

KUTZTOWN AREA SCHOOL DISTRICT

FINANCIAL AND COMPLIANCE REPORT

Year Ended June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of School Directors
Kutztown Area School District
Kutztown, 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 Kutztown Area School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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 Kutztown Area School District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 15 to the financial statements, effective July 1, 2017, the Kutztown Area School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule for the general fund and pension and other postemployment benefit information on pages 76 through 80, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Kutztown Area School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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.

Herbein + Company, Inc.

Reading, Pennsylvania
November 2, 2018

Kutztown Area School District
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David J. Miller, Business Administrator

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

The discussion and analysis of Kutztown Area School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

The year ended June 30, 2018 was the fourth year in the implementation of GASB's 68 and 71. It is also the first year on the implementation of GASB 75. The implementation of this standard required net position to be restated at July 1, 2017. Once again the impact on Governmental activities net position is negative, going from $(22,104,876) to $(26,799,261). Business type activities net position went from $(125,239) to $(224,616).

General Fund revenues increased over 2017 by $773,194 which was attributable to higher revenues of from Real Estate Tax, Basic Education Subsidy, and Retirement Subsidy.

Total expenses were lower than the previous year by $165,246, mostly due to lower capital outlay and lower payback of debt principal. And, although total expenses were down, the cost of instructional, support and operational services increased by $491,650.

Existing Bonds and Notes Payable were reduced by $1.785 million during the year. New general obligation bonds of $4,280,000 were issued to upgrade facilities to increase energy efficiencies in the District's five buildings.

USING THE BASIC FINANCIAL STATEMENTS

This annual report consists of **two** distinct series of financial statements: the district-wide and the fund financials. The **district-wide** reports are designed to show the District as a sum of its significant fund activities. The **fund financial** statements provide the next level of detail. They focus on the individual parts of the District's operations in more detail than the district-wide statements.

Reporting the School District as a Whole (District-wide Financials)

Statement of Net Position and *Statement of Activities*

The view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2018?" The *Statement of Net Position* and the *Statement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting system used by most private sector companies. This basis of accounting takes into consideration all of the current year's revenues and expenses regardless of when cash was received or paid.

These two statements provide information for a long-term view of the School District's finances. They report the School District's net position and changes in net position. This change in net position is important because it identifies whether the financial position of the School District has improved or diminished for the School District as a whole. The cause of this change may be the result of many factors, some financial, some not.

In the *Statement of Net Position* and the *Statement of Activities*, the School District is divided into two distinct activities:

Governmental Activities – Most of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, and extracurricular activities. In the case of the Kutztown Area School District, the major funds included under governmental activities are the **General Fund,** and the **Capital Projects Fund**. There are no longer any non-major funds grouping under governmental activities. The **Athletic Fund** is now combined with the **General Fund** to satisfy the requirements of Governmental Accounting Standards Board Statement #54.

Business-Type Activity – This service is provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The **Food Service** enterprise fund is the only fund reported as a business activity for Kutztown Area School District.

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund Financial reports provide detailed information about the School District's major funds. The School District uses several funds to account for a multitude of financial transactions.

Governmental Funds – Most of the School District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using an accounting method called modified accrual, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs. The same funds (Kutztown Area School District's General Fund, and Capital Projects Fund) are included in the Governmental Funds as are included in Governmental Activities. As stated previously, the Athletic Fund is now combined with the General Fund to comply with the requirements of GASB #54. *The relationship, or differences, between governmental activities (reported in the* Statement of Net Position *and the* Statement of Activities*) and the governmental funds is reconciled in the financial statements.*

Proprietary Funds – Proprietary Funds (in Kutztown Area School District's case this is only the food service fund) have historically operated as enterprise funds using the same basis of accounting as business-type activities; therefore, these statements will essentially match the information provided in the statements for the School District as a whole.

Fiduciary Funds – The District is the trustee, or fiduciary, for some Scholarship Funds and Activities Funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Net Assets. We ***exclude*** these activities from the District's other financial statements because the District cannot use these assets to finance its operations.

GASB 75

GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, has now been adopted by Kutztown Area School District.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Table 1 provides a summary of Statement of Net Position as of June 30, 2018 compared to June 30, 2017.

Table 1
Fiscal Year Ended June 30, 2018 and 2017
Net Position

	Governmental Activities		Business-type Activities		Total School District	
	2018	2017	2018	2017	2018	2017
Current & Other Assets	$ 13,870,858	$ 14,067,361	$ 473,235	$ 476,639	$ 14,344,093	$ 14,544,000
Net Capital Assets	40,833,023	37,067,120	163,321	167,381	40,996,344	37,234,501
Total Assets	**54,703,881**	**51,134,481**	**636,556**	**644,020**	**55,340,437**	**51,778,501**
Deferred Outflows of Resources	**9,959,222**	**10,060,818**	**152,653**	**157,128**	**10,111,875**	**10,217,946**
Current & Other Liabilities	6,492,486	6,419,455	10,830	12,935	6,503,316	6,432,390
Long-Term Liabilities	84,257,316	76,204,968	958,784	886,828	85,216,100	77,091,796
Total Liabilities	**90,749,802**	**82,624,423**	**969,614**	**899,763**	**91,719,416**	**83,524,186**
Deferred Inflows of Resources	**712,562**	**675,752**	**44,211**	**26,624**	**756,773**	**702,376**
Net Investment in Capital Assets	14,150,174	12,990,270	163,321	167,381	14,313,495	13,157,651
Net Assets-Restricted	1,857,910	1,559,690			1,857,910	1,559,690
Net Assets-Unrestricted	(42,807,345)	(36,654,836)	(387,937)	(292,620)	(43,195,282)	(36,947,456)
Total Net Position (Deficit)	**$ (26,799,261)**	**$ (22,104,876)**	**$ (224,616)**	**$ (125,239)**	**$ (27,023,877)**	**$ (22,230,115)**
Restated - Implementation of GASB 75		(4,290,469)		(71,692)		(4,362,161)
Total Net Position (Deficit)	**$ (26,799,261)**	**$ (26,395,345)**	**$ (224,616)**	**$ (196,931)**	**$ (27,023,877)**	**$ (26,592,276)**

Most of the District's net position is invested in capital assets (building, land and equipment).

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 expense categories are represented to determine the final amount of the District's activities that are supported by other general revenues. The two largest general revenues are the Basic Education Subsidy provided by the State of Pennsylvania, and the local taxes assessed to community taxpayers.

Table 2 takes the information from that Statement, rearranges it slightly, so you can see the total revenues for the year.

Table 2
Fiscal Year Ended June 30, 2018 and 2017
Changes in Net Position

	Governmental Activities		Business-type Activities		Total School District	
Revenues	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Program Revenues:						
Charges for Services	$ 122,420	$ 119,463	291,660	294,781	414,080	414,244
Operating Grants & Contributions	4,988,181	4,803,696	326,801	308,625	5,314,982	5,112,321
Capital Grants & Contributions	218,472	300,385			218,472	300,385
General Revenues:						
Property Taxes	20,842,364	20,351,803			20,842,364	20,351,803
Other Taxes	2,018,385	2,048,790			2,018,385	2,048,790
Grants, Subsidies & Contributions	4,069,016	3,481,929			4,069,016	3,481,929
Investment Earnings	137,155	70,352	3,339	1,178	140,494	71,530
Miscellaneous Income	51,600	41,231			51,600	41,231
Transfers	(2,172)	(3,167)	2,172	3,167	-	-
Total Revenues	32,445,421	31,214,482	623,972	607,751	33,069,393	31,822,233
Expenses						
Instruction	19,674,701	19,628,813			19,674,701	19,628,813
Instructional Student Support	3,525,073	3,422,356			3,525,073	3,422,356
Admin. & Fin'l Support Services	2,679,011	2,973,707			2,679,011	2,973,707
Oper. & Maint. Of Plant Svcs.	3,126,716	2,920,613			3,126,716	2,920,613
Pupil Transportation	1,404,222	1,302,396			1,404,222	1,302,396
Central Support	24,193	32,246			24,193	32,246
Student Activities	761,471	688,855			761,471	688,855
Community Services	15,335	15,327			15,335	15,327
Interest on Long-Term Debt	677,935	552,551			677,935	552,551
Unallocated Depreciation Exp	958,589	847,619			958,589	847,619
Refund of Prior Yr Revenue	2,091	21,911			2,091	21,911
Food Services			651,657	672,834	651,657	672,834
Total Expenses	32,849,337	32,406,394	651,657	672,834	33,500,994	33,079,228
Change in Net Position	**(403,916)**	**(1,191,912)**	**(27,685)**	**(65,083)**	**(431,601)**	**(1,256,995)**
Net Position (Deficit) - Beginning	**(26,395,345)**	**(20,912,964)**	**(196,931)**	**(60,156)**	**(26,592,276)**	**(20,973,120)**
Restated - Implementation of GASB 75		(4,290,469)		(71,692)		(4,362,161)
Net Position (Deficit) - Ending	**$ (26,799,261)**	**$ (26,395,345)**	**$ (224,616)**	**$ (196,931)**	**(27,023,877)**	**(26,592,276)**

Governmental Activities

The *Statement of Activities* reflects the cost of program services and the revenues (charges for services and sales, grants and contributions) offsetting those services. Table 3, for government activities, indicates the ***total cost*** of services and the ***net cost*** of services. The net cost represents the cost of these services that is supported by tax revenues and unrestricted state entitlements.

Table 3
Fiscal Year Ended June 30, 2018 and 2017
Governmental Activities

Functions/Programs	Total Cost of Services		Net Cost of Services	
	2018	2017	2018	2017
Instruction	19,674,701	19,628,813	$16,226,844	$16,239,946
Instructional Student Support	3,525,073	3,422,356	3,142,526	3,057,236
Administrative	2,703,204	3,005,953	2,448,746	2,767,160
Operation and Maintenance	3,126,716	2,920,613	2,904,555	2,689,427
Pupil Transportation	1,404,222	1,302,396	708,345	698,919
Student Activities	761,471	688,855	654,390	588,082
Community Services	15,335	15,327	14,715	15,084
Interest on Long-Term Debt	677,935	552,551	459,463	257,466
Refund of Prior Year Revenue	2,091	21,911	2,091	21,911
Unallocated Depreciation	958,589	847,619	958,589	847,619
Total Governmental Activities	**$32,849,337**	**$32,406,394**	**$27,520,264**	**$27,182,850**
Less:				
Unrestricted Grants & Subsidies			4,069,016	3,481,929
Total Needs from Local Taxes and Other Revenues			**$23,451,248**	**$23,700,921**

The dependence upon tax revenues for governmental activities is apparent. In fiscal year 2017-2018, the costs of instructional activities were equal to 86 percent of taxes and other general revenues. Taxes and other general revenues fund 83 percent of all government activity expenses. The community, as a whole, is the primary support for Kutztown Area School District students.

Business-Type Activity

Table 4 reflects the activities of the Food Service Program, the only Business-type activity of the District. The Statement of Revenues, Expenses and Changes in Fund Net Assets for the proprietary fund will further detail the actual results of operations. The Kutztown Area School District's Food Service operation is not self-supporting; it requires assistance from the General Fund.

Table 4
Fiscal Year Ended June 30, 2018 and 2017
Business Type Activities

Functions/Programs	Total Cost of Services		Net Cost of Services	
	2018	2017	2018	2017
Food Services	$ 651,657	$ 672,834	$ 33,196	$ 69,428
Less:				
Investment Earnings,Gains (losses)			3,339	1,178
Total Business-type Activities			**$ 29,857**	**$ 68,250**

Major factors causing the decrease in Net Cost of Services include a slight decrease in salaries and benefits. Operating revenues were relatively flat and Non-Operating Revenues increased slightly. The General Fund transferred $2,172 and $3,167 to the Food Services Fund in 2018 and 2017 respectively.

THE SCHOOL DISTRICT'S FUNDS

The School District's governmental funds are accounted for using the *modified accrual* basis of accounting. **Total** governmental funds had revenues and other financing sources of $37,443,820 and expenditures and other financing uses of $37,528,700. This reduced the total fund balance by $84,880.

General Fund:

The negative net change in fund balance of $-309,248 represents the revenues over the expenditures of Kutztown Area School Districts General Fund for the fiscal year ended June 30, 2018. This was less than the budgeted decrease of $778,160 to fund balance. Fund Balance at year end was $5,873,383. Fund balance has been committed for capital projects and also to offset rising pension costs.

Capital Projects Fund:

The fund balance for the Capital Projects Fund increased by $224,368. This represents transfer from the General Fund of $450,753, a receipt from bond issue of $4,280,000 and expenditures of $5,056,256. Money was used for energy savings improvements to all of our buildings, and various High School and Middle School projects. Fund balance at year end was $3,077,916.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2018 fiscal year, the district had invested over $37 million in land, buildings, furniture and equipment, and vehicles. The value of the land is not the fair market, but rather the acquisition cost. Table 5 shows the breakdown of net capital assets. The increase in the totals is largely due to recent high school renovation.

Table 5
Capital Assets at June 30, 2018 and 2017 (Net of Depreciation)

	Governmental Activities		Business-Type Activity		Total	
	2018	2017	2018	2017	2018	2017
Land	$ 41,090	$ 41,090			$ 41,090	$ 41,090
Construction in Progress	5,919,085	1,133,431			5,919,085	1,133,431
Site Improvements	240,335	275,587			240,335	275,587
Bldg & Bldg Improvements	32,162,796	33,047,411			32,162,796	33,047,411
Furniture & Equipment	2,469,717	2,569,601	$ 163,321	$ 167,381	2,633,038	2,736,982
Totals	**$ 40,833,023**	**$ 37,067,120**	**163,321**	**167,381**	**40,996,344**	**37,234,501**

Debt

As of July 1, 2017 the District had outstanding bonds of $25,210,000 accrued. During the year the District added $4,280,000 General Obligation Bonds and principal payments were made against outstanding debt in the amount of $1,785,000. As of June 30, 2018, outstanding bonds payable totaled $27,705,000 . Table 6 shows the breakdown of these numbers.

Table 6
Outstanding Debt

	July 1, 2017	Additions	Reductions	June 30, 2018
GOB Series 2018		$ 4,280,000		$ 4,280,000
GOB Series 2017	$ 3,030,000		$ 5,000	3,025,000
GOB Series 2016	9,220,000		15,000	9,205,000
GOB Series 2016A	8,845,000		1,110,000	7,735,000
GOB Series 2013	4,115,000		655,000	3,460,000
Total	**$ 25,210,000**	**$ 4,280,000**	**$ 1,785,000**	**$ 27,705,000**

Other obligations include capital leases, accrued vacation pay and sick leave for specific employees of the District. More detailed information about our long-term liabilities is included in the Notes to the Financial Statements.

CURRENT ISSUES

1. Act 1 of 2006 - Tax Relief Act continues to have a significant impact on the operation of the School District. The Act restricts annual increase of real estate property tax to an inflation index and imposes an earlier more stringent and strenuous budget timeline for the school district.

2. Special Education – Special Education costs increased by over 17% in the last 5 years. They are in excess of $4.2 million and they remain a source of concern as more services become required for this segment of the school population. The government mandates which require and regulate these programs are largely unfunded.

3. Health Benefits – Health benefits trend rates continue to remain high. For 2018-2019 the rate increase is 9.5%. The Berks County Schools Health Insurance Consortium continues to look at various ways to control costs. Health costs are expected to exceed the general rate of inflation for years to come.

4. Charter Schools – Charter School costs have increased significantly over the last several years, from $44,237 in 2003-2004 to $1,472,315 in the 2017-2018 school year. In response to this significant increase, the district has launched its own cyber charter school program to give students another option. This program will allow students to participate in all on-campus courses as well as access to all extracurricular activities. The cost per student is significantly less than tuition at an outside entity.

5. Retirement Rates – PSERS retirement contribution rates have increased from 1.15% in 2002-03 to an actual rate of 33.43% in 2018-19. This, in conjunction with increasing salary costs, has caused retirement costs to increase at double-digit rates.

6. Student Enrollment - The administration continues to monitor declining student enrollment and the impact that it may have on district operations. Staffing has been adjusted and will continue to be evaluated.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact David J. Miller, Business Administrator and Board Treasurer, at Kutztown Area School District, 251 Long Lane, Kutztown, PA 19530.

KUTZTOWN AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	$ 11,159,952	$ 531,818	$ 11,691,770
Taxes Receivable, Net	1,021,242	-	1,021,242
Internal Balances	79,023	(79,023)	-
Intergovernmental Receivables	1,587,707	7,178	1,594,885
Inventories	-	13,262	13,262
Prepaid Expenses	22,934	-	22,934
Capital Assets Not Being Depreciated	5,960,175	-	5,960,175
Capital Assets, Net of Accumulated Depreciation	34,872,848	163,321	35,036,169
TOTAL ASSETS	54,703,881	636,556	55,340,437
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charge on Bond Refunding	446,656	-	446,656
Deferred Outflows of Resources for Other Postemployment Benefits - Health Insurance Premium Assistance Program	134,935	2,136	137,071
Deferred Outflows of Resources for Other Postemployment Benefits - District Plan	1,041,774	16,222	1,057,996
Deferred Outflows of Resources for Pension	8,335,857	134,295	8,470,152
TOTAL DEFERRED OUTFLOWS OF RESOURCES	9,959,222	152,653	10,111,875
LIABILITIES			
Accounts Payable	1,254,877	13	1,254,890
Accrued Interest	213,495	-	213,495
Payroll Accruals and Withholdings	2,793,933	-	2,793,933
Unearned Revenues	103,443	10,817	114,260
Noncurrent Liabilities, Due Within One Year	2,126,738	-	2,126,738
Noncurrent Liabilities:			
Bonds Payable, Net	25,984,611	-	25,984,611
Long-Term Portion of Capital Lease Obligations	308,294	-	308,294
Long-Term Portion of Compensated Absences	358,717	-	358,717
Net Other Postemployment Benefit Obligation - Health Insurance Premium Assistance Program	2,125,008	34,992	2,160,000
Total Other Postemployment Benefit Obligation - District Plan	3,976,788	75,690	4,052,478
Net Pension Liability	51,503,898	848,102	52,352,000
TOTAL LIABILITIES	90,749,802	969,614	91,719,416
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources for Other Postemployment Benefits - Health Insurance Premium Assistance Program	98,380	1,620	100,000
Deferred Inflows of Resources for Other Postemployment Benefits - District Plan	136,246	4,102	140,348
Deferred Inflows of Resources for Pension	477,936	38,489	516,425
TOTAL DEFERRED OUTFLOWS OF RESOURCES	712,562	44,211	756,773
NET POSITION			
Net Investment in Capital Assets	14,150,174	163,321	14,313,495
Restricted for Capital Projects	1,857,910	-	1,857,910
Unrestricted (Deficit)	(42,807,345)	(387,937)	(43,195,282)
TOTAL NET POSITION (DEFICIT)	$ (26,799,261)	$ (224,616)	$ (27,023,877)

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Business-Type Activities	Net (Expense) Revenue and Changes in Net Position: Total
Governmental Activities							
Instructional Services:							
Regular Programs - Elementary/Secondary	$ 13,786,813	$ -	$ 1,756,201	$ -	$ (12,030,612)	$ -	$ (12,030,612)
Special Programs - Elementary/Secondary	4,538,018	-	1,584,893	-	(2,953,125)	-	(2,953,125)
Vocational Education	1,165,496	-	81,649	-	(1,083,847)	-	(1,083,847)
Other Instructional Programs - Elementary/Secondary	180,478	-	25,114	-	(155,364)	-	(155,364)
Adult Education Programs	3,896	-	-	-	(3,896)	-	(3,896)
Total Instructional Services	19,674,701	-	3,447,857	-	(16,226,844)	-	(16,226,844)
Support Services:							
Students	1,072,164	-	128,560	-	(943,604)	-	(943,604)
Instructional Staff	1,928,580	-	186,108	-	(1,742,472)	-	(1,742,472)
Administration	2,191,253	-	210,050	-	(1,981,203)	-	(1,981,203)
Pupil Health	524,329	-	67,879	-	(456,450)	-	(456,450)
Business	460,270	-	44,408	-	(415,862)	-	(415,862)
Operation and Maintenance of Plant	3,126,716	81,400	140,761	-	(2,904,555)	-	(2,904,555)
Student Transportation	1,404,222	-	695,877	-	(708,345)	-	(708,345)
Central Support	24,193	-	-	-	(24,193)	-	(24,193)
Other Support	27,488	-	-	-	(27,488)	-	(27,488)
Total Support Services	10,759,215	81,400	1,473,643	-	(9,204,172)	-	(9,204,172)
Operation of Noninstructional Services:							
Student Activities	761,471	41,020	66,061	-	(654,390)	-	(654,390)
Community Services	15,335	-	620	-	(14,715)	-	(14,715)
Interest on Long-Term Debt	677,935	-	-	218,472	(459,463)	-	(459,463)
Refund of Prior Year Revenue	2,091	-	-	-	(2,091)	-	(2,091)
Unallocated Depreciation	958,589	-	-	-	(958,589)	-	(958,589)
Total Noninstructional Services	2,415,421	41,020	66,681	218,472	(2,089,248)	-	(2,089,248)
Total Governmental Activities	32,849,337	122,420	4,988,181	218,472	(27,520,264)	-	(27,520,264)
Business-Type Activities:							
Food Services	651,657	291,660	326,801	-	-	(33,196)	(33,196)
Total Primary Government	$ 33,500,994	$ 414,080	$ 5,314,982	$ 218,472	(27,520,264)	(33,196)	(27,553,460)
General Revenues:							
Taxes:							
Property Taxes					20,842,364	-	20,842,364
Public Utility Realty, Earned Income and Mercantile Taxes					2,018,385	-	2,018,385
Grants, Subsidies, and Contributions Not Restricted for Specific Programs					4,069,016	-	4,069,016
Investment Earnings					137,155	3,339	140,494
Miscellaneous income					51,600	-	51,600
Transfers					(2,172)	2,172	-
Total General Revenues and Transfers					27,116,348	5,511	27,121,859
Change in Net Position					(403,916)	(27,685)	(431,601)
Net Position (Deficit) - Beginning of Year - Restated					(26,395,345)	(196,931)	(26,592,276)
Net Position (Deficit) - End of Year					$ (26,799,261)	$ (224,616)	$ (27,023,877)

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2018

	General	Capital Projects	Total Governmental Funds
ASSETS			
Cash and Investments	$ 6,949,260	$ 4,210,692	$ 11,159,952
Interfund Receivable	79,023	-	79,023
Taxes Receivable	1,035,470	-	1,035,470
Intergovernmental Receivables	1,587,707	-	1,587,707
Prepaid Expenditures	22,934	-	22,934
TOTAL ASSETS	$ 9,674,394	$ 4,210,692	$ 13,885,086
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
LIABILITIES			
Accounts Payable	$ 139,179	$ 1,115,698	$ 1,254,877
Current Portion of Compensated Absences Payable	70,132	-	70,132
Payroll Accruals and Withholdings	2,793,933	-	2,793,933
Unearned Revenues	86,365	17,078	103,443
TOTAL LIABILITIES	3,089,609	1,132,776	4,222,385
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	711,402	-	711,402
FUND BALANCES			
Nonspendable for Prepaid Expenditures	22,934	-	22,934
Restricted	-	3,077,916	3,077,916
Committed for:			
Future Capital Projects	1,556,895	-	1,556,895
Future PSERS Contributions	555,000	-	555,000
Amounts Due Career and Technology Center	28,307	-	28,307
Further Development of Virtual Academy	44,211	-	44,211
Assigned	1,006,338	-	1,006,338
Unassigned	2,659,698	-	2,659,698
TOTAL FUND BALANCES	5,873,383	3,077,916	8,951,299
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 9,674,394	$ 4,210,692	$ 13,885,086

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

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

June 30, 2018

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

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS		$ 8,951,299
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is $62,408,453 and the accumulated depreciation is $21,575,430.		40,833,023
Property and other taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as unavailable revenue in the funds adjusted for allowance for doubtful accounts.		697,174
The net pension liability and related deferred outflows and inflows of resources for pensions are not reflected on the fund financial statements.		(43,645,977)
The other postemployment benefit obligations and related deferred outflows and inflows of resources for other postemployment benefits are not reflected on the fund financial statements.		(5,159,713)
Long-term liabilities, including bonds payable and capital lease obligations, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bonds Payable	$ (27,705,000)	
Capital Lease Obligations	(534,900)	
Accrued Interest on Long-Term Debt	(213,495)	
Unamortized Bond Premium	(181,435)	
Unamortized Bond Discount	71,824	
Deferred Charge on Bond Refunding	446,656	
Long-Term Portion of Compensated Absences	(358,717)	(28,475,067)
TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES		$ (26,799,261)

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

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

For the Year Ended June 30, 2018

	General	Capital Projects	Total Governmental Funds
REVENUES			
Local Sources	$ 22,887,928	$ 549,871	$ 23,437,799
State Sources	8,817,635	-	8,817,635
Federal Sources	251,757	-	251,757
TOTAL REVENUES	31,957,320	549,871	32,507,191
EXPENDITURES			
Current:			
Instructional Services	18,576,817	4,046	18,580,863
Support Services	9,901,846	338,945	10,240,791
Operation of Noninstructional Services	756,104	-	756,104
Capital Outlay	205,876	4,713,265	4,919,141
Debt Service:			
Principal	2,042,242	-	2,042,242
Interest	534,543	-	534,543
Refund of Prior Year Revenue	2,091	-	2,091
TOTAL EXPENDITURES	32,019,519	5,056,256	37,075,775
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(62,199)	(4,506,385)	(4,568,584)
OTHER FINANCING SOURCES (USES)			
Issuance of General Obligation Bonds	-	4,280,000	4,280,000
Issuance of Capital Leases	205,876	-	205,876
Transfers In	-	450,753	450,753
Transfers Out	(452,925)	-	(452,925)
TOTAL OTHER FINANCING SOURCES (USES)	(247,049)	4,730,753	4,483,704
NET CHANGE IN FUND BALANCES	(309,248)	224,368	(84,880)
FUND BALANCES - BEGINNING OF YEAR	6,182,631	2,853,548	9,036,179
FUND BALANCES - END OF YEAR	$ 5,873,383	$ 3,077,916	$ 8,951,299

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

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

For the Year Ended June 30, 2018

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		$ (84,880)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital Outlays	$ 5,252,273	
Less: Depreciation Expense	(1,486,370)	3,765,903
Because some property taxes will not be collected for several months after the District's year end, they are not considered as "available" revenues in the governmental funds.		(59,598)
Issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.		
Repayment of Bond Principal	1,785,000	
Issuance of General Obligation Bonds	(4,280,000)	
Repayment of Capital Lease	257,242	
Issuance of Capital Lease	(205,876)	
Amortization of Bond Premium	20,931	
Amortization of Bond Discount	(6,923)	
Amortization of Deferred Charge on Bond Refunding	(102,521)	(2,532,147)
Interest expense incurred on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources.		(54,879)
In the statement of activities, certain operating expenses - compensated absences (vacations and sick days) are measured by the amounts earned during the year.		3,047
The change in net pension liability and related deferred outflows and inflows of resources for pension are reflected as an adjustment to expense on the statement of activities, but not included in the fund statements.		(1,413,197)
The change in other postemployment benefit obligations and related deferred outflows and inflows of resources for other postemployment benefits are reflected as an adjustment to expense on the statement of activities, but not included in the fund statements.		(28,165)
CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES		$ (403,916)

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION
PROPRIETARY FUND

June 30, 2018

	Enterprise Fund Food Service
ASSETS	
CURRENT ASSETS	
Cash and Investments	$ 531,818
Intergovernmental Receivables	7,178
Inventories	13,262
TOTAL CURRENT ASSETS	552,258
NONCURRENT ASSETS	
Furniture and Equipment, Net	163,321
TOTAL ASSETS	715,579
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows of Resources for Other Postemployment Benefits - Health Insurance Premium Assistance Program	2,136
Deferred Outflows of Resources for Other Postemployment Benefits - District Plan	16,222
Deferred Outflows of Resources for Pension	134,295
TOTAL DEFERRED OUTFLOWS OF RESOURCES	152,653
LIABILITIES	
CURRENT LIABILITIES	
Interfund Payable	79,023
Accounts Payable	13
Unearned Revenues	10,817
TOTAL CURRENT LIABILITIES	89,853
NONCURRENT LIABILITIES	
Net Other Postemployment Benefit Obligation - Health Insurance Premium Assistance Program	34,992
Total Other Postemployment Benefit Obligation - District Plan	75,690
Net Pension Liability	848,102
TOTAL LIABILITIES	1,048,637
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows of Resources for Other Postemployment Benefits - Health Insurance Premium Assistance Program	1,620
Deferred Inflows of Resources for Other Postemployment Benefits - District Plan	4,102
Deferred Inflows of Resources for Pension	38,489
TOTAL DEFERRED INFLOWS OF RESOURCES	44,211
NET POSITION	
Net Investment in Capital Assets	163,321
Unrestricted (Deficit)	(387,937)
TOTAL NET POSITION (DEFICIT)	$ (224,616)

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

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

For the Year Ended June 30, 2018

	Enterprise Fund Food Service
OPERATING REVENUES	
Food Service Revenue	$ 266,573
Other Operating Revenue	25,087
TOTAL OPERATING REVENUES	291,660
OPERATING EXPENSES	
Salaries	212,804
Employee Benefits	121,378
GASB Pension and OPEB Expense	22,326
Purchased Services	16,285
Supplies	262,511
Depreciation	12,145
Repairs and Maintenance	4,173
Miscellaneous Expenses	35
TOTAL OPERATING EXPENSES	651,657
OPERATING LOSS	(359,997)
NONOPERATING REVENUES	
Earnings on Investments	3,339
State Sources	59,046
Federal Sources	267,755
TOTAL NONOPERATING REVENUES	330,140
LOSS BEFORE TRANSFERS	(29,857)
TRANSFERS IN	2,172
CHANGE IN NET POSITION	(27,685)
NET POSITION (DEFICIT) - BEGINNING OF YEAR - RESTATED	(196,931)
NET POSITION (DEFICIT) - END OF YEAR	$ (224,616)

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND

For the Year Ended June 30, 2018

	Enterprise Fund Food Service
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Users	$ 291,890
Cash Payments to Employees for Services	(431,847)
Cash Payments to Suppliers for Goods and Services	(237,095)
NET CASH USED FOR OPERATING ACTIVITIES	(377,052)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Sources	58,660
Federal Sources	215,469
Transfers In	2,172
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	276,301
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Asset Purchases	(8,085)
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on Investments	3,339
NET DECREASE IN CASH AND CASH EQUIVALENTS	(105,497)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	637,315
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 531,818

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - CONTINUED
PROPRIETARY FUND

For the Year Ended June 30, 2018

	Enterprise Fund Food Service
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	$ (359,997)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	12,145
Donated Commodities Used	46,880
Changes in Assets, Deferred Outflows of Resources, Liabilities, and Deferred Inflows of Resources:	
Inventories	1,364
Deferred Outflows of Resources for Other Postemployment Benefits - Health Insurance Premium Assistance Program	(285)
Deferred Outflows of Resources for Other Postemployment Benefits - District Plan	(9,301)
Deferred Outflows of Resources for Pension	22,833
Interfund Balances	(97,665)
Accounts Payable	(2,335)
Unearned Revenues	230
Net Other Postemployment Benefit Obligation - Health Insurance Premium Assistance Program Obligation	(1,571)
Total Other Postemployment Benefit Obligation - District Plan	12,292
Net Pension Liability	(19,229)
Deferred Inflows of Resources for Other Postemployment Benefits - Health Insurance Premium Assistance Program	1,620
Deferred Inflows of Resources for Other Postemployment Benefits - District Plan	4,102
Deferred Inflows of Resources for Pension	11,865
Total Adjustments	(17,055)
NET CASH USED FOR OPERATING ACTIVITIES	$ (377,052)
NONCASH NONCAPITAL FINANCING ACTIVITIES	
During the year, the District used $46,880 of commodities from the U.S. Department of Agriculture.	$ 46,880

See accompanying notes.

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KUTZTOWN AREA SCHOOL DISTRICT

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND

June 30, 2018

	Agency Fund (Student Activities)
ASSETS	
CURRENT ASSETS	
Cash and Investments	$ 62,127
TOTAL ASSETS	$ 62,127
LIABILITIES	
CURRENT LIABILITIES	
Other Current Liabilities	$ 62,127
TOTAL LIABILITIES	$ 62,127

See accompanying notes.

The Kutztown Area School District ("School District" or the "District") is located in Berks County, Pennsylvania. The District tax base consists of the Boroughs of Kutztown, Lyons, and Lenhartsville, and the Townships of Maxatawny, Greenwich, and Albany. The District is governed by a board of nine school directors who are residents of the School District and who are elected every two years, on a staggered basis, for a four-year term.

The board of school directors has the power and duty to establish, equip, furnish, and maintain a sufficient number of elementary, secondary, and other schools necessary to educate every person residing in such district, between the ages of 6 and 21 years, who may attend.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Kutztown Area School District have been prepared in accordance with accounting principles generally accepted in the United States of America (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. The more significant of these accounting principles are as follows:

A. Reporting Entity

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

The District used guidance contained in generally accepted accounting principles to evaluate the possible inclusion of related entities (authorities, boards, councils, etc.) within its reporting entity. Accounting principles generally accepted in the United States of America require that the reporting entity consists of the primary government and organizations for which the primary government is financially accountable. In addition, the primary government may determine through the exercise of management's professional judgment that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. In such instances, that organization should be included as a component unit if the nature and significance of their relationship with the primary government or other component units are such that the exclusion from the financial reporting entity would render the financial reporting entity's financial statements incomplete or misleading. In evaluating how to define the reporting entity, management has considered all potential component units.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A. Reporting Entity - continued

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

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

Joint Venture: The District is a participating member of the Berks Career & Technology Center. See Note 12 for details of involvement and financial information of the joint venture.

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

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

B. Basis of Presentation - Government-Wide Financial Statements

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Presentation - Government-Wide Financial Statements - continued

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

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

C. Basis of Presentation - Fund Financial Statements

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

The District Reports the Following Major Governmental Funds:

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

The District has the Following Major Enterprise Fund:

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

Additionally, the District Reports the Following Fund Type:

Fiduciary Funds: The District's fiduciary fund is the activity fund, an agency fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Measurement Focus and Basis of Accounting

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Budgetary Process

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

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

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Budgetary Process - continued

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the PDE 2028 when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all 2017/2018 budget transfers.

F. Financial Position

1. Cash and Investments

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

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

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

2. Interfund Transactions

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

3. Inventories and Prepaid Items

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

Inventories of the governmental funds, consisting principally of textbooks and instructional supplies, utilize the purchase method: that is, they are charged to expenditures when purchased.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

3. Inventories and Prepaid Items - continued

Inventories of the Enterprise Fund consisting of food and paper supplies are carried at cost, using the first-in, first-out method. Federal donated commodities are valued at their fair market value as determined by the U.S. Department of Agriculture at the date of donation. The inventories on hand at June 30, 2018, consist of the following:

Purchased food and supplies	$ 4,739
Donated commodities	8,523
	$ 13,262

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital Assets, Depreciation, and Amortization

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

The District generally capitalizes assets with costs of $2,500 or more as purchase and construction outlays occur. Management has elected to include certain homogeneous asset categories with individual assets less than $2,500 as composite groups for financial reporting purposes. Assets purchased or constructed with long-term debt may be capitalized regardless of the threshold established. Interest incurred during the construction phase of the business-type activities is included in the capitalized value of the assets constructed. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

4. Capital Assets, Depreciation, and Amortization - continued

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

Assets	Years
Building and building improvements	10 - 50
Site improvements	10 - 50
Furniture and equipment	5 - 20

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expenses) until then. The District has three items that qualify for reporting in this category:

A *deferred charge on bond refunding* results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Deferred outflows of resources for pension relate to the District's net pension liability and pension expense and arise from changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, changes in the employer's proportion, differences between employer contributions and the proportionate share of total contributions reported by the pension plan, or changes in the internal allocation of the net pension liability between governmental and business-type activities or funds. These amounts are deferred and amortized over either a closed 5-year period or the average remaining service life of all employees depending on what gave rise to the deferred outflow. Also included are contributions made to the pension plan subsequent to the measurement date and prior to the District's year end. The contributions will be recognized as a reduction in net pension liability in the following year.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

5. Deferred Outflows/Inflows of Resources - continued

Deferred outflows of resources for other postemployment benefit obligations relate to the District's obligation for postemployment benefits other than pensions and related expenses and arise from the changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, changes in the employer's proportion, differences between employer contributions and the proportionate share of total contributions reported by the plan, or changes in the internal allocation of the net other postemployment benefit obligation between governmental and business-type activities or funds. These amounts are deferred and amortized over either a closed 5-year period or the average remaining service life of all employees depending on what gave rise to the deferred outflow. Also included are contributions or benefit payments made subsequent to the measurement date and prior to the District's year end. These payments will be recognized as a reduction to the net other postemployment benefit obligation in the following year.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has three types of items that qualify for reporting in this category.

Unavailable revenue arises only under a modified accrual basis of accounting and is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source - property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Deferred inflows of resources for pensions relate to the District's net pension liability and pension expense and arises from changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, changes in the employer's proportion, differences between employer contributions and the proportionate share of total contributions reported by the pension plan, or changes in the internal allocation of the net pension liability between governmental and business-type activities or funds. These amounts are deferred and amortized over either a closed 5-year period or the average remaining service life of all employees depending on what gave rise to the deferred inflow.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

5. Deferred Outflows/Inflows of Resources - continued

Deferred inflows of resources for other postemployment benefit obligations relate to the District's obligation for postemployment benefits other than pensions and related expenses and arise from changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, changes in the employer's proportion, differences between employer contributions and the proportionate share of total contributions reported by the plan, or changes in the internal allocation of the other postemployment benefit obligation between governmental and business-type activities or funds. These amounts are deferred and amortized over either a closed 5-year period or the average remaining service life of all employees depending on what gave rise to the deferred inflow.

6. Unearned Revenues

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

7. Net Position

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

8. Fund Balance Policies and Flow Assumptions

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

The restricted fund balance classification represents funds that are limited in use due to constraints for a specific purpose through restrictions by external parties, grant agreements, or enabling legislation.

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

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

The unassigned fund balance of the general fund at the end of each fiscal year end shall not be less than 5% of the following year's projected budgeted expenditures. In any fiscal year where the District is unable to maintain this minimum reservation of fund balance as required in this section, the District shall not budget any amount of unassigned fund balance for the purpose of balancing the general fund budget until this level is achieved.

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. The District's policy places no restrictions on the order of the unrestricted fund balances used. The order of the unrestricted fund balances used for disbursements is at the discretion of the business manager.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

G. Revenues and Expenditures/Expense

1. Program Revenues

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

2. Compensated Absences

Sick Pay

Under the District's various bargaining agreements and plans, professional employees and administrators accumulate unused sick days without limitation. These unused sick days may be accumulated for future illnesses and are not vested. Upon retirement, professional employees are paid for unused sick days at the rate of $25/day. Upon retirement each administrator/supervisor shall be eligible to continue on the District's hospitalization plan, at District expense, for a period of time, as calculated below, or receive compensation for unused sick days as described below. Each retiring administrator/supervisor has the option of choosing one of the benefit plans outlined below, either: Hospitalization Plan Benefit or Pay for Unused Sick Days Benefit.

Option to Continue on District's Hospitalization Plan

Upon retirement, each administrator/supervisor shall be eligible to continue on the District's hospitalization plan, at District expense, for a period of time calculated as follows:

1. Coverage will be calculated based on one (1) month for every six (6) days of unused sick leave.

2. Any remaining days, after the calculation of (1) above, shall be allocated at the rate of seventy-five dollars ($75) per each day of unused sick leave (upon retirement) toward the purchase of coverage for a hospitalization plan.

3. The maximum length of hospitalization paid for by the District will be two (2) years.

Option to Receive Compensation for Unused Sick Days

Upon the retirement of an administrator/supervisor, such individual shall receive compensation for each accumulated sick day at the rate of $75/day for each unused sick day up to a maximum of 120 days.

Vacation Leave

Unused vacation leave can be accumulated by administrators/supervisors to a maximum of 30 days. Administrators/supervisors may receive full payment for up to 30 days of unused vacation days upon retirement. The District maintains records of all employees' accumulated vacation days.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

G. Revenues and Expenditures/Expense - continued

2. Compensated Absences - continued

Retirement Benefits

Upon notification to the District that the next school year shall be the final year of service prior to retirement, a professional employee will receive an increment equivalent to $100 per year of service up to a maximum of $3,500. All service must have been in the Kutztown Area School District.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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

H. Other Use of Estimates

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

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Compliance with Finance Related Legal and Contractual Provisions

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

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - CONTINUED

B. Deficit Fund Balance or Net Position of Individual Funds

Deficit Net Position - Proprietary Fund (Food Service Fund)
For the year ended June 30, 2018, the implementation of GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* and the accounting under GASB No. 68, *Accounting and Financial Reporting for Pensions,* and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date,* created a deficiency in net position at year end of $224,616. The District will fund this deficiency in future years through contributions to the Pennsylvania Public School Employees' Retirement Plan (PSERS) at a rate required by the Plan.

C. Excess of Expenditures Over Appropriations in Individual Funds

For the year ended June 30, 2018, the General Fund has an excess of expenditures over appropriations of $199,087. The excess expenditures were covered by the issuance of a capital lease.

D. Budgetary Compliance

The District's only legally adopted budget is for the General Fund. All budgetary transfers were made within the last nine months of the fiscal year. The District cancels all purchase orders open at year end; therefore, it does not have any outstanding encumbrances at June 30, 2018. In addition, the District includes a portion of the prior year's fund balance represented by unappropriated liquid assets remaining in the fund as budgeted revenue in the succeeding year. The results of operations on a GAAP basis do not recognize the fund balance allocation as revenue as it represents prior period's excess of revenues over expenditures.

NOTE 3 - CASH AND INVESTMENTS

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.

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

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

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

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

Cash	$ 2,121,242
Petty cash	435
Pooled cash and investments	9,632,220
	$ 11,753,897

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2018, the carrying amount of the District's deposits was $2,121,242 and the bank balance was $2,490,364. Of the bank balance, $250,000 was covered by federal depository insurance, and $2,240,364 was exposed to custodial credit risk but covered by the collateralization requirements in accordance with Act 72 of the 1971 Session of the General Assembly.

Investments

As of June 30, 2018, the District had the following investments:

	Maturities	Fair Value	Carrying Value
PA School District Liquid Asset Fund (PSDLAF):			
Full Flex Pool	< 1 year	$ 9,250,000	$ 9,250,000
Certificates of Deposit	< 1 year	245,000	245,000
MAX Account Balance		137,220	137,220
	Total Investments		$ 9,632,220

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Investments - continued

Certain external investments held by the District, based on portfolio maturity, quality, diversification, and liquidity measures, qualify for measurement at amortized cost at both the pool and participating government level consistent with GASB Statement No. 79. The District measures those investments, which include $9,632,220 (PSDLAF) at amortized cost. All investments in external investment pools that are not registered with the Securities and Exchange Commission are subject to oversight by the Commonwealth of Pennsylvania.

A portion of the District's deposits are in the Pennsylvania School District Liquid Asset Fund (PSDLAF). PSDLAF acts like a money market mutual fund in that the objective is to maintain a stable net asset value of $1 per share, is rated by nationally recognized statistical rating organization, and is subject to an independent annual audit.

The PSDLAF Full Flex Pool and Certificates of Deposit, as part of the Fixed-Term Series at PSDLAF, are fixed-term investments collateralized in accordance with Act 72 and invests in assets listed above as permitted under Section 440.1 of the Public School Code of 1949. The Fixed-Term Series are fixed-term investment vehicles with maturities depending upon the maturity date of each particular Fixed-Term Series. All investments in a Fixed-Term Series by a Settlor are intended to be deposited for the full term of the particular Fixed-Term Series; however, participants in the full flex pool may remove funds without early withdrawal penalty. Whether a Fixed-Term Series has only one Settlor or more than one Settlor participating in it, each certificate of deposit in which the monies in such Fixed-Term Series are invested is registered in the name of that particular Fixed-Term Series.

The PSDMAX fund invests in U.S. treasury securities, U.S. government securities, its agencies and instrumentalities, and repurchase agreements, collateralized by such securities and contracted with highly-rated counterparties. Weighted average portfolio maturity for the fund is expected to be kept at or below 60 days. PSDMAX does not have limitations or restrictions on withdrawals.

As of June 30, 2018, the entire PSDLAF book balance of $9,632,220 is considered to be a cash equivalent for presentation on the government-wide and fund financial statements.

Interest Rate Risk

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

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Credit Risk

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

Investment	Standard & Poor's
PA School District Liquid Asset Fund	AAA

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer. As of June 30, 2018, the District did not have any investments subject to concentration of credit risk.

Custodial Credit Risk

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

NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE

The District has six independently elected tax collectors. Assessed values are established by the County Board of Assessment. All taxable real property was assessed at $685,186,300. In accordance with Act 1 of 2006, the District received $611,465 in property tax reduction funds for the 2017/2018 fiscal year. The District's tax rate for the year ended June 30, 2018, was $29.9543 per $1,000 of assessed valuation. 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 - January 14	10% penalty period
January 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. 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 unavailable in the fund financial statements.

NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE - CONTINUED

The balances at June 30, 2018, are as follows:

	Gross Taxes Receivable	Allowance for Uncollectible Taxes	Net Estimated to be Collectible	Tax Revenue Recognized	Unavailable Revenues
Real estate tax	$ 838,951	$ 14,228	$ 824,723	$ 127,549	$ 711,402
Transfer tax	18,159	-	18,159	18,159	-
Earned income tax	174,277	-	174,277	174,277	-
Other misc. tax	4,083	-	4,083	4,083	-
	$ 1,035,470	$ 14,228	$ 1,021,242	$ 324,068	$ 711,402

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES

The following schedule represents intergovernmental receivables at June 30, 2018:

Name of Government Unit	General Fund	Proprietary Fund
Commonwealth of PA:		
Retirement	$ 798,456	$ -
Social Security	198,611	-
Rental Subsidy	218,270	-
Transportation Subsidy	115,829	-
National School Lunch/Breakfast Program	-	487
Federal Subsidies:		
Title I Grants to Local Education Agencies	6,471	-
Student Support and Academic Enrichment	4,286	-
BCIU - Special Education - Grants to States	245,784	-
National School Lunch/Breakfast Program	-	6,691
TOTAL	$ 1,587,707	$ 7,178

NOTE 6 - CHANGES IN CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2018, were as follows:

Governmental Activities

	Beginning Balance	Increase	(Reclass) Decrease	Ending Balance
Capital assets not being depreciated:				
Land	$ 41,090	$ -	$ -	$ 41,090
Construction in progress	1,133,431	4,785,654	-	5,919,085
Totals not being depreciated	1,174,521	4,785,654	-	5,960,175
Capital assets being depreciated:				
Buildings and building improvements	49,591,881	57,979	-	49,649,860
Site improvements	1,085,427	15,134	-	1,100,561
Furniture and equipment	5,304,351	393,506	-	5,697,857
Totals being depreciated	55,981,659	466,619	-	56,448,278
Less accumulated depreciation for:				
Buildings and building improvements	16,544,470	942,594	-	17,487,064
Site improvements	809,840	50,386	-	860,226
Furniture and equipment	2,734,750	493,390	-	3,228,140
Total accumulated depreciation	20,089,060	1,486,370	-	21,575,430
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	35,892,599	(1,019,751)	-	34,872,848
GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET	$ 37,067,120	$ 3,765,903	$ -	$ 40,833,023

Business-Type Activities

Capital assets being depreciated:				
Furniture and equipment	$ 656,046	$ 8,085	$ -	$ 664,131
Accumulated depreciation for:				
Furniture and equipment	488,665	12,145	-	500,810
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	$ 167,381	$ (4,060)	$ -	$ 163,321

NOTE 6 - CHANGES IN CAPITAL ASSETS - CONTINUED

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

Instructional Services	$ 274,445
Support Services	250,947
Operation of Noninstructional Services	2,389
Unallocated	958,589
TOTAL DEPRECIATION EXPENSE - GOVERNMENTAL ACTIVITIES	$ 1,486,370

NOTE 7 - LONG-TERM LIABILITIES

Bonds payable are as follows at June 30, 2018:

General Obligation Bonds - Series of 2018:
The District is liable for general obligation bonds dated March 16, 2018, in the original principal amount of $4,280,000. Principal maturities occur on March 15 through the year 2033. Interest is payable semi-annually on March 15 and September 15. Interest rate is 3.85%. The proceeds of this Bond were used to finance various capital projects and to pay debt issuance costs. $ 4,280,000

General Obligation Bonds - Series of 2017:
The District is liable for general obligation bonds dated May 15, 2017, in the original principal amount of $3,030,000. Principal maturities occur on March 15 through the year 2031. Interest is payable semi-annually on March 15 and September 15. Interest rates range from 1.0% to 4.0%. The proceeds of this Bond were used to finance various capital projects and to pay debt issuance costs. 3,025,000

General Obligation Bonds - Series of 2016:
The District is liable for general obligation bonds dated October 25, 2016, in the original principal amount of $9,265,000. Principal maturities occur on March 15 through the year 2029. Interest is payable semi-annually on March 15 and September 15. Interest rates range from 0.9% to 2.3%. The proceeds of this Bond were used to currently refund the outstanding General Obligation Notes - Series of 2015 and to pay debt issuance costs. The refunding resulted in a net cash flow savings of $433,063 with a corresponding net present value savings of $380,389. 9,205,000