(1,111,430)</u>	<u>1,629,759</u>	<u>311,985</u>
NONOPERATING REVENUES				
Earnings on investments	5,007	1,861	10,781	1,690
State sources	84,667	86,496	-	-
Federal sources	1,030,581	988,915	-	-
TOTAL NONOPERATING REVENUES	<u>1,120,255</u>	<u>1,077,272</u>	<u>10,781</u>	<u>1,690</u>
CHANGE IN NET POSITION BEFORE TRANSFERS	<u>(64,923)</u>	<u>(34,158)</u>	<u>1,640,540</u>	<u>313,675</u>
Interfund transfers	-	4,924	-	-
CHANGE IN NET POSITION	<u>(64,923)</u>	<u>(29,234)</u>	<u>1,640,540</u>	<u>313,675</u>
NET POSITION, BEGINNING OF YEAR	<u>615,517</u>	<u>644,751</u>	<u>1,420,416</u>	<u>1,106,741</u>
NET POSITION, END OF YEAR	<u>\$ 550,594</u>	<u>\$ 615,517</u>	<u>\$ 3,060,956</u>	<u>\$ 1,420,416</u>

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

**KENNETT CONSOLIDATED SCHOOL DISTRICT
STATEMENTS OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017
(With Comparative Data for the Year Ended June 30, 2016)**

	Major Fund		Internal Service Fund	
	Food Service Fund			
	2017	2016	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from users	\$ 698,676	\$ 775,517	\$ 8,904,960	\$ 8,176,951
Payments to suppliers	(1,335,181)	(1,503,537)	-	-
Payments to employees	(323,805)	(323,966)	-	-
Cash payments for health insurance costs	-	-	(7,068,838)	(7,575,137)
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	(960,310)	(1,051,986)	1,836,122	601,814
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
State sources	80,186	86,320	-	-
Federal sources	806,403	886,975	-	-
Transfers from other funds	-	4,924	-	-
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	886,589	978,219	-	-
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	-	-	(2,000,000)	-
Earnings on investments	5,007	1,861	10,781	1,690
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	5,007	1,861	(1,989,219)	1,690
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(82,039)	(71,906)	(153,097)	603,504
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	888,481	960,387	1,888,476	1,284,972
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 806,442	\$ 888,481	\$ 1,735,379	\$ 1,888,476
RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES				
CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating (loss) income	\$ (1,185,178)	\$ (1,111,430)	\$ 1,629,759	\$ 311,985
Adjustments to reconcile operating (loss) income to net cash (used) provided by operating activities:				
Depreciation	46,962	51,178	-	-
Donated commodities	134,267	96,034	-	-
(Increase) Decrease in:				
Other receivables	6,234	61,477	-	58,373
Inventories	(22,003)	8,627	-	-
Due from other funds	12,185	(8,585)	166,828	(1,685)
Deferred outflows of resources - pension	(134,311)	(15,644)	-	-
Increase (Decrease) in:				
Accounts payable	4,416	(128,878)	44,878	232,321
Due to other funds	26,145	(15,455)	(5,343)	820
Compensated absences	1,823	-	-	-
Net pension liability	160,540	69,740	-	-
Deferred inflows of resources - pension	(11,390)	(59,050)	-	-
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	\$ (960,310)	\$ (1,051,986)	\$ 1,836,122	\$ 601,814
SUPPLEMENTAL DISCLOSURE				
NONCASH NONCAPITAL FINANCING ACTIVITY:				
U.S.D.A. donated commodities	\$ 134,267	\$ 96,034	\$ -	\$ -

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

**KENNETT CONSOLIDATED SCHOOL DISTRICT
STATEMENTS OF NET POSITION - FIDUCIARY FUNDS
JUNE 30, 2017
(With Comparative Data for June 30, 2016)**

	Private-Purpose Trust		Agency Fund	
	2017	2016	2017	2016
ASSETS				
Cash	\$ 246,595	\$ 254,531	\$ 39,113	\$ 32,568
Other accounts receivable	-	-	-	30
TOTAL ASSETS	\$ 246,595	\$ 254,531	\$ 39,113	\$ 32,598
 LIABILITIES AND NET POSITION				
LIABILITIES:				
Other current liabilities	\$ -	\$ -	\$ 39,113	\$ 32,598
 NET POSITION:				
Reserved for trust	246,595	254,531	-	-
TOTAL LIABILITIES AND NET POSITION	\$ 246,595	\$ 254,531	\$ 39,113	\$ 32,598

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

**KENNETT CONSOLIDATED SCHOOL DISTRICT
 STATEMENTS OF CHANGES IN NET POSITION - FIDUCIARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017
 (With Comparative Data for the Year Ended June 30, 2016)**

	Private-Purpose Trust	
	2017	2016
ADDITIONS		
Local contributions	\$ 53,713	\$ 63,025
Earnings on investments	951	292
TOTAL ADDITIONS	54,664	63,317
DEDUCTIONS		
Fees paid and scholarships awarded	62,600	58,317
TOTAL DEDUCTIONS	62,600	58,317
CHANGE IN NET POSITION	(7,936)	5,000
NET POSITION, BEGINNING OF YEAR	254,531	249,531
NET POSITION, END OF YEAR	\$ 246,595	\$ 254,531

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

**KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017**

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. In accordance with GASB Statement No. 14, as amended by GASB Statement No. 39 and GASB Statement No. 61, the District is financially accountable if it appoints a voting majority of the organization governing board and (1) it is able to impose its will on the organization, or (2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burden on the District. 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.

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Based upon the application of the above 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 projects under Section 1432 of the Municipal Code.

PROPRIETARY FUND – This fund accounts 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.
- **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.

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

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

Basis of Presentation:

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

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

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

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

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Measurement Focus and Basis of Accounting

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

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

Budgetary Information

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

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

- The District, before levying annual school taxes, is required to adopt an operating budget by June 30 for the succeeding fiscal year.
- The District is required to publish notice by advertisement, at least once in two newspapers of general circulation in the municipality in which it is located, twenty days prior to final budget adoption, that the proposed budget has been prepared and is available for public inspection at the administrative office of the District. Notice that public hearings will be held on the proposed operating budget must be included in the advertisement; such hearings are required to be scheduled at least ten days prior to when final action on adoption is taken by the School Board of Directors.
- The School Board of Directors may make transfers of funds appropriated to any particular item of expenditure by legislative action. An affirmative vote of two-thirds of all members of the Board is required.

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

Receivables/Payables

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

Cash and Cash Equivalents and Investments

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

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

The District complies with GASB Statement No. 72, "Fair Value Measurement and Application." This statement requires most investments to be reported at fair value.

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

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

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

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

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, 2017 consist of the purchased food/supplies for use in the food program in the amount of \$39,395.

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:

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

Compensated Absences

The District accounts for compensated absences in accordance with GASB Statement No. 16, "Accounting for Compensated Absences." This statement 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 three items that qualify for reporting in this category. Pension contributions made subsequent to the measurement date and, therefore, not reflected in the net pension liability under full accrual basis reporting are reported as a deferred outflow of resources on the entity-wide and proprietary fund statements of net position. Certain changes to the net

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

pension liability 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.

Fund Balances

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

- **Non-spendable 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

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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.

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, 2016, from which the summarized information was derived.

Use of Estimates in the Preparation of Financial Statements

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

NOTE 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.

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2017

NOTE 3 – CASH AND CASH EQUIVALENTS AND INVESTMENTS - continued

- Commercial paper, bankers' acceptances, and negotiable certificates of deposit receiving top ratings from at least two nationally recognized statistical ratings organizations.

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

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

Cash	\$ 5,056,944
Investments	<u>18,279,907</u>
	<u><u>\$ 23,336,851</u></u>

Deposits:

At year end, the carrying amount of the District's deposits was \$5,056,944, and the bank balance was \$5,074,167. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$339,946 was covered through collateral held by financial institutions in accordance with Act 72. The remaining \$4,484,221 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, 2017, the District had the following investments:

	<u>Fair Value</u>
Pennsylvania Local Government Investment Trust (PLGIT)	\$ 50,785
Pennsylvania School District Liquid Asset Trust (PSDLAF)	<u>18,229,122</u>
Total Investments	<u><u>\$ 18,279,907</u></u>

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2017

NOTE 3 – CASH AND CASH EQUIVALENTS AND INVESTMENTS - continued

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 categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

Of the investments, \$2,425,000 is invested in non-negotiable certificates of deposits with maturities of less than one year. The remaining \$15,854,907 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, 2017, the District’s investments were rated as:

<u>Investment</u>	<u>Standard & Poor’s</u>
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, 2017, 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.

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2017

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, 2017 was 29.24 mills (\$29.24 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, 2017 was \$37,005. 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 \$1,500,696 consists of unavailable real estate taxes.

NOTE 5 – INTERNAL RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2017 is as follows:

Due To	Amount	Due From	Amount
General Fund	\$ 75,626	General Fund	\$ 299,498
Capital Reserve Fund	<u>312,823</u>	Food Service Fund	<u>88,951</u>
	<u>\$ 388,449</u>		<u>\$ 388,449</u>

Transfer To	Amount	Transfer From	Amount
Capital Reserve Fund	<u>\$ 299,498</u>	General Fund	<u>\$ 299,498</u>
	<u>\$ 299,498</u>		<u>\$ 299,498</u>

Interfund balances between funds represent temporary loans recorded 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.

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2017

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, 2017 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	324,304	1,132,269	556,964	899,609
Total Capital Assets Not Being Depreciated	<u>3,384,903</u>	<u>1,132,269</u>	<u>556,964</u>	<u>3,960,208</u>
Capital assets being depreciated:				
Buildings and building improvements	135,963,293	1,611,189	-	137,574,482
Furniture and equipment	5,714,760	996,127	42,729	6,668,158
Total Capital Assets Being Depreciated	<u>141,678,053</u>	<u>2,607,316</u>	<u>42,729</u>	<u>144,242,640</u>
Less accumulated depreciation for:				
Buildings and building improvements	42,600,342	3,295,643	-	45,895,985
Furniture and equipment	3,605,907	497,217	40,331	4,062,793
Total Accumulated Depreciation	<u>46,206,249</u>	<u>3,792,860</u>	<u>40,331</u>	<u>49,958,778</u>
Total Capital Assets Being Depreciated , Net	<u>95,471,804</u>	<u>(1,185,544)</u>	<u>2,398</u>	<u>94,283,862</u>
Governmental Capital Assets, Net	<u>\$ 98,856,707</u>	<u>\$ (53,275)</u>	<u>\$ 559,362</u>	<u>\$ 98,244,070</u>

Business-type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets being depreciated:				
Equipment	\$ 1,397,895	\$ 13,325	\$ -	\$ 1,411,220
Less accumulated depreciation for:				
Equipment	641,131	46,962	-	688,093
Business-type Activities Capital Assets, Net	<u>\$ 756,764</u>	<u>\$ (33,637)</u>	<u>\$ -</u>	<u>\$ 723,127</u>

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2017

NOTE 7 – CHANGES IN CAPITAL ASSETS - continued

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

<u>Governmental Activities:</u>	
Instruction	\$ 1,517,146
Administrative and financial support	397,065
Operation and maintenance of plant services	740,792
Unallocated depreciation	<u>1,137,857</u>
 Total Depreciation Expense – Governmental Activities	 <u><u>\$ 3,792,860</u></u>

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

<u>Food Service:</u>	
Equipment	<u>\$ 46,962</u>
 Total Depreciation Expense - Business-type Activities	 <u><u>\$ 46,962</u></u>

NOTE 8 – LONG-TERM LIABILITIES

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

General Obligation Bonds - Series of 1998

Series of 1998, maturing through February 1, 2018, bears interest at a variable rate based on municipal bond rates (approximately 1.3% as of June 30, 2017). Interest is payable monthly. \$ 750,000

General Obligation Notes - Series of 2006

Series of 2006, maturing through October 1, 2026, bears interest at a variable rate based on municipal bond rates (approximately 1.3% as of June 30, 2017). Interest is payable monthly. 5,090,000

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. 19,960,000

General Obligation Note - Series of 2011

Series of 2011, maturing through February 1, 2025, bears interest at a variable rate based on municipal bond rates (approximately 1.3% as of June 30, 2017). Interest is payable monthly. 7,470,000

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2017

NOTE 8 – LONG-TERM LIABILITIES - continued

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. 3,400,000

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. 4,020,000

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 2016 provided funds to partially refund the Series of 2005 and Series of 2011 bonds. 8,050,000

General Obligation Bonds - Series of 2016

Series of 2016, maturing through February 15, 2023, bears interest ranging from 0.69% to 4.00%. Interest is payable semi-annually on February 15 and August 15. The Series of 2016 provided funds to partially refund the Series of 2005 bonds. 7,520,000

Total Bonds/Notes Payable \$ 56,260,000

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
2018	\$ 5,790,000	\$ 1,471,667	\$ 7,261,667
2019	5,930,000	1,326,216	7,256,216
2020	6,140,000	1,163,423	7,303,423
2021	6,335,000	987,386	7,322,386
2022	6,540,000	788,443	7,328,443
2023 - 2027	<u>25,525,000</u>	<u>1,264,243</u>	<u>26,789,243</u>
	<u>\$ 56,260,000</u>	<u>\$ 7,001,378</u>	<u>\$ 63,261,378</u>

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2017

NOTE 8 – LONG-TERM LIABILITIES - continued

Changes in Long-term Liabilities:

Long-term liability balance and activity for the year ended June 30, 2017 was as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Due Within One Year
Bonds and notes payable	\$ 61,935,000	\$ -	\$ 5,675,000	\$ 56,260,000	\$ 5,790,000
Bond premiums	729,921	-	172,140	557,781	172,140
Net	62,664,921	-	5,847,140	56,817,781	5,962,140
Other Liabilities:					
Compensated absences	1,011,270	49,230	-	1,060,500	123,812
Other post-employment benefits	6,176,504	644,077	-	6,820,581	-
Total Governmental Long-term Liabilities	<u>\$ 69,852,695</u>	<u>\$ 693,307</u>	<u>\$ 5,847,140</u>	<u>\$ 64,698,862</u>	<u>\$ 6,085,552</u>
Business-type Activities					
Compensated absences	<u>\$ 12,533</u>	<u>\$ 1,823</u>	<u>\$ -</u>	<u>\$ 14,356</u>	<u>\$ -</u>
Total Business-type Long-term Liabilities	<u>\$ 12,533</u>	<u>\$ 1,823</u>	<u>\$ -</u>	<u>\$ 14,356</u>	<u>\$ -</u>

Payments on bonds and notes payable, compensated absence liabilities, and net other post-employment benefit obligations are liquidated by the general fund. Total interest expense during the year ended June 30, 2017 was \$1,445,831.

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.

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2017

NOTE 9 – EMPLOYEE RETIREMENT PLAN - continued

Benefits Provided:

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

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

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F 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.

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2017

NOTE 9 – EMPLOYEE RETIREMENT PLAN - continued

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 of 2010 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, 2017, the rate of the employer contribution was 30.03 percent of covered payroll, which was comprised of 29.20 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, 2017 was \$8,725,328.

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

At June 30, 2017, the District reported a liability of \$110,264,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by rolling forward the system’s total pension liability as of June 30, 2015 to June 30, 2016. The District’s proportion of the net pension liability was calculated utilizing the employer’s one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2016, the District’s proportion was 0.2225 percent, which was an increase of 0.005 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$10,155,943. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings	\$ 6,146,000	\$ -
Difference between expected and actual experience	-	918,000
Change in proportionate share of net pension liability	1,743,000	3,387,000
Change in assumptions	3,980,000	-
Difference between employer contributions and proportionate share of total contributions	265,129	-
Contributions subsequent to the date of measurement	<u>8,725,328</u>	<u>-</u>
	<u>\$20,859,457</u>	<u>\$ 4,305,000</u>

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2017

NOTE 9 – EMPLOYEE RETIREMENT PLAN - continued

An amount of \$8,725,328 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, 2017. Other amounts will be reported as deferred outflows and resources and deferred inflows of resources related to pensions and will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	
2018	\$ 820,550
2019	820,550
2020	3,408,305
2021	<u>2,779,724</u>
	<u>\$ 7,829,129</u>

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, 2015 actuarial valuation to June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the experience study that was performed for the five-year period ended June 30, 2010. The recommended assumption changes based on this experience study were adopted by the PSERS Board of Directors at its March 11, 2011 Board meeting and were effective beginning with the June 30, 2011 actuarial valuation.

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

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

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2017

NOTE 9 – EMPLOYEE RETIREMENT PLAN - continued

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

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

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

Discount Rate:

The discount used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates which are actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District’s 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.

	<u>1% Decrease 6.25%</u>	<u>Current Rate Discount Rate 7.25%</u>	<u>1% Increase 8.25%</u>
District’s proportionate share of the net pension liability	\$134,882,000	\$110,264,000	\$ 89,577,000

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2017

NOTE 9 – EMPLOYEE RETIREMENT PLAN - continued

Pension Plan Fiduciary Net Position:

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

NOTE 10 – POST-EMPLOYMENT 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 GASB Statement No. 45, retiree benefits are viewed as a form of deferred compensation. As such, the benefits are treated as being earned over the working lifetime of the employee so that the cost is fully charged to operations by the earliest date of eligibility under the plan. A plan report is available in the District office.

Funding Policy:

The contribution requirements of plan members are established and may be amended by the Board of School Directors. The 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 2017, the District contributed \$420,046 to the plan for current premiums, or approximately 54 percent of total premiums. Plan members receiving benefits contributed \$362,412, or approximately 46 percent of total premiums, through their required monthly contributions.

Annual OPEB Cost and Net OPEB Obligation:

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

Annual required contribution	\$ 1,572,140
Interest on net OPEB obligation	-
Adjustments on annual required contribution	<u>(196,594)</u>
Annual OPEB costs	1,375,546
Contributions made (estimated)	<u>(731,470)</u>
Estimated increase in net OPEB obligation	644,076
Net OPEB obligation - beginning of year	<u>6,176,505</u>
Net OPEB obligation - end of year	<u><u>\$ 6,820,581</u></u>

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2017

NOTE 10 – POST-EMPLOYMENT HEALTHCARE PLAN - continued

Funding Status and Funding Progress:

The schedule of funding progress of OPEB is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2016	\$ -	\$16,179,000	\$16,179,000	0.00%	\$29,286,577	55.24%
7/1/2014	\$ -	\$14,901,000	\$19,901,000	0.00%	\$28,183,000	52.87%
7/1/2012	\$ -	\$15,622,000	\$15,622,000	0.00%	\$29,108,000	53.66%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions:

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

In the July 1, 2016 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 3.25 percent investment rate of return and an annual healthcare cost trend rate of 7.30 percent in 2018, reduced by decrements to an ultimate rate of 4.00 percent in 2086 or later. The UAAL is being amortized based on the level dollar, 30-year open period. The remaining amortization period at June 30, 2017 was 22 years.

NOTE 11 – FUND BALANCES

As of June 30, 2017, fund balances are composed of the following:

	General Fund	Capital Projects Fund	Capital Reserve Fund	Total Governmental Funds
Nonspendable	\$ 52,578	\$ -	\$ -	\$ 52,578
Restricted:				
Capital Projects	-	193,610	6,233,115	6,426,725
Unassigned	6,710,812	-	-	6,710,812
Total Fund Balances	\$ 6,763,390	\$ 193,610	\$ 6,233,115	\$ 13,190,115

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2017

NOTE 12 – 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.

Construction Commitment

As of June 30, 2017, anticipated construction commitments are as follows:

<u>Name</u>	<u>Contract Amount</u>	<u>Completed through 6/30/17</u>	<u>Remaining Amount</u>
New Garden Renovations	\$ 544,292	\$ 531,336	\$ 12,956
Middle School Baseball Field	<u>466,508</u>	<u>368,273</u>	<u>98,235</u>
	<u>\$ 1,010,800</u>	<u>\$ 899,609</u>	<u>\$ 111,191</u>

NOTE 13 – RISK MANAGEMENT

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

NOTE 14 – DEFICIT NET POSITION

For governmental activities, business-type activities, and the proprietary fund, the unrestricted net deficit amounts of \$90,220,849, \$172,533, and \$172,533, respectively, includes the effect of deferring the recognition of pension contributions made subsequent to the measurement date of the net pension liability, the unamortized portion of contributions made in excess of the District's share of its proportionate contributions to its pension plan, and the deferred outflows resulting from the change in the District's share of the net pension liability. This is offset by the District's actuarially determined pension liability and the deferred inflows resulting from the differences between projected and actual investment earnings.

KENNETT CONSOLIDATED SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS - continued
June 30, 2017

NOTE 15 – SUBSEQUENT EVENTS

The District has evaluated all subsequent events through November 2, 2017, 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, 2016	June 30, 2015
District's proportion of the net pension liability	0.2225%	0.2175%
District's proportion of the net pension liability - dollar value	\$ 110,264,000	\$ 94,210,000
District's covered employee payroll	\$ 28,934,868	\$ 28,164,151
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	381.08%	334.50%
Plan fiduciary net position as a percentage of the total pension liability	50.14%	54.36%
		\$ 87,236,000
		\$ 28,122,261
		0.2204%

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 CONTRIBUTIONS
 Pennsylvania Public School Employees' Retirement System (PSERS)

	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution	\$ 8,725,328	\$ 7,233,717	\$ 5,773,651
Contributions in relation to the contractually required contribution	8,725,328	7,233,717	5,773,651
Contribution deficiency (excess)	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 29,881,260	\$ 28,934,868	\$ 28,164,151
Contributions as a percentage of covered-employee payroll	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.

SINGLE AUDIT SECTION

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

November 2, 2017

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, 2017, 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 2, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting ("internal control") to determine the 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.

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

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

November 2, 2017

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

Report on Compliance for Each 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, 2017. 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.

Members of the Board
Kennett Consolidated School District

Opinion on Each 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, 2017.

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

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

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

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

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

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

KENNETT CONSOLIDATED SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

PART B - FINDINGS RELATED TO FINANCIAL STATEMENTS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

PART C - FINDINGS RELATED TO FEDERAL AWARDS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

**KENNETT CONSOLIDATED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

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 7/01/2016	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (UNEARNED) REVENUE 6/30/2017	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	013-16-0210	07/01/15-09/30/16	\$ 544,553	\$ 180,665	\$ (8,124)	\$ 188,789	\$ 188,789	\$ -	\$ -
Title I - Grants to Local Education Agencies	I	84-010	013-17-0210	07/01/16-09/30/17	706,544	381,506	-	468,444	468,444	86,938	-
Total CFDA #84.010						562,171	(8,124)	657,233	657,233	86,938	-
Title II - Improving Teacher Quality	I	84-367	020-16-0210	07/01/15-09/30/16	94,771	31,359	3,123	28,236	28,236	-	-
Title II - Improving Teacher Quality	I	84-367	020-17-0210	07/01/16-09/30/17	92,574	68,147	-	90,939	90,939	22,792	-
Total CFDA #84.367						99,506	3,123	119,175	119,175	22,792	-
Title III - Language Inst LEP	I	84-365	010-16-0210	07/01/15-09/30/16	156,997	33,075	33,075	-	-	-	-
Title III - Language Inst LEP	I	84-365	010-17-0210	07/01/16-09/30/17	163,054	141,313	-	154,234	154,234	12,921	-
Total CFDA #84.365						174,388	33,075	154,234	154,234	12,921	-
Subgrant from U.S. Department of Education											
Passed through Chester County Intermediate Unit											
I.D.E.A. Part B	I	84-027	062-16-0024	07/01/15-06/30/16	546,269	145,672	145,672	-	-	-	-
I.D.E.A. Part B	I	84-027	062-17-0024	07/01/16-06/30/17	611,249	378,137	-	611,249	611,249	233,112	-
Total CFDA #84.027						523,809	145,672	611,249	611,249	233,112	-
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	1,347	-
Total Special Education Cluster						523,809	145,672	612,596	612,596	234,459	-
Total U.S. Department of Education						1,359,874	173,746	1,543,238	1,543,238	357,110	-
U.S. Department of Agriculture											
Passed through Pennsylvania Department of Agriculture											
National School Lunch Program	I	10-555	N/A	09/01/16-06/30/17	N/A	134,267	-	134,267	134,267	-	-
Passed through Pennsylvania Department of Education											
National School Lunch Program	I	10-555	N/A	09/01/15-06/30/16	N/A	42,066	42,066	-	-	-	-
National School Lunch Program	I	10-555	N/A	09/01/16-06/30/17	N/A	655,380	-	775,244	775,244	119,864	-
Total CFDA #10.555						831,713	42,066	909,511	909,511	119,864	-

Continued on next page.

**KENNETT CONSOLIDATED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

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 7/1/2016	REVENUE RECOGNIZED	ACCRUED (UNEARNED) EXPENDITURES	ACCRUED (UNEARNED) REVENUE 6/30/2017	AMOUNT PASSED THROUGH TO SUBRECIPIENTS
<i>(cont'd)</i>											
U.S. Department of Agriculture											
Passed through Pennsylvania Department of Education Breakfast Program	I	10.553	N/A	09/01/15-06/30/16	N/A	6,963	6,963	-	-	-	-
Breakfast Program	I	10.553	N/A	09/01/16-06/30/17	N/A	101,994	-	121,070	121,070	19,076	-
Total CFDA #10.553						108,957	6,963	121,070	121,070	19,076	-
Total Child Nutrition Cluster						940,670	49,029	1,030,581	1,030,581	138,940	-
Total U.S. Department of Agriculture						940,670	49,029	1,030,581	1,030,581	138,940	-
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	07/01/15-06/30/16	N/A	9,563	9,563	-	-	-	-
Medical Assistance Program	I	93.778	N/A	07/01/16-06/30/17	N/A	7,500	-	15,011	15,011	7,511	-
Total CFDA# 93.778						17,063	9,563	15,011	15,011	7,511	-
TOTAL FEDERAL AWARDS						\$ 2,317,607	\$ 232,338	\$ 2,588,830	\$ 2,588,830	\$ 503,561	\$ -

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 U.S.D.A. Donated Commodities, represent surplus food consumed by the District during the 2016 - 2017 fiscal year.

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.