NOTE 7 - LONG-TERM LIABILITIES - CONTINUED

General Obligation Bonds - Series of 2016 A:
The District is liable for general obligation bonds dated October 25, 2016, in the original principal amount of $9,940,000. Principal maturities occur on March 15 through the year 2024. Interest is payable semi-annually on March 15 and September 15 at an interest rate of 1.75%. The proceeds of this Bond were used to currently refund the outstanding General Obligation Notes - Series of 2014 B and to pay debt issuance costs. The refunding resulted in a net cash flow savings of $196,128 with a corresponding net present value savings of $185,141. 7,735,000

General Obligation Bonds - Series of 2013:
The District is liable for general obligation bonds dated May 15, 2013, in the original principal amount of $6,435,000. Principal maturities occur on August 15 through the year 2022. Interest is payable semi-annually on August 15 and February 15. Interest rates range from 0.25% to 2.00%. The proceeds of this Bond were used to advance refund the General Obligation Bonds - Series of 2009 and to pay debt issuance costs. The refunding resulted in a net cash flow savings of $256,025 with a corresponding net present value savings of $258,170. 3,460,000

Total Bonds Payable	$ 27,705,000

Capital Leases
Capital lease liabilities are as follows:

Capitalized lease obligation for computers, with annual payments of $182,760, with final payment due in July 2019. The lease has an effective rate of 2.15%.	$ 365,519
Capitalized lease obligation for computers, with annual payments of $25,036, with final payment due in July 2020. The lease has an effective rate of 1.90%.	75,107
Capitalized lease obligation for computers, with annual payments of $27,978, with final payment due in July 2021. The lease has an effective rate of 1.99%.	111,910
Gross Capital Lease Obligations	552,536
Less interest	(17,636)
Total Capital Lease Obligations	$ 534,900

NOTE 7 - LONG-TERM LIABILITIES - CONTINUED

The amount of capitalized lease equipment included on the balance sheet at June 30, 2018, is:

Cost	$ 1,035,661
Accumulated depreciation	(369,322)
Net Book Value	$ 666,339

The future annual payments required to amortize all bonds and capital lease obligations for the years ending June 30 are as follows:

	Total Principal	Interest	Capital Lease Obligations
2019	$ 1,830,000	$ 674,439	$ 226,606
2020	1,855,000	641,346	229,397
2021	1,895,000	607,584	51,466
2022	1,915,000	572,586	27,431
2023	1,965,000	536,966	-
2024 - 2028	9,390,000	2,177,253	-
2029 - 2033	8,855,000	915,788	-
	$ 27,705,000	$ 6,125,962	$ 534,900

NOTE 7 - LONG-TERM LIABILITIES - CONTINUED

Long-term liability balance and activity, except for the net pension liability and other postemployment obligations, for the year ended June 30, 2018, were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities					
Bonds Payable	$ 25,210,000	$ 4,280,000	$ 1,785,000	$ 27,705,000	$ 1,830,000
Bond Discounts	(78,747)	-	(6,923)	(71,824)	-
Bond Premiums	202,366	-	20,931	181,435	-
Total Payable	25,333,619	4,280,000	1,799,008	27,814,611	1,830,000
Capital Lease Obligations	586,266	205,876	257,242	534,900	226,606
Compensated Absences	431,896	-	3,047	428,849	70,132
Total Governmental Long-Term Liabilities	$ 26,351,781	$ 4,485,876	$ 2,059,297	$ 28,778,360	$ 2,126,738

Payments on bonds and capital lease obligations are made by the general fund. The compensated absences liabilities will be liquidated by the general fund. Total interest paid during the year ended June 30, 2018, was $534,543.

NOTE 8 - EMPLOYEE RETIREMENT PLANS

Employee Defined Benefit Pension Plan

Summary of Significant Accounting Policies

Pension Plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information About the Pension Plan

Plan Description

PSERS is a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.pa.gov.

Benefits Provided

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

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2.0% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (10 years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information About the Pension Plan - continued

Contributions

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

Member Contributions:

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

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

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

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

Employer Contributions:

The school districts' contractually required contribution rate for the fiscal year ended June 30, 2018 was 31.74% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were $4,323,931 for the year ended June 30, 2018.

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information About the Pension Plan - continued

Employer Contributions - continued:

The District is also required to contribute a percentage of covered payroll to PSERS for healthcare insurance premium assistance. Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for no less than one-half of the employer contributions made, including contributions related to pension and healthcare. This arrangement does not meet the criteria of a special funding situation in accordance with GASB Standards. Therefore, the net pension liability and related pension expense represents 100% of the District's share of these amounts. The total reimbursement recognized by the District for the year ended June 30, 2018, for pension and OPEB benefits was $2,219,396.

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

At June 30, 2018, the District reported a liability of $52,352,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2016 to June 30, 2017. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the District's proportion was 0.1060%, which was an increase of 0.0012% from its proportion measured as of June 30, 2017. The net pension liability will be liquidated through future contributions to PSERS at the statutory rates. Contributions will be made from the general and the food service funds.

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

For the year ended June 30, 2018, the District recognized pension expense of $5,752,597. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 546,000	$ 316,000
Changes in assumptions	1,422,000	-
Net difference between projected and actual investment earnings	1,214,000	-
Changes in proportion - plan level	876,000	170,000
Changes in proportion - internal	30,425	30,425
Difference between employer contributions and proportionate share of total contributions	57,796	-
Contributions made subsequent to the measurement date	4,323,931	-
	$ 8,470,152	$ 516,425

The $4,323,931 reported as deferred outflows of resources related to pensions resulting from District contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the years ending June 30:

2019	$ 1,031,597
2020	1,561,874
2021	1,101,899
2022	(65,574)
	$ 3,629,796

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

Actuarial Assumptions

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

- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 7.25%, includes inflation at 2.75%.
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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

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

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

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

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

Discount Rate

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

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is one-percentage point lower (6.25%) or one-percentage point higher (8.25%) than the current rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
District's proportionate share of the net pension liability	$ 64,440,000	$ 52,352,000	$ 42,145,000

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

At June 30, 2018, the District had an accrued balance due to PSERS, including contributions related to pension and OPEB of $1,596,913. This amount represents the District's contractually obligated contributions for wages earned in April 2018 through June 2018. The balance was paid in September 2018.

403(b) Tax Shelter Plan

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

NOTE 9 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM

Employee Defined Benefit Other Postemployment Benefits Plan

The Health Insurance Premium Assistance Program (HIPAP) is a cost-sharing, multiple-employer, employee defined benefit other postemployment benefits plan administered through PSERS.

Summary of Significant Accounting Policies

Other Postemployment Benefits

For purposes of measuring the net OPEB obligation, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information About the Health Insurance Premium Assistance Program

Health Insurance Premium Assistance Program

The System provides Premium Assistance which, is a governmental cost sharing, multiple-employer other postemployment benefit plan (OPEB) for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002 under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of $100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2017, there were no assumed future benefit increases to participating eligible retirees.

Premium Assistance Eligibility Criteria

Retirees of the System can participate in the HIPAP if they satisfy the following criteria:

- Have 24 ½ or more years of service, or
- Are a disability retiree, or
- Have 15 or more years of service and retired after reaching superannuation age, and
- Participate in the HOP or employer-sponsored health insurance program.

NOTE 9 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

General Information About the Health Insurance Premium Assistance Program - continued

Pension Plan Description

PSERS is a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.pa.gov.

Benefits Provided

Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of $100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2017, there were no assumed future benefit increases to participating eligible retirees.

Contributions:

The contribution policy is set by state statute. A portion of each employer's contribution is set aside for premium assistance. The School Districts' contractually required contribution rate for the fiscal year ended June 30, 2018 was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were $113,071 for the year ended June 30, 2018.

The District is also required to contribute a percentage of covered payroll to PSERS for pension benefits. Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for no less than one-half of the employer contributions made, including contributions related to pension and healthcare. This arrangement does not meet the criteria of a special funding situation in accordance with GASB Standards. Therefore, the net HIPAP obligation and related expense represents 100% of the District's share of these amounts. The total reimbursement recognized by the District for the year ended June 30, 2018, for pension and OPEB benefits was $2,219,396.

NOTE 9 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

HIPAP OPEB Obligation, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the District reported an obligation of $2,160,000 for its proportionate share of the net OPEB obligation. The net OPEB obligation was measured as of June 30, 2017, and the total OPEB obligation used to calculate the net OPEB obligation was determined by rolling forward the System's total OPEB obligation as of June 30, 2016 to June 30, 2017. The District's proportion of the net OPEB obligation was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the District's proportion was 0.1060%, which was an increase of 0.0012% from its proportion measured as of June 30, 2017. The net OPEB obligation will be liquidated through future contributions to PSERS at statutory rates. Contributions will be made from the general and food service funds.

For the year ended June 30, 2018, the District recognized OPEB expense of $93,442. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ -	$ 100,000
Net difference between projected and actual investment earnings	2,000	-
Changes in proportion	22,000	-
Contributions made subsequent to the measurement date	113,071	-
	$ 137,071	$ 100,000

NOTE 9 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

HIPAP OPEB Obligation, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - continued

The $113,071 reported as deferred outflows of resources related to OPEB resulting from District contributions made subsequent to the measurement date will be recognized as a reduction of the net OPEB obligation in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows for the years ending June 30:

2019	$ (12,000)
2020	(12,000)
2021	(13,000)
2022	(13,000)
2023	(13,000)
Thereafter	(13,000)
Total	$ (76,000)

Actuarial Assumptions

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

- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 3.13% - S&P 20 Year Municipal Bond Rate.
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement is capped at $1,200 per year.
- Assumed Healthcare cost trends were applied to retirees with less than $1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Participation rate:
  - Eligible retirees will elect to participate Pre-age 65 at 50%
  - Eligible retirees will elect to participate Post-age 65 at 70%

NOTE 9 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

HIPAP OPEB Obligation, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - continued

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2015 determined the employer contribution rate for fiscal year 2017.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back 7 years for males and 3 years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

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

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

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

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

NOTE 9 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

HIPAP OPEB Obligation, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - continued

Discount Rate

The discount rate used to measure the total OPEB obligation was 3.13%. Under the plan's funding policy, contributions are structured for short term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the plan is considered a "pay-as-you-go" plan. A discount rate of 3.13% which represents the S&P 20-year Municipal Bond Rate at June 30, 2017, was applied to all projected benefit payments to measure the total OPEB liability.

Sensitivity of the District's Proportionate Share of the Net OPEB Obligation to Changes in Healthcare Cost Trend Rates

Healthcare cost trends were applied to retirees receiving less than $1,200 in annual Premium Assistance. As of June 30, 2017, retirees Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of $1,200. As of June 30, 2016, 91,797 retirees were receiving the maximum amount allowed of $1,200 per year. As of June 30, 2016, 1,354 members were receiving less than the maximum amount allowed of $1,200 per year. The actual number of retirees receiving less than the $1,200 per year cap is a small percentage of the total population and has a minimal impact on Healthcare Cost Trends as depicted below.

The following presents the District's proportionate share of the net OPEB obligation for the June 30, 2017 measurement date, calculated using current Healthcare cost trends as well as what the District's proportionate share of the net OPEB obligation would be if the health cost trends were one-percentage point lower or one-percentage point higher than the current rate:

	1% Decrease (Between 4% to 7%)	Current Rate (Between 5% to 8%)	1% Increase (Between 6% to 9%)
District's proportionate share of the net OPEB obligation	$ 2,159,000	$ 2,160,000	$ 2,160,000

NOTE 9 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

HIPAP OPEB Obligation, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - continued

Sensitivity of the District's Proportionate Share of the Net OPEB Obligation to Changes in the Discount Rate

The following presents the net OPEB obligation, calculated using the discount rate of 3.13%, as well as what the net OPEB obligation would be if it were calculated using a discount rate that is one-percentage point lower (2.13%) or one-percentage point higher (4.13%) than the current rate:

	1% Decrease 2.13%	Current Trend Rate 3.13%	1% Increase 4.13%
District's proportionate share of the net OPEB obligation	$ 2,455,000	$ 2,160,000	$ 1,914,000

OPEB Plan Fiduciary Net Position

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

Payables Related to the Plan

At June 30, 2018, the District had an accrued balance due to PSERS of $1,596,913, including balances related to pension and OPEB. This amount represents the District's contractually obligated contributions for wages earned in April 2018 through June 2018. The balance was paid in September 2018.

NOTE 10 - DISTRICT OTHER POSTEMPLOYMENT BENEFITS PLAN

Employee Defined Benefit Other Postemployment Benefits Plan

General Information About the OPEB Plan

Plan Description

Kutztown Area School District administers a single-employer defined benefit healthcare plan (the OPEB Plan). The District OPEB Plan provides medical, prescription drug, and dental insurance for eligible retirees through the District's health insurance plan, which covers both active and retired members until the member reaches Medicare age, as well as a severance payment based on years of service at the District upon retirement. Benefit provisions are established through negotiation with the District and the unions representing the District's employees. The OPEB Plan does not issue a publicly available financial report and no assets are accumulated in a trust that meets the criteria in Government Accounting Standards Board Statement No. 75 to pay related benefits.

Benefits Provided

The District classifies employees in the following categories: All Employees. Contribution requirements are negotiated between the District and union representatives. Below is a summary of the postemployment benefits provided to each of these groups:

All Employees

ELIGIBILITY	*COVERAGE AND PREMIUM SHARING*	*DURATION*
Employees who retire from active service with the Kutztown Area School District	Coverage Medical coverage (Comprehensive, Prescription Drug, Dental and Vision) provided to active employees is continued for eligible retirees, spouses and dependents. Premium Sharing Retiree pays 100% of premium.	Retiree - Until eligible for Medicare Spouse and/or dependents - During retiree coverage period

NOTE 10 - DISTRICT OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

General Information About the OPEB Plan - continued

Final Year Service Increment:
Upon retirement of eligible employees as provided by the School District, a severance payment is made based on service in the Kutztown Area School District as follows:

Years of Service	Payment per Year of Service
15+	$100 per year of service, up to a maximum payment of $3,500.

Act 110/43 Eligibility: All employees are eligible for this benefit upon retirement with 30 years of PSERS service or upon superannuation retirement.

Act 110/43 Coverage and Premium Sharing: Retired employees are allowed to continue coverage for themselves and their dependents in the employer's group health plan until the retired employee reaches Medicare age. In order to obtain coverage, retired employees must provide payment equal to the premium determined for the purpose of COBRA.

PSERS Superannuation Retirement:

1) For individuals who were members of PSERS prior to July 1, 2011, an employee is eligible for PSERS superannuation retirement upon reaching age 60 with 30 years of PSERS service, age 62 with 1 year of PSERS service or 35 years of PSERS service regardless of age.
2) For individuals who became members of PSERS on or after July 1, 2011, an employee is eligible for PSERS superannuation retirement upon reaching age 65 with 3 years of PSERS service or upon attainment of a total combination of age plus service equal to or greater than 92 with a minimum of 35 years of PSERS service.

PSERS Retirement:

1) For individuals who are members of PSERS prior to July 1, 2011, an employee is eligible for PSERS retirement if he or she is eligible for either: a) PSERS early retirement with under 62 with 5 years of PSERS service or b) PSERS superannuation retirement upon reaching age 60 with 30 years of PSERS service, age 62 with 1 year of PSERS service or 35 years of PSERS service regardless of age.
2) For individuals who became members of PSERS on or after July 1, 2011, an employee is eligible for PSERS retirement if he or she is eligible for either: a) PSERS early retirement while under 65 with 10 years of PSERS service or b) PSERS superannuation retirement upon reaching age 65 with 3 years of PSERS service or upon attainment of a total combination of age plus service equal to or greater than 92 with a minimum of 35 years of PSERS service.

NOTE 10 - DISTRICT OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

General Information About the OPEB Plan - continued

PSERS Retirement - continued:

3) All individuals are eligible for a special early retirement upon reaching age 55 with 25 years of PSERS service.

Employees Covered by Benefit Terms

At July 1, 2017, the date of the most recent actuary valuation, the following employees were covered by the benefit terms:

Active participants	224
Retired participants	26
Total	250

OPEB Liability

Actuarial Assumptions and Other Inputs

The total OPEB obligation as of July 1, 2017, was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Actuarial cost method - Entry Age Normal.
- Salary increases - An annual rate of 2.50%.
- Discount rate - An annual rate of 3.00%.
- Mortality rates - Separate rates are assumed preretirement and postretirement using the rates from RP-2014 Employee (Male and Female) and RP-2014 Health Annuitant (Male and Female) as published by the Society of Actuaries. Mortality improvement was based on Scale MP-2016 (Male and Female) as published by the Society of Actuaries.
- Healthcare cost trend rates - 8.0% in 2016/17, 7% in 2017/18, 6% in 2018/19 and 5% in 2019 and beyond.
- Participation rates - It is assumed that 50% of future retirees and 40% of spouses will participate in the retiree medical program. All current participating retirees and spouses are assumed to continue participation in the medical program. Dependents of retirees may be covered; however, it is assumed that the participant pays 100% of the full cost of the dependent coverage.

The actuarial assumptions were selected using input from the District based on actual experience.

NOTE 10 - DISTRICT OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

Changes in the Total OPEB Liability

	Total OPEB Obligation
Balance at July 1, 2017	$ 3,394,369
Changes for the year:	
Service cost	160,772
Interest	135,922
Differences between expected and actual experience	(154,135)
Changes of assumptions or other inputs	829,740
Benefit payments	(314,190)
Net changes	658,109
Balance at June 30, 2018	$ 4,052,478

Changes of assumptions or other inputs reflect the following changes: (1) the discount rate changed from 4.00% to 3.00%; (2) rate of salary increases changed from 0% to 2.50%; (3) assumptions for mortality improvement were updated.

Sensitivity of the Total OPEB Obligation to Changes in the Discount Rate

The following presents the total OPEB obligation of the District, as well as what the District's total OPEB obligation would be if it were calculated using a discount rate that is one-percentage point lower (2.00%) or one-percentage point higher (4.00%) than the current discount rate:

	1% Decrease 2.00%	Current Discount Rate 3.00%	1% Increase 4.00%
OPEB Plan - Total OPEB Obligation	$ 4,380,702	$ 4,052,478	$ 3,750,477

NOTE 10 - DISTRICT OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

Changes in the Total OPEB Liability - continued

Sensitivity of the Total OPEB Obligation to Changes in the Healthcare Cost Trend Rates

The following presents total OPEB obligation of the District, as well as what the District's total OPEB obligation would be if it were calculated using healthcare cost trend rates that are one-percentage point lower or one-percentage point higher than the current healthcare cost trend rates:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
OPEB Plan - Total OPEB Obligation	$ 3,203,126	$ 4,052,478	$ 5,049,721

At June 30, 2018, the District reported an OPEB obligation of $4,052,478 related to the OPEB Plan. The net OPEB obligation was measured as of July 1, 2017, and was determined using an actuarial valuation performed as of July 1, 2017. The liability will be liquidated through future payments from the general and food service funds.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of $357,123. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 140,348
Changes in assumptions	755,524	-
Benefit payments made subsequent to the measurement date	302,472	-
	$ 1,057,996	$ 140,348

NOTE 10 - DISTRICT OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - continued

The $302,472 reported as deferred outflows of resources related to OPEB liabilities resulting from benefit payments made subsequent to the measurement date will be recognized as a reduction of the total OPEB obligation in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows for the years ending June 30:

2019	$ 60,429
2020	60,429
2021	60,429
2022	60,429
2023	60,429
Thereafter	313,031
Total	$ 615,176

NOTE 11 - INTERFUND RECEIVABLES/PAYABLES, AND TRANSFERS

The following is a summary of interfund receivables and payables at June 30, 2018:

	Interfund Receivables	Interfund Payables
General Fund	$ 79,023	$ -
Proprietary Fund - Food Service	-	79,023
	$ 79,023	$ 79,023

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

NOTE 11 - INTERFUND RECEIVABLES/PAYABLES, AND TRANSFERS - CONTINUED

Interfund transfers are summarized as follows:

	Transfers In	Transfers Out
General Fund	$ -	$ 452,925
Capital Projects Fund	450,753	-
Proprietary Fund - Food Service	2,172	-
	$ 452,925	$ 452,925

Transfers are generally made to reserve for future capital needs, to subsidize food service fund costs, and to cover negative student balances in the food service fund.

NOTE 12 - JOINT VENTURE

The District is a participating member of the Berks Career & Technology Center. The Berks Career & Technology Center is controlled and governed by a joint board, which is composed of representative school board members of the participating schools. Direct oversight of Berks Career & Technology Center operations is the responsibility of the joint board. The District's share of annual operating and capital costs for Berks Career & Technology Center fluctuates based on the percentage of enrollment. The District's share for the 2017/2018 year was $553,682.

Berks Career Vocational Technical School Authority issued General Obligation Bonds and lent the proceeds to Berks Career & Technology Center. The proceeds are being used to renovate and build an addition to Berks Career & Technology Center's facilities. Each member district adopted a resolution approving the project and the project's maximum cost. Under the amended Articles of Agreement, each member district is required to pay from current revenues its annual share of the sublease rental based on the District's share of taxable real estate to the total market valuation of the taxable real estate of all participating school districts. The District's share for the 2017/2018 year was $105,877.

NOTE 12 - JOINT VENTURE - CONTINUED

Summary financial information as of June 30, 2017 (the most recent information available), is as follows:

Berks Career & Technology Center (Governmental Activities)	
Total Assets and Deferred Outflows of Resources	$ 33,405,464
Total Liabilities and Deferred Inflows of Resources	32,156,625
Total Net Position	$ 1,248,839

Separate financial statements of the Berks Career & Technology Center have been prepared and are available.

NOTE 13 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs except for workers' compensation, for which the District retains risk of loss. The District monitors its insured programs and increases insurance coverage as needed. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years. The District has no unfunded liability.

The District is a member of the School Districts Insurance Consortium (SDIC) for workers' compensation coverage. SDIC is comprised of approximately 75 member school districts which jointly self-assume their workers' compensation liabilities. Even though the member school districts contribute to SDIC's insurance fund, they remain individually liable for their own workers' compensation claims. The members of SDIC are required to participate in any deficiencies of SDIC and are subject to periodic assessments, as required. At June 30, 2018, there was no unfunded liability.

NOTE 14 - CONTINGENT LIABILITIES AND COMMITMENTS

The District is a defendant in various matters of litigation and claims. These matters result in the normal course of business. It is not presently possible to determine the ultimate outcome or settlement cost, if any, of these matters.

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

The District has a commitment related to a billing issue with the Berks Career & Technology Center for $28,307 as of June 30, 2018. This liability is payable in annual installments beginning in the 2011/2012 school year and ending 2018/2019.

The District has awarded several contracts for a performance based energy savings project totaling $4,216,760. Costs to date related to these contracts in the capital project funds are $2,350,895, leaving a commitment remaining of $1,865,865. The District plans to use existing resources in the capital projects fund and fund balance in the general fund committed for future capital projects to fulfill the remaining commitment.

NOTE 15 - RESTATEMENT OF BEGINNING NET POSITION

Restatement of Beginning Net Position

Effective July 1, 2017, the District adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* to be in conformity with generally accepted accounting principles.

Statement No. 75 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures in order to improve accounting and financial reporting by governments for postemployment benefit plans other than pensions. The statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to actuarial present value, and attribute that present value to periods of employee service. The statement also enhances note disclosure and required supplementary information for these plans.

NOTE 15 - RESTATEMENT OF BEGINNING NET POSITION - CONTINUED

The adoption of this standard resulted in the District restating beginning net position as of July 1, 2017, as follows:

	Governmental Activities	Business-Type Activities Food Service Fund	Total
Net Position (Deficit) at June 30, 2017	$ (22,104,876)	$ (125,239)	$ (22,230,115)
Restatement for:			
Deferred Outflow - HIPAP contributions made subsequent to the measurement date	112,591	1,851	114,442
Other postemployment benefit obligation - HIPAP	(2,220,437)	(36,563)	(2,257,000)
Deferred Outflow - benefit payments made subsequent to the measurement date	307,269	6,921	314,190
Other postemployment benefit obligation - District Plan	(2,489,892)	(43,901)	(2,533,793)
Net Position (Deficit) at July 1, 2017 - restated	$ (26,395,345)	$ (196,931)	$ (26,592,276)

NOTE 16 - FUND BALANCE

Details of the District's governmental fund balance reporting and policy can be found in Note 1, *Summary of Significant Accounting Policies.* Fund balance classifications for the year ended June 30, 2018, were as follows:

General Fund

The general fund has a nonspendable fund balance of $22,934, committed funds of $1,556,895 for future capital projects, $555,000 for future PSERS contributions, $28,307 for amounts due to Berks Career & Technology Center, and $44,211 for further development of Kutztown Virtual Academy, assigned fund balance of $1,006,338 for subsequent year's budget appropriation, and unassigned fund balance of $2,659,698. The commitments were authorized by the board of school directors' motion to set aside resources for specific purposes.

NOTE 16 - FUND BALANCE - CONTINUED

Capital Projects Fund
The capital projects fund has restricted funds of $3,077,916 consisting of $1,866,987 of unspent bond funds, and $1,210,929 as authorized by Municipal Code P.L. 145 Act of April 30, 1943 and comprised of surplus monies transferred from the general fund for the acquisition or construction of capital facilities and capital assets.

NOTE 17 - NEW ACCOUNTING PRONOUNCEMENTS

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

- Statement No. 84, *Fiduciary Activities* - This statement establishes criteria for identifying fiduciary activities and describes four types of fiduciary funds, as well as provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. This statement is effective for the District's fiscal year ending June 30, 2020.

- Statement No. 87, *Leases* - This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. This statement is effective for the District's fiscal year ending June 30, 2021.

- Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements,* have been issued to enhance reporting and disclosures for specific debt transactions. Statement No. 88 is effective for the District's fiscal year ending June 30, 2019.

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

REQUIRED SUPPLEMENTARY INFORMATION

KUTZTOWN AREA SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

For the Year Ended June 30, 2018

	Budgeted Amount		Actual	Variances Final to
	Original	Final	(GAAP) Basis	Actual
REVENUES				
Local Sources	$ 22,285,399	$ 22,285,399	$ 22,887,928	$ 602,529
State Sources	8,740,870	8,740,870	8,817,635	76,765
Federal Sources	476,270	476,270	251,757	(224,513)
TOTAL REVENUES	31,502,539	31,502,539	31,957,320	454,781
EXPENDITURES				
INSTRUCTIONAL SERVICES:				
Regular Programs - Elementary/Secondary	12,730,983	12,730,983	12,997,754	(266,771)
Special Programs - Elementary/Secondary	4,411,702	4,411,702	4,283,053	128,649
Vocational Education	1,246,267	1,246,267	1,124,708	121,559
Other Instructional Programs - Elementary/Secondary	185,042	185,042	167,406	17,636
Adult Education Programs	4,600	4,600	3,896	704
TOTAL INSTRUCTIONAL SERVICES	18,578,594	18,578,594	18,576,817	1,777
SUPPORT SERVICES:				
Students	1,005,752	1,005,752	1,014,969	(9,217)
Instructional Staff	1,897,430	1,897,430	1,829,523	67,907
Administration	2,035,064	2,035,064	2,009,494	25,570
Pupil Health	466,479	466,479	507,454	(40,975)
Business	464,487	464,487	450,527	13,960
Operation and Maintenance of Plant	2,754,767	2,754,767	2,662,920	91,847
Student Transportation	1,240,175	1,240,175	1,375,480	(135,305)
Central Support	9,650	9,650	23,991	(14,341)
Other Support	28,000	28,000	27,488	512
TOTAL SUPPORT SERVICES	9,901,804	9,901,804	9,901,846	(42)
OPERATION OF NONINSTRUCTIONAL SERVICES:				
Student Activities	694,427	694,427	740,769	(46,342)
Community Services	16,050	16,050	15,335	715
TOTAL OPERATION OF NONINSTRUCTIONAL SERVICES	710,477	710,477	756,104	(45,627)
Capital Outlay	-	-	205,876	(205,876)
Debt Service	2,629,557	2,629,557	2,576,785	52,772
Refund of Prior Year Revenues	-	-	2,091	(2,091)
TOTAL EXPENDITURES	31,820,432	31,820,432	32,019,519	(199,087)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(317,893)	(317,893)	(62,199)	255,694
OTHER FINANCING SOURCES (USES)				
Issuance of Capital Leases	-	-	205,876	205,876
Transfers Out	(460,267)	(460,267)	(452,925)	7,342
TOTAL OTHER FINANCING SOURCES (USES)	(460,267)	(460,267)	(247,049)	213,218
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	$ (778,160)	$ (778,160)	(309,248)	$ 468,912
FUND BALANCE - BEGINNING OF YEAR			6,182,631	
FUND BALANCE - END OF YEAR			$ 5,873,383	

See note to required supplementary information.

KUTZTOWN AREA SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2018

BUDGETARY DATA

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

KUTZTOWN AREA SCHOOL DISTRICT

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

LAST TEN FISCAL YEARS

	2018	2017	2016	2015	2014
District's proportion of the collective net pension liability	0.1060%	0.1048%	0.1042%	0.1052%	0.1021%
District's proportionate share of the collective net pension liability	$ 52,352,000	$ 51,936,000	$ 45,135,000	$ 41,639,000	$ 41,796,000
District's covered employee payroll	$ 14,118,498	$ 13,577,892	$ 13,405,632	$ 13,427,382	$ 13,101,947
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	370.80%	382.50%	336.69%	310.11%	319.01%
Plan fiduciary net position as a percentage of the total pension liability	51.84%	50.14%	54.36%	57.24%	54.50%

The District's covered employee payroll noted above is as of the measurement date of the net pension liablity (June 30, 2017, 2016, 2015, 2014, and 2014).

NOTES TO SCHEDULE

Changes of Benefit Terms
With passage of Act 5 class T-E and T-F members are now permitted to elect lump-sum payment of member contributions upon retirement.

Changes of Assumptions
None.

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

KUTZTOWN AREA SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS - PENSION PLAN

LAST TEN FISCAL YEARS

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	$ 4,323,931	$ 4,026,138	$ 3,396,355	$ 2,770,875	$ 2,149,875	$ 1,507,024	$ 1,077,193	$ 678,682	$ 568,704	$ 538,419
Contributions in relation to the contractually required contribution	4,323,931	4,026,138	3,396,355	2,770,875	2,149,875	1,507,024	1,077,193	678,682	568,704	538,419
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered employee payroll	$ 13,636,776	$ 14,118,498	$ 13,577,892	$ 13,405,632	$ 13,427,382	$ 13,101,947				
Contributions as a percentage of covered employee payroll	31.71%	28.52%	25.01%	20.67%	16.01%	11.50%				

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

KUTZTOWN AREA SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB OBLIGATION AND RELATED RATIOS - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM (HIPAP)

LAST TEN FISCAL YEARS

	2018	2017
District's proportion of the collective HIPAP obligation	0.1060%	0.1048%
District's proportionate share of the collective net HIPAP obligation	$ 2,160,000	$ 2,257,000
District's covered employee payroll	$14,118,498	$ 13,577,892
District's proportionate share of the net HIPAP obligation as a percentage of its covered employee payroll	15.30%	16.62%
Plan fiduciary net position as a percentage of the total HIPAP obligation	5.73%	5.47%

The District's covered employee payroll noted above is as of the measurement date of the net HIPAP obligation (June 30, 2017 and 2016).

NOTES TO SCHEDULE

Changes of Benefit Terms
None.

Changes of Assumptions
Significant changes of assumptions for the June 30, 2017 measurement date are as follows:

- The discount rate changed from 2.71% to 3.13%.

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

KUTZTOWN AREA SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM

LAST TEN FISCAL YEARS

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	$ 113,071	$ 114,442	$ 114,118	$ 121,648	$ 124,946	$ 112,699	$ 87,522	$ 86,871	$ 110,897	$ 102,300
Contributions in relation to the contractually required contribution	113,071	114,442	114,118	121,648	124,946	112,699	87,522	86,871	110,897	102,300
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered employee payroll	$ 13,636,776	$ 14,118,498	$ 13,577,892	$ 13,405,632	$ 13,427,382	$ 13,101,947				
Contributions as a percentage of covered employee payroll	0.83%	0.81%	0.84%	0.91%	0.93%	0.86%				

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

KUTZTOWN AREA SCHOOL DISTRICT

SCHEDULE OF CHANGES OF TOTAL OPEB OBLIGATION AND RELATED RATIOS -
DISTRICT OPEB PLAN

LAST TEN FISCAL YEARS

Total OPEB Obligation	2018
Service cost	$ 160,772
Interest	135,922
Differences between expected and actual experience	(154,135)
Changes in assumptions	829,740
Benefit payments	(314,190)
Net change in total OPEB obligation	658,109
Total OPEB obligation, beginning	3,394,369
Total OPEB obligation, ending	$ 4,052,478
Covered Employee Payroll	$ 13,163,059
Total OPEB Obligation as a Percentage of Covered Employee Payroll	30.79%

NOTES TO SCHEDULE

Changes of Benefit Terms
None.

Changes of Assumptions
Significant changes in assumptions for the July 1, 2017 measurement date are as follows:

- The discount rate changed from 4.00% to 3.00%.
- Rate of salary increases changed from 0% to 2.50%.
- Assumptions for mortality improvement were updated.

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

SUPPLEMENTARY INFORMATION

KUTZTOWN AREA SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2018

Grantor/Program Title	Source Code	Federal CFDA Number	Federal Pass-Through Grantor's Number	Program or Award Amount	Grant Period Beginning/ Ending Date	Total Received for Year	Accrued or (Unearned) Revenue at June 30, 2017	Revenue Recognized	Expenditures	Accrued or (Unearned) Revenue at June 30, 2018
U.S. Department of Education										
Passed through the State Department of Education:										
Title I Grants to Local Educational Agencies	I	84.010	013-17-0215	$ 213,756	07/19/16-09/30/17	$ 14,432	$ 14,432	$ -	$ -	$ -
Title I Grants to Local Educational Agencies	I	84.010	013-18-0215	201,136	08/09/17-09/30/18	186,865	-	193,336	193,336	6,471
Subtotal						201,297	14,432	193,336	193,336	6,471
Supporting Effective Instruction State Grant	I	84.367	020-18-0215	46,078	08/09/17-09/30/18	46,078	-	46,078	46,078	-
Student Support and Academic Enrichment	I	84.424	144-18-0215	10,000	08/09/17-09/30/18	5,714	-	10,000	10,000	4,286
Passed through the Berks County Intermediate Unit:										
Special Education Cluster (IDEA)										
Special Education - Grants to States	I	84.027	N/A	261,655	07/01/16-09/30/17	261,655	261,655	-	-	-
Special Education - Grants to States	I	84.027	N/A	245,784	07/01/17-09/30/18	-	-	245,784	245,784	245,784
Special Education - Preschool Grants	I	84.173	N/A	491	07/01/16-06/30/17	491	491	-	-	-
Special Education - Preschool Grants	I	84.173	N/A	2,500	07/01/17-06/30/18	2,500	-	2,500	2,500	-
Subtotal						264,646	262,146	248,284	248,284	245,784
Passed through the Intermediate Unit 1:										
Special Education Cluster (IDEA)										
Special Education - Grants to States	I	84.027	N/A	25,500	09/01/16-07/31/17	10,020	4,578	5,442	5,442	-
Total Special Education Cluster (IDEA)						274,666	266,724	253,726	253,726	245,784
TOTAL U. S. DEPARTMENT OF EDUCATION						527,755	281,156	503,140	503,140	256,541
U.S. Department of Health and Human Services										
Medicaid Cluster										
Passed through the Pennsylvania Department of Health & Human Services:										
Medical Assistance Program	I	93.778	N/A	N/A	07/01/17-06/30/18	2,343	-	2,343	2,343	-
TOTAL MEDICAID CLUSTER AND U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						2,343	-	2,343	2,343	-
U.S. Department of Agriculture										
Child Nutrition Cluster										
Passed through the State Department of Education:										
School Breakfast Program	I	10.553	N/A	N/A	07/01/16-06/30/17	483	483	-	-	-
School Breakfast Program	I	10.553	N/A	N/A	07/01/17-06/30/18	27,871	-	29,136	29,136	1,265
National School Lunch Program	I	10.555	N/A	N/A	07/01/16-06/30/17	802	802	-	-	-
National School Lunch Program	I	10.555	N/A	N/A	07/01/17-06/30/18	186,313	-	191,739	191,739	5,426
Passed through the PA Department of Agriculture:										
National School Lunch Program	I	10.555	N/A	N/A	07/01/17-06/30/18	44,816	(10,587)	46,880	46,880	(8,523)
TOTAL CHILD NUTRITION CLUSTER AND U. S. DEPARTMENT OF AGRICULTURE						260,285	(9,302)	267,755	267,755	(1,832)
TOTAL FEDERAL AWARDS						$ 790,383	$ 271,854	$ 773,238	$ 773,238	$ 254,709

I = Indirect source of funding.

NOTE: No funds were passed through to subrecipients in the year ended June 30, 2018.

See notes to schedule of expenditures of federal awards.

KUTZTOWN AREA SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2018

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal awards activity of the Kutztown Area School District under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Kutztown Area School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Kutztown Area School District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

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

NOTE 3 - DE MINIMIS RATE FOR INDIRECT COSTS

The District did not elect to use the De Minimis rate for indirect costs.

NOTE 4 - FOOD COMMODITIES

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. At June 30, 2018, the District has $8,523 of food commodity inventory.

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

To the Board of School Directors
Kutztown Area School District
Kutztown, Pennsylvania

We have audited, 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, the 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 Kutztown Area School District's basic financial statements and have issued our report thereon dated November 2, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Herbein + Company, Inc.

Reading, Pennsylvania
November 2, 2018

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

To the Board of School Directors
Kutztown Area School District
Kutztown, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Kutztown Area School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Kutztown Area School District's major federal programs for the year ended June 30, 2018. The Kutztown Area School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Kutztown Area School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

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

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

Herbein + Company, Inc.

Reading, Pennsylvania
November 2, 2018

KUTZTOWN AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of Auditor's Report Issued:	Unmodified	
Internal Control Over Financial Reporting:		
Material weakness(es) identified?	____ yes	X no
Significant deficiency(ies) identified not considered to be material weaknesses?	____ yes	X none reported
Noncompliance material to financial statements noted?	____ yes	X no

Federal Awards

Internal Control Over Major Programs:		
Material weakness(es) identified?	____ yes	X no
Significant deficiency(ies) identified not considered to be material weaknesses?	____ yes	X none reported
Type of Auditor's Report Issued on Compliance for Major Programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR, Section 200.516(a)?	____ yes	X no

Identification of Major Program(s):

CFDA Number(s)	Name of Federal Program or Cluster
Child Nutrition Cluster	
10.553	School Breakfast Program
10.555	National School Lunch Program

Dollar Threshold used to distinguish between Type A and Type B Programs: $750,000

Auditee qualified as low-risk auditee? X yes _____ no

KUTZTOWN AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2018

Section II - Financial Statement Findings

There were no financial statements findings reported.

Section III - Federal Awards Findings and Questioned Costs

There were no federal awards findings or questioned costs reported.

Kutztown Area School District

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David J. Miller, Business Administrator

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2018

Section II - Financial Statement Findings

There were no financial statements findings reported.

Section III - Federal Awards Findings and Questioned Costs

There were no federal awards findings or questioned costs reported.