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KUTZTOWN AREA SCHOOL DISTRICT

FINANCIAL AND COMPLIANCE REPORT

Year Ended June 30, 2015

TABLE OF CONTENTS

Pages

INDEPENDENT AUDITOR'S REPORT ..... 1 - 2

MANAGEMENT'S DISCUSSION AND ANALYSIS ..... 3 - 15

BASIC FINANCIAL STATEMENTS

Government-Wide Financial Statements

Statement of Net Position 16
Statement of Activities 17

Fund Financial Statements

Balance Sheet - Governmental Funds 18
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position 19
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds 20
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities 21
Statement of Net Position - Proprietary Fund 22
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund 23
Statement of Cash Flows - Proprietary Fund ..... 24 - 25
Statement of Net Position - Fiduciary Fund 26
Notes to Basic Financial Statements ..... 27 - 60

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule for the General Fund 61
Schedule of District's Proportionate Share of the Net Pension Liability - Pension Plan 62
Schedule of District Contributions - Pension Plan 63
Schedule of Funding Progress - Other Postemployment Benefits Plan 64
Note to Required Supplementary Information 65

SUPPLEMENTARY INFORMATION

Single Audit
Schedule of Expenditures of Federal Awards 66
Notes to Schedule of Expenditures of Federal Awards..... 67

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* ..... 68 - 69

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133..... 70 - 71

SCHEDULE OF FINDINGS AND QUESTIONED COSTS..... 72 - 73

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS 74

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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, 2015, 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, 2015, 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 8 to the financial statements, effective July 1, 2014, the Kutztown Area School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Other Matters

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, pension and other postemployment benefit information on pages 61 through 64, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Kutztown Area School District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 October 22, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Herbein + Company, Inc.

Reading, Pennsylvania
October 22, 2015

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, 2015

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, 2015. 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, 2015 saw the implementation of GASB's 68 and 71. These were implemented by restating the beginning of the year net position. Governmental activities net position was reduced by the effect of booking the beginning of the year net pension liability which reduced net position by $38,956,362 to $-20,040,341. Business type activities net position was reduced for the pension liability and reduced net position from $690,023 to $-163,182.

Governmental revenues increase over 2014 by $1,054,936 which was attributable to higher than anticipated revenues of $724,675 from real estate taxes and another $282,027 from operating grants and contributions.

While revenue increased, expenses increased even more. Total expenses increase by $2.3 million over the prior year with $1.5 million of that increase in instruction costs. Much of this increase was due to salary and retirement cost increases.

Total Bonds and Notes Payable were reduced by over $1.5 million during the year. General Obligation Notes A and B totaling $9,995,000 were issued with $9,905,000 of old bonds currently refunded resulting in significant savings for the District.

Subsequent to year end, an additional $9 million of General Obligation Bonds were issued which will be used to help fund planned capital improvements to the high school.

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 2014?" The S*tatement of Net Position* and the S*tatement 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 S*tatement of Net Position* and the S*tatement 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.

Pension Reporting GASB 68

GASB 68 now requires school districts to report their share of the pension liability of Public School Employees Retirement System (PSERS). Because we are now required to report numbers that are totally beyond our control, our Statement of Net Position is considerably less favorable than prior years.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Table 1 provides a summary of Statement of Net Position as of June 30, 2015 compared to June 30, 2014.

Table 1
Fiscal Year Ended June 30, 2015 and 2014
Net Position

	Governmental Activities		Business-type Activities		Total School District	
	2015	2014	2015	2014	2015	2014
Current & Other Assets	$ 12,191,767	$ 11,599,187	435,134	348,192	12,626,901	11,947,379
Net Capital Assets	28,687,016	29,275,457	195,765	200,966	28,882,781	29,476,423
Total Assets	**$ 40,878,783**	**$ 40,874,644**	**630,899**	**549,158**	**41,509,682**	**41,423,802**
Deferred Chrg on Bond Refund	687,224	741,785			687,224	741,785
Pension Contrib Sub. To Meas.	2,725,188		45,687		2,770,875	-
Total Deferred Outflows	3,412,412	741,785	45,687	-	3,458,099	741,785
Current & Other Liabilities	5,271,208	5,033,243	11,722	7,391	5,282,930	5,040,634
Long-Term Liabilities	56,873,834	17,667,165	741,083	14,926	57,614,917	17,682,091
Total Liabilities	**62,145,042**	**22,700,408**	**752,805**	**22,317**	**62,897,847**	**22,722,725**
Deferred Inflows						
Deferred Pesnion Expense	1,877,862		33,246		1,911,108	
Net Investment in Capital Assets	12,517,772	10,662,119	195,765	200,966	12,713,537	10,863,085
Net Assets-Restricted	1,096,442	1,222,691			1,096,442	1,222,691
Net Assets-Unrestricted	(33,345,923)	7,031,211	(305,230)	325,875	(33,651,153)	7,357,086
Total Net Position (Deficit)	**(19,731,709)**	**18,916,021**	**(109,465)**	**526,841**	**(19,841,174)**	**19,442,862**

Most of the District's net assets are 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, 2015 and 2014
Changes in Net Position

	Governmental Activities		Business-type Activities		Total School District	
Revenues	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Program Revenues:						
Charges for Services	$ 96,633	$ 79,425	344,910	383,382	441,543	462,807
Operating Grants & Contributions	4,217,436	3,927,831	272,339	276,501	4,489,775	4,204,332
Capital Grants & Contributions	266,199	257,582			266,199	257,582
General Revenues:					-	-
Property Taxes	20,374,062	19,649,387			20,374,062	19,649,387
Other Taxes	1,903,205	1,842,388			1,903,205	1,842,388
Grants, Subsidies & Contributions	3,272,356	3,236,657			3,272,356	3,236,657
Investment Earnings	32,752	21,277	348	457	33,100	21,734
Miscellaneous Income	28,426	105,583			28,426	105,583
Transfers	(64,496)	(56,071)	64,496	56,071	-	-
Total Revenues	30,126,573	29,064,059	682,093	716,411	30,808,666	29,780,470
Expenses						
Instruction	18,045,935	16,534,354			18,045,935	16,534,354
Instructional Student Support	3,182,767	2,778,435			3,182,767	2,778,435
Admin. & Fin'l Support Services	2,318,180	1,972,790			2,318,180	1,972,790
Oper. & Maint. Of Plant Svcs.	2,846,695	2,745,509			2,846,695	2,745,509
Pupil Transportation	1,158,943	1,143,117			1,158,943	1,143,117
Human Resources	133,500	178,998			133,500	178,998
Student Activities	664,781	571,458			664,781	571,458
Community Services	12,374	6,401			12,374	6,401
Interest on Long-Term Debt	651,250	707,771			651,250	707,771
Unallocated Depreciation Exp	762,303	789,650			762,303	789,650
Refund of Prior Yr Revenue	41,213	49			41,213	49
Food Services			628,376	669,589	628,376	669,589
Total Expenses	29,817,941	27,428,532	628,376	669,589	30,446,317	28,098,121
Increase (decrease) in Net Assets	**$ 308,632**	**$ 1,635,527**	**53,717**	**46,822**	**362,349**	**1,682,349**

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, 2015 and 2014
Governmental Activities

Functions/Programs	**Total Cost of Services**		**Net Cost of Services**	
	2015	2014	2015	2014
Instruction	18,045,935	16,534,354	$15,071,359	$13,756,003
Instructional Student Support	3,182,767	2,778,435	2,896,706	2,537,965
Administrative	2,451,680	2,151,788	2,279,653	2,012,958
Operation and Maintenance	2,846,695	2,745,509	2,674,536	2,604,002
Pupil Transportation	1,158,943	1,143,117	526,389	513,610
Student Activities	664,781	571,458	588,089	492,867
Community Services	12,374	6,401	12,374	6,401
Interest on Long-Term Debt	651,250	707,771	385,051	450,189
Refund of Prior Year Revenue	41,213	49	41,213	49
Unallocated Depreciation	762,303	789,650	762,303	789,650
Total Governmental Activities	**$29,817,941**	**$27,428,532**	**$25,237,673**	**$23,163,694**
Less:				
Unrestricted Grants & Subsidies			3,272,356	3,236,657
Total Needs from Local Taxes and Other Revenues			**$21,965,317**	**$19,927,037**

The dependence upon tax revenues for governmental activities is apparent. In fiscal year 2015, the costs of instructional activities were equal to 83 percent of taxes and other general revenues. Taxes and other general revenues fund 86 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, 2015 and 2014
Business Type Activities

Functions/Programs	Total Cost of Services		Net Cost of Services	
	2015	2014	2015	2014
Food Services	$ 628,376	$ 669,589	$ 10,970	$ 9,706
Less:				
Investment Earnings,Gains (losses)			348	457
Total Business-type Activities			**$ 10,622**	**$ 9,249**

Major factors causing the increase in Net Cost of Services are an increase in salaries and benefits of 4.4%. Benefits were higher due to increasing retirement costs and the fact that an employee who had previously opted out of health care coverage is now taking the coverage. Revenues were lower by 13% due mostly to declining enrollment and the fact that state mandated menu options do not seem to be favored by students. Non-operating revenues decreased by 1.5%. The General Fund transferred $64,496 and $56,071 to the Food Services Fund in 2015 and 2014 respectively. These transfers basically represent the net employee benefits for the Cafeteria Fund (Retirement expense and employer share of FICA). The General Fund pays for these benefits and the expenditure for the Cafeteria portion is recognized as a transfer-out (expenditure) in the General Fund and a transfer-in (revenue) in the Cafeteria Fund.

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 $30,209,622 and expenditures and other financing uses of $29,756,958. This increased the total fund balance by $452,664.

General Fund:

The positive net change in fund balance of $567,174 represents the revenues over the expenditures of Kutztown Area School Districts General Fund for the fiscal year ended June 30, 2015. This was primarily due to lower Debt Service, better than expected collections in current and delinquent taxes offset by increased labor and benefit costs. Lower maintenance costs also added to the increase. Transfers to the Capital Projects Fund was budgeted to complete some much needed capital projects at the High School and Middle School. The majority of financial transactions flow through this fund.

Capital Projects Fund:

The fund balance for the Capital Projects Fund decreased by $114,510. This represents interest revenue of $1,315, transfer from the General Fund of $500,000 and expenditures of $615,825 used for architect fees relating to upcoming High School renovation and various High School and Middle School projects. Although the Capital Reserve Fund has a zero balance, future accounting treatment will group it with the Capital Projects Fund in accordance with Governmental Accounting Standards Board Statement 54.

General Fund Budgeting Highlights

During the fiscal year, the Board of School Directors (The Board) authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the District.

Revenues exceeded the budget by $466,942. This was primarily due to greater than anticipated: Real Estate Taxes; $125,414, Delinquent Real Estate Taxes: $160,973, Earned Income Tax; $139,739, Vocational Ed; $63,993. Revenue items that were below budget, Investment Income; ($8,436), Medical Access Payments; ($190,659), Ready to Learn Grant ($76,866), and Retirement Subsidy ($49,724). Some expenditures exceeded budgeted amounts, others were less than anticipated. Maintenance and Operations made up a large part of the savings. These variances in revenues and expenditures resulted in $567,174 being added to the fund balance.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2015 fiscal year, the district had invested over $29 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 decrease in the totals is largely due to depreciation expense.

Table 5
Capital Assets at June 30, 2015 and 2014 (Net of Depreciation)

	Governmental Activities		Business-Type Activity		Total	
	2015	2014	2015	2014	2015	2014
Land	$ 46,090	$ 46,090	-	-	46,090	46,090
Construction in Progress	373,369	501,005	-	-	373,369	501,005
Site Improvements	366,500	404,817	-	-	366,500	404,817
Bldg & Bldg Improvements	24,981,325	25,585,247	-	-	24,981,325	25,585,247
Furniture & Equipment	2,919,732	2,738,298	195,765	200,966	3,115,497	2,939,264
Totals	**$ 28,687,016**	**29,275,457**	**195,765**	**200,966**	**28,882,781**	**29,476,423**

Debt

As of July 1, 2014 the District had outstanding bonds of $17,685,000. During the year principal payments were made against these outstanding bonds in the amount of $1,440,000. As of June 30, 2015 outstanding bonds totaled $16,245,000. Table 6 shows the breakdown of these numbers.

Table 6
Outstanding Debt

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015
GOB Series 2005	$ 11,650,000	-	10,800,000	850,000
GOB Series 2013	6,035,000	-	635,000	5,400,000
GOB Series A 2014	-	90,000	-	90,000
GOB Series B 2014	-	9,905,000	-	9,905,000
Total	**$ 17,685,000**	**$ 9,995,000**	**$ 11,435,000**	**$ 16,245,000**

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. The exceptions to raise taxes above the Act 1 index were substantially diminished with the 2014-2015 fiscal year.

2. Special Education – Special Education costs increased by over 12% in the last 5 years. They are in excess of $4.48 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 2015-2016 the rate increase is 3%. The Berks County Schools Health Insurance Consortium has become self-insured and continues to look at various ways to control costs. In addition, health insurance reform took effect Jan. 1, 2015. This places several mandates and reporting requirements on employers. 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 ten years, from $44,237 in 2003-2004 to $964,239 in the 2014-2015 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 25.84% in 2015-16. This, in conjunction with increasing salary costs, has caused retirement costs to increase at double- digit rates. It is estimated that in the school year 2016-17 the PSERS contribution will increase to approximately 29.69%, which will greatly impact the expenditure budget.

6. Student Enrollment - The administration continues to monitor declining student enrollment and the impact that it may have on district operations. Staffing was adjusted in 2010-2011 and 2011-2012 and will continue to be evaluated.

7. Kutztown Area School District (KASD) continues to provide diverse learning experiences for students in grades K through 12. Specifically, all students have the opportunity to enroll in district-built or purchased online courses, which are taught by a combination of KASD teachers and highly qualified teachers provided by vendors from whom some courses are purchased. All online courses are part of the district's in-house Kutztown Virtual Academy.

8. KASD has also begun the implementation of a comprehensive K-12 blended learning program called the "Next Generation Learning" initiative. This initiative is designed to leverage district technology to reach the district's aggressive instructional goals centered on differentiated instruction, academic rigor, and student engagement. The alignment of technology, financial, staffing, and professional development resources is part of the long-term sustainability plan of this initiative."

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, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	$ 9,964,654	$ 429,771	$ 10,394,425
Taxes Receivable, Net	1,144,603	-	1,144,603
Internal Balances	20,235	(20,235)	-
Intergovernmental Receivables	1,018,648	1,106	1,019,754
Other Receivables	21,410	-	21,410
Inventories	-	24,492	24,492
Prepaid Expenses	22,217	-	22,217
Capital Assets Not Being Depreciated:			
Land	46,090	-	46,090
Construction in Progress	373,369	-	373,369
Capital Assets, Net of Accumulated Depreciation:			
Site Improvements	366,500	-	366,500
Building and Building Improvements	24,981,325	-	24,981,325
Fixtures and Equipment	2,919,732	195,765	3,115,497
TOTAL ASSETS	40,878,783	630,899	41,509,682
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charge on Bond Refunding	687,224	-	687,224
Pension Contributions made Subsequent to the Measurement Date	2,725,188	45,687	2,770,875
TOTAL DEFERRED OUTFLOWS OF RESOURCES	3,412,412	45,687	3,458,099
LIABILITIES			
Accounts Payable	584,425	633	585,058
Accrued Salaries and Benefits	1,629,895	-	1,629,895
Payroll Deductions and Withholdings	873,248	-	873,248
Accrued Interest	156,516	-	156,516
Unearned Revenues	52,730	11,089	63,819
Noncurrent Liabilities			
Due Within One Year	1,974,394	-	1,974,394
Bonds Payable, Net	14,661,234	-	14,661,234
Long-Term Portion of Capital Lease Obligation	277,402	-	277,402
Long-Term Portion of Compensated Absences	369,558	-	369,558
Net Pension Liability	40,914,296	724,704	41,639,000
Other Postemployment Benefit Obligation	651,344	16,379	667,723
TOTAL LIABILITIES	62,145,042	752,805	62,897,847
DEFERRED INFLOWS OF RESOURCES			
Deferred Pension Expense	1,877,862	33,246	1,911,108
NET POSITION			
Net Investment in Capital Assets	12,517,772	195,765	12,713,537
Restricted for Capital Projects	1,096,442	-	1,096,442
Unrestricted (Deficit)	(33,345,923)	(305,230)	(33,651,153)
TOTAL NET POSITION (DEFICIT)	$ (19,731,709)	$ (109,465)	$ (19,841,174)

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2015

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:							
Instruction:							
Regular	$ 12,320,824	$ -	$ 1,339,817	$ -	$ (10,981,007)	$ -	$ (10,981,007)
Special	4,394,024	-	1,488,023	-	(2,906,001)	-	(2,906,001)
Vocational	1,150,814	-	125,477	-	(1,025,337)	-	(1,025,337)
Other Instructional Programs	176,023	-	21,259	-	(154,764)	-	(154,764)
Adult Education Programs	4,250	-	-	-	(4,250)	-	(4,250)
Total Instructional Services	18,045,935	-	2,974,576	-	(15,071,359)	-	(15,071,359)
Support Services:							
Pupil Personnel	998,356	-	89,794	-	(908,562)	-	(908,562)
Instructional Staff	1,760,049	-	143,546	-	(1,616,503)	-	(1,616,503)
Administration	1,899,409	-	136,911	-	(1,762,498)	-	(1,762,498)
Pupil Health	424,362	-	52,721	-	(371,641)	-	(371,641)
Business Services	393,117	-	27,512	-	(365,605)	-	(365,605)
Operation of Plant and Maintenance Services	2,846,695	66,805	105,354	-	(2,674,536)	-	(2,674,536)
Student Transportation Services	1,158,943	-	632,554	-	(526,389)	-	(526,389)
Human Resources	133,500	-	7,604	-	(125,896)	-	(125,896)
Other Support Services	25,654	-	-	-	(25,654)	-	(25,654)
Total Support Services	9,640,085	66,805	1,195,996	-	(8,377,284)	-	(8,377,284)
Noninstructional Services:							
Student Activities	664,781	29,828	46,864	-	(588,089)	-	(588,089)
Community Services	12,374	-	-	-	(12,374)	-	(12,374)
Interest on Long-Term Debt	651,250	-	-	266,199	(385,051)	-	(385,051)
Refund of Prior Year Revenue	41,213	-	-	-	(41,213)	-	(41,213)
Unallocated Depreciation	762,303	-	-	-	(762,303)	-	(762,303)
Total Noninstructional Services	2,131,921	29,828	46,864	266,199	(1,789,030)	-	(1,789,030)
Total Governmental Activities	29,817,941	96,633	4,217,436	266,199	(25,237,673)	-	(25,237,673)
Business-Type Activities:							
Food Services	628,376	344,910	272,496	-	-	(10,970)	(10,970)
Total Primary Government	$ 30,446,317	$ 441,543	$ 4,489,932	$ 266,199	(25,237,673)	(10,970)	(25,248,643)
	General Revenues and Transfers						
	General Revenues:						
	Taxes:						
	Property Taxes				20,374,062	-	20,374,062
	Public Utility Realty, Earned Income and Mercantile Taxes				1,903,205	-	1,903,205
	Grants, Subsidies, and Contributions Not Restricted for Specific Programs				3,272,356	-	3,272,356
	Investment Earnings				32,752	348	33,100
	Miscellaneous				28,426	(157)	28,269
	Transfers				(64,496)	64,496	-
	Total General Revenues and Transfers				25,546,305	64,687	25,610,992
	Change in Net Position				308,632	53,717	362,349
	Net Position (Deficit) - Beginning - Restated				(20,040,341)	(163,182)	(20,203,523)
	Net Position (Deficit) - Ending				$ (19,731,709)	$ (109,465)	$ (19,841,174)

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2015

	General	Capital Projects	Total Governmental Funds
ASSETS			
Cash and Investments	$ 9,303,731	$ 660,923	$ 9,964,654
Taxes Receivable	1,165,049	-	1,165,049
Interfund Receivable	-	500,000	500,000
Intergovernmental Receivables	1,018,648	-	1,018,648
Other Receivables	21,410	-	21,410
Prepaid Expenditures	22,217	-	22,217
TOTAL ASSETS	$ 11,531,055	$ 1,160,923	$ 12,691,978
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
LIABILITIES			
Interfund Payable	$ 479,765	$ -	$ 479,765
Accounts Payable	519,944	64,481	584,425
Accrued Salaries and Benefits	1,629,895	-	1,629,895
Payroll Deductions and Withholdings	873,248	-	873,248
Current Portion of Compensated Absences Payable	56,562	-	56,562
Unearned Revenues	52,730	-	52,730
TOTAL LIABILITIES	3,612,144	64,481	3,676,625
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	864,189	-	864,189
FUND BALANCES			
Nonspendable for Prepaid Expenditures	22,217	-	22,217
Restricted Fund Balance	-	1,096,442	1,096,442
Committed Fund Balance:			
Future Capital Projects	1,981,783	-	1,981,783
Future PSERS Contributions	1,360,310	-	1,360,310
Amounts Due Career and Technology Center	153,226	-	153,226
Further Development of Virtual Academy	115,147	-	115,147
Assigned Fund Balance	1,823,330	-	1,823,330
Unassigned Fund Balance	1,598,709	-	1,598,709
TOTAL FUND BALANCES	7,054,722	1,096,442	8,151,164
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 11,531,055	$ 1,160,923	$ 12,691,978

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

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

June 30, 2015

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

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS		$ 8,151,164
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 $48,062,556 and the accumulated depreciation is $19,375,540.		28,687,016
Property 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.		843,743
The net pension and other postemployment benefit obligations are not reflected on the fund financial statements.		(40,718,314)
Long-term liabilities, including bonds payable and capital lease payable, 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	$ (16,245,000)	
Capital Lease Payable	(550,234)	
Accrued Interest on Long-term Debt	(156,516)	
Unamortized Bond Premium	(61,234)	
Deferred Charge on Bond Refunding	687,224	
Long-Term Portion of Compensated Absences	(369,558)	(16,695,318)
NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES		$ (19,731,709)

KUTZTOWN AREA SCHOOL DISTRICT

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

For the Year Ended June 30, 2015

	General	Capital Projects	Total Governmental Funds
REVENUES			
Local Sources	$ 22,164,432	$ 1,315	$ 22,165,747
State Sources	7,760,522	-	7,760,522
Federal Sources	283,353	-	283,353
TOTAL REVENUES	30,208,307	1,315	30,209,622
EXPENDITURES			
Instructional Services	16,881,025	-	16,881,025
Support Services	9,176,880	14,853	9,191,733
Operation of Noninstructional Services	658,074	19,689	677,763
Capital Outlay	-	581,283	581,283
Debt Service			
Principal	1,797,651	-	1,797,651
Interest	611,794	-	611,794
Refund of Prior Year Revenue	41,213	-	41,213
TOTAL EXPENDITURES	29,166,637	615,825	29,782,462
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,041,670	(614,510)	427,160
OTHER FINANCING SOURCES (USES)			
Issuance of Refunding Bonds	9,995,000	-	9,995,000
Payment to Refunded Bond Escrow Agent	(9,905,000)	-	(9,905,000)
Transfers In	-	500,000	500,000
Transfers Out	(564,496)	-	(564,496)
TOTAL OTHER FINANCING SOURCES (USES)	(474,496)	500,000	25,504
NET CHANGE IN FUND BALANCES	567,174	(114,510)	452,664
FUND BALANCES - BEGINNING	6,487,548	1,210,952	7,698,500
FUND BALANCES - ENDING	$ 7,054,722	$ 1,096,442	$ 8,151,164

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, 2015

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		$ 452,664
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	$ 668,749	
Less: Depreciation Expense	(1,257,190)	(588,441)
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.		(18,553)
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	1,530,000	
Payment to Refunded Bond Escrow Agent	9,905,000	
Issuance of Refunding Bonds	(9,995,000)	
Repayment of Capital Lease	267,651	
Amortization of Bond Discount	(8,145)	
Amortization of Bond Premium	11,691	
Amortization of Deferred Charge on Bond Refunding	(83,687)	1,627,510
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources.		40,685
In the statement of activities, certain operating expenses - compensated absences (vacations and sick days) are measured by the amounts earned during the year.		(5,712)
Increase in net pension liability and other postemployment benefit obligation is reflected as an adjustment to expense on the statement of activities, but not included in the fund statements.		(1,199,521)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		$ 308,632

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION
PROPRIETARY FUND

June 30, 2015

	Enterprise Fund Food Service
ASSETS	
CURRENT ASSETS	
Cash and Investments	$ 429,771
Intergovernmental Receivables	1,106
Inventories	24,492
TOTAL CURRENT ASSETS	455,369
NONCURRENT ASSETS	
Furniture and Equipment, Net	195,765
TOTAL ASSETS	651,134
DEFERRED OUTFLOWS OF RESOURCES	
Pension Contributions made Subsequent to the Measurement Date	45,687
LIABILITIES	
CURRENT LIABILITIES	
Interfund Payable	20,235
Accounts Payable	633
Unearned Revenues	11,089
TOTAL CURRENT LIABILITIES	31,957
NONCURRENT LIABILITIES	
Net Pension Liability	724,704
Other Postemployment Benefit Obligation	16,379
TOTAL LIABILITIES	773,040
DEFERRED INFLOWS OF RESOURCES	
Deferred Pension Expense	33,246
NET POSITION	
Net Investment in Capital Assets	195,765
Unrestricted (Deficit)	(305,230)
TOTAL NET POSITION (DEFICIT)	$ (109,465)

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

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

For the Year Ended June 30, 2015

	Enterprise Fund Food Service
OPERATING REVENUES	
Food Service Revenue	$ 315,811
Other Operating Revenue	29,099
TOTAL OPERATING REVENUES	344,910
OPERATING EXPENSES	
Salaries	224,754
Employee Benefits	118,500
Purchased Services	3,821
Supplies	258,689
Depreciation	12,492
Repairs and Maintenance	10,120
TOTAL OPERATING EXPENSES	628,376
OPERATING LOSS	(283,466)
NONOPERATING REVENUES (EXPENSES)	
Local Sources - Earnings on Investments	348
State Sources	49,106
Federal Sources	223,390
Loss on Sale of Fixed Assets	(157)
TOTAL NONOPERATING REVENUES (EXPENSES)	272,687
LOSS BEFORE TRANSFERS	(10,779)
Operating Transfers In	64,496
CHANGE IN NET POSITION	53,717
NET POSITION (DEFICIT) - BEGINNING - RESTATED	(163,182)
NET POSITION (DEFICIT) - ENDING	$ (109,465)

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND

For the Year Ended June 30, 2015

	Enterprise Fund Food Service
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Users	$ 348,608
Cash Payments to Employees for Services	(319,561)
Cash Payments to Suppliers for Goods and Services	(243,717)
NET CASH USED BY OPERATING ACTIVITIES	(214,670)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Sources	51,879
Federal Sources	214,937
Transfers In	64,496
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	331,312
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Asset Purchases	(7,448)
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on Investments	348
NET INCREASE IN CASH AND CASH EQUIVALENTS	109,542
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	320,229
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 429,771

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - CONTINUED
PROPRIETARY FUND

For the Year Ended June 30, 2015

	Enterprise Fund Food Service
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:	
Operating Loss	$ (283,466)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation	12,492
Donated Commodities Used	37,578
Changes in Assets and Liabilities:	
Inventories	(9,297)
Pension Contributions made Subsequent to the Measurement Date	(8,274)
Accounts Payable	633
Unearned Revenues	3,698
Deferred Pension Expense	33,246
Net Pension Liability	(2,732)
Other Liabilities	1,452
Total Adjustments	68,796
NET CASH USED BY OPERATING ACTIVITIES	$ (214,670)

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the District used $37,578 of commodities from the U.S. Department of Agriculture.

See accompanying notes.

KUTZTOWN AREA SCHOOL DISTRICT

STATEMENT OF NET POSITION
FIDUCIARY FUND

June 30, 2015

	Agency Fund Student Activities
ASSETS	
CURRENT ASSETS	
Cash and Investments	$ 79,626
TOTAL ASSETS	$ 79,626
LIABILITIES	
CURRENT LIABILITIES	
Other Current Liabilities	$ 79,626
TOTAL LIABILITIES	$ 79,626

See accompanying notes.

The Kutztown Area School 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 six and twenty-one 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

A. Reporting Entity

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

The District used guidance contained in generally accepted accounting principles to evaluate the possible inclusion of related entities (authorities, boards, etc.) within its reporting entity. The criteria used by the District for inclusion are financial accountability and the nature and significance of the relationships. In determining financial accountability in a given case, the District reviews the applicability of the following criteria. The District is financially accountable for:

- Organizations that make up the legal District entity.

- Legally separate organizations if District officials appoint a voting majority of the organizations' governing body and the District is able to impose its will on the organization, or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the District as defined below.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A. Reporting Entity - continued

Impose its will - If the District can significantly influence the programs, projects or activities of, or the level of services performed or provided by, the organization.

Financial benefit or burden - exists if the District (1) is entitled to the organization's resources; (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization; or (3) is obligated in some manner for the debt of the organization.

- Organizations that are fiscally dependent on the District. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes, set rates or charges, or issued bonded debt without approval by the District.

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 and Technology Center. See Note 11 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). The 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.

The 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 the BCIU. The BCIU contracts with participating districts to supply special education services, computer services, and to act as a conduit for certain federal programs.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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. Major individual governmental and enterprises funds are reported as separate columns in the fund financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

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).

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 receivable/payable and advances to/from other funds. 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 (i.e., the governmental and internal service funds) 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

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.

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 revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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.

Property taxes, licenses, and interest associated with the current fiscal period is considered to be susceptible to accrual and so has 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, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Measurement Focus and Basis of Accounting - continued

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.

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 the first business meeting of January, 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 150 days prior to the primary election. Under this option, the preliminary budget must be available for public inspection at least 110 days prior to the primary election. The board shall give public notice of its intent to adopt the preliminary budget at least 10 days prior to the adoption. The adoption must occur at least 90 days prior to the primary election.

If the primary budget exceeds the increase authorized by the Index, an application for an exception may be filed with either a Court of Common Pleas with jurisdiction of 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Budgetary Process - continued

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.

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 2014/15 budget transfers.

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance

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 stated at fair value, except:

a) Nonparticipating interest earning investment contracts are recorded at amortized cost;

b) Money market investments and participating interest earning investment contracts that mature within one year of acquisition are recorded at amortized cost; and,

c) Investments held in 2a7-like pools (Pennsylvania Local Government Investment Trust and Pennsylvania School District Liquid Asset Fund) are recorded at the pool's share price.

2. Receivables/Payables

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

3. Inventories and Prepaid Items - continued

Inventories of the governmental funds, consisting principally of textbooks and instructional supplies, are not valued since it is the policy of the District to charge these items to expense upon acquisition.

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, 2015, consist of the following:

Purchased food and supplies	$ 8,735
Donated commodities	15,757
	$ 24,492

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 generally capitalizes assets with cost 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. 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.

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

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

Interest costs incurred during the construction phase of capital assets are capitalized when incurred by proprietary funds and similar component units on debt where proceeds were used to finance the construction of assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

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 (expense/expenditure) until then. The District has two items that qualify for reporting in this category, which are a deferred charge on bond refunding and a deferred pension contribution reported in the government-wide statement of net position. 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. A deferred pension contribution results from 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.

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 government has two types of items that qualify for reporting in this category. The first item, *deferred pension expense*, relates 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, or differences between employer contributions and the proportionate share of total contributions reported by the pension plan. These amounts are deferred and amortized over either a closed five-year period or the average remaining service life of all employees depending on what gave rise to the deferred inflow. The second item, *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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

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 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.

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 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

8. Fund Balance Policies and Flow Assumptions - continued

The unassigned fund balance of the general fund at the end of each fiscal year-end shall not be less than five percent 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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

G. Revenues and Expenditures/Expense - continued

2. Compensated Absences - continued

Sick Pay

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 ($75.00) 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 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 $75.00 per 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.

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.

The District records this benefit on a pay as you go basis.

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 proprietary funds include 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

B. Deficit fund balance or net position of individual funds

Deficit Fund Balance - Proprietary Fund
For the year ended June 30, 2015, the implementation of 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 $109,465. 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

No individual fund, which had a legally adopted budget, had an excess of expenditures over appropriations.

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, 2015. 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

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, 2015 is as follows:

Cash	$ 1,464,889
Pooled cash and investments	9,009,162
	$ 10,474,051

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, 2015, the carrying amount of the District's deposits was $1,464,889 and the bank balance was $1,488,848. Of the bank balance, $250,000 was covered by federal depository insurance, and $1,238,848 was exposed to custodial credit risk but covered by the collateralization requirements in accordance with Act 72.

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

As of June 30, 2015, the District had the following investments:

	Maturities	Fair Value
PA School District Liquid Asset Fund		$ 9,009,162

A portion of the District's deposits are in the Pennsylvania School District Liquid Asset Fund (PSDLAF). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, the funds act like money market mutual funds in that their objective is to maintain a stable net asset value of $1 per share, is rated by a nationally recognized statistical rating organization, and is subject to an independent annual audit.

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.

Credit Risk
The District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2015, 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, 2015, 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 five independently elected tax collectors. Assessed values are established by the County Board of Assessment. All taxable real property was assessed at $681,613,200. In accordance with Act 1 of 2006, the District received $611,053 in property tax reduction funds for the 2014/2015 fiscal year. The District's tax rate for the year ended June 30, 2015 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.

The balances at June 30, 2015 are as follows:

	Gross Taxes Receivable	Allowance for Uncollectible Taxes	Net Estimated to be Collectible	Tax Revenue Recognized	Unavailable Revenues
Real estate tax	$ 1,022,305	$ 20,446	$ 1,001,859	$ 137,670	$ 864,189
Transfer tax	31,568	-	31,568	31,568	-
Earned income tax	108,452	-	108,452	108,452	-
Other misc. tax	2,724	-	2,724	2,724	-
	$ 1,165,049	$ 20,446	$ 1,144,603	$ 280,414	$ 864,189

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES

The following schedule represents intergovernmental receivables at June 30, 2015:

	General Fund	Proprietary Fund
Commonwealth of PA - Retirement	$ 498,976	$ -
Commonwealth of PA - Social Security	46,468	-
Commonwealth of PA - Food Nutrition Service	-	1,106
Commonwealth of PA - Rental Subsidy	147,297	
Commonwealth of PA - School Health	25,136	-
Commonwealth of PA - Transportation Subsidy	7,578	
Federal Subsidies - ARRA Race to the Top	6,185	-
Federal Subsidies - IDEA	283,866	-
Federal Subsidies - IDEA Preschool	1,843	-
Federal Subsidies - ACCESS Administration	1,299	-
	$ 1,018,648	$ 1,106

NOTE 6 - CHANGES IN CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2015 were as follows:

Governmental Activities

	Beginning Balance	Increase	(Reclass) Decrease	Ending Balance
Capital assets not being depreciated:				
Land	$ 46,090	$ -	$ -	$ 46,090
Construction-in-progress	501,005	486,870	(614,506)	373,369
Totals not be depreciated	547,095	486,870	(614,506)	419,459
Capital assets being depreciated:				
Site improvements	1,121,068	12,545	-	1,133,613
Buildings and building improvements	40,950,189	91,216	-	41,041,405
Fixtures and equipment	4,775,455	692,624	-	5,468,079
Totals being depreciated	46,846,712	796,385	-	47,643,097
Less accumulated depreciation for:				
Site improvements	716,251	50,862	-	767,113
Buildings and building improvements	15,364,942	695,138	-	16,060,080
Fixtures and equipment	2,037,157	511,190	-	2,548,347
Total accumulated depreciation	18,118,350	1,257,190	-	19,375,540
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	28,728,362	(460,805)	-	28,267,557
GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET	$ 29,275,457	$ 26,065	$ (614,506)	$ 28,687,016

Business-Type Activities

Capital assets being depreciated:				
Furniture and equipment	$ 726,091	$ 7,448	$ (30,507)	$ 703,032
Accumulated depreciation for:				
Furniture and equipment	525,125	12,492	(30,350)	507,267
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	$ 200,966	$ (5,044)	$ (157)	$ 195,765

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	$ 311,795
Support Services	180,576
Operation of Noninstructional Services	2,516
Unallocated	762,303
TOTAL DEPRECIATION EXPENSE - GOVERNMENTAL ACTIVITIES	$ 1,257,190

Subsequent to year-end, the District sold a former elementary school building for the sum of $400,000.

NOTE 7 - LONG-TERM LIABILITIES

Bonds and notes payable are as follows at June 30, 2015:

General Obligation Notes - Series of A 2014:
The District is liable for general obligation notes dated June 12, 2015 in the original principal amount of $90,000. Principal maturity occurs on March 15, 2016. Interest is payable semi-annually on March 15 and September 15. Interest rate is 2.40%. The proceeds of this Note were used to pay debt issuance costs associated with the current refunding of the General Obligation Bonds - Series 2005. $ 90,000

General Obligation Notes - Series B of 2014:
The District is liable for general obligation notes dated June 12, 2015 in the original principal amount of $9,905,000. Principal maturities occur on March 15 through the year 2024. Interest is payable semi-annually on March 15 and September 15. Interest rate is 2.40%. The proceeds of this Bond were used to currently refund a portion of the General Obligation Bonds - Series 2005. The refunding resulted in a net annual cash flow savings of $952,491 with a corresponding net present value savings of $844,274. 9,905,000

NOTE 7 - LONG-TERM LIABILITIES - CONTINUED

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 2009 and to pay debt issuance costs. The refunding resulted in a net annual cash flow savings of $256,025 with a corresponding net present value savings of $258,170.	5,400,000
General Obligation Bonds - Series of 2005: The District is liable for general obligation bonds dated April 1, 2005 in the original principal amount of $18,015,000. Principal maturities occur on March 15 through the year 2024. Interest is payable semi-annually on March 15 and September 15. Interest rates range from 2.60% to 5.00%. The proceeds of this Bond were used to currently refund the General Obligation Bonds - Series 1999 and to pay debt issuance costs. A portion of this bond was refunded with General Obligation Note - Series of 2014 B.	850,000
Total Bonds and Notes Payable	$ 16,245,000

Capital Leases

Capital lease liabilities are as follows:

Capitalized lease obligation for computers, with annual payments of $283,496, with final payment due in July, 2016. The lease has an effective rate of 1.94 percent.	$ 550,234

The amount of capitalized lease equipment included on the balance sheet at June 30, 2015 is:

Cost	$ 1,101,381
Accumulated depreciation	(413,018)
Net Book Value	$ 688,363

Defeased Debt

During the year ended June 30, 2015, the District issued General Obligation Bonds, Series B of 2014 in the amount of $9,905,000, that were used to currently refund a portion of the General Obligation Bonds, Series of 2005. The current refunding met the requirements of an in-substance debt defeasance and the bonds were removed from the District's long-term liabilities.

NOTE 7 - LONG-TERM LIABILITIES - CONTINUED

The future annual payments required to amortize all bonds, notes, and capital leases payable for the years ending June 30 are as follows:

	General Obligation Bonds Series of 2005	General Obligation Bonds Series of 2013	General Obligation Notes Series A of 2014	General Obligation Notes Series B of 2014	Total Principal	Interest	Capital Lease Obligation
2016	$ 850,000	$ 640,000	$ 90,000	$ 65,000	$ 1,645,000	$ 418,870	$ 272,832
2017	-	645,000	-	1,055,000	1,700,000	317,160	277,402
2018	-	655,000	-	1,080,000	1,735,000	283,703	-
2019	-	670,000	-	1,105,000	1,775,000	246,170	-
2020	-	675,000	-	1,135,000	1,810,000	206,825	
2021 - 2024	-	2,115,000	-	5,465,000	7,580,000	418,910	-
	$ 850,000	$ 5,400,000	$ 90,000	$ 9,905,000	$ 16,245,000	$ 1,891,638	$ 550,234

Long-term liability balance and activity, except for net pension liability and other postemployment obligations, for the year ended June 30, 2015 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities					
General Obligation Debt:					
Bonds payable	$ 17,685,000	$ 9,995,000	$ 11,435,000	$ 16,245,000	$ 1,645,000
Less deferred amounts:					
For issuance discounts	(65,549)	-	(65,549)	-	-
For issuance premiums	101,203	-	39,969	61,234	-
Subtotal	17,720,654	9,995,000	11,409,420	16,306,234	1,645,000
Other Liabilities:					
Capital lease payable	817,885	-	267,651	550,234	272,832
Compensated absences	438,645	-	12,525	426,120	56,562
TOTAL GOVERNMENTAL LONG-TERM LIABILITIES	$ 18,977,184	$ 9,995,000	$ 11,689,596	$ 17,282,588	$ 1,974,394

Payments on bonds and capital leases payable are made by the general fund. The compensated absence liabilities will be liquidated by the general fund. Total interest paid during the year ended June 30, 2015 was $611,794.

NOTE 7 - LONG-TERM LIABILITIES - CONTINUED

Subsequent to year-end, the District issued $9,000,000 in General Obligation Bonds, Series 2015. The Bonds are not subject to redemption prior to maturity. Commencing March 15, 2016, interest is payable semi-annually on March 15 and September 15 with interest ranging from 2.71 percent to 4.00 percent. The bonds were issued to provide funds for future capital projects.

Subsequent to year-end, the District entered into a capital lease agreement for computers totaling $121,533 with annual payments of $31,608, with final payment due in August, 2018. The lease has an effective rate of 1.9 percent.

NOTE 8 - EMPLOYEE RETIREMENT PLANS

Restatement of Beginning Net Position

Effective July 1, 2014, the District adopted Governmental Accounting Standards Board Statements No. 68, *Accounting and Financial Reporting for Pensions* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, to be in conformity with generally accepted accounting principles.

Statement No. 68 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 pensions. The statement also enhances note disclosure and requirement supplementary information for government pension plans.

Statement No. 71 establishes standards for recording and reporting contributions made to a defined benefit plan after the measurement date of the government's beginning net pension liability.

The adoption of these standards resulted in the District restating beginning net position as of July 1, 2014 in governmental activities for $38,956,362 and the food service fund for $690,023 to account for the net pension liability as of June 30, 2014 (measurement date of June 30, 2013) and deferred outflows for pension contributions made subsequent to the measurement date. Governmental Activities net position decreased from $18,916,021 to ($20,040,341) and business-type activities net position decreased from $526,841 to ($163,182).

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee 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.

General Information about the Pension Plan

Plan Description

PSERS is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania under Title 24 Part IV of the Pennsylvania General Assembly. 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.state.pa.us.

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who 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 percent or 2.5 percent, 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 ten years of service.

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2 percent or 2.5 percent, 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 (ten 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.

Contributions

The contribution policy is set by the State Statute and requires contributions by active members, employees, and the Commonwealth of Pennsylvania.

Member Contributions:

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

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

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

Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5 percent (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3 percent (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 percent and 9.5 percent and Membership Class T-F contribution rate to fluctuate between 10.3 percent and 12.3 percent.

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employer Contributions:

The District's contractually required contribution rate for fiscal year ended June 30, 2015 was 20.50 percent of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The rate was certified by the PSERS Board of Trustees. Contributions to the pension plan from the District were $2,770,875 for the year ended June 30, 2015.

The District is also required to contribute a percentage of covered payroll to PSERS for healthcare insurance premium assistance. For the year ended June 30, 2015, the contribution rate was 0.90 percent of covered payroll and the District contributed $121,648.

Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for approximately one-half of the employer contributions made, including contributions related pension and healthcare. The total reimbursement recognized by the District for the year ended June 30, 2015 was $1,443,328.

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

At June 30, 2015, the District reported a liability of $41,639,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, 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, 2013 to June 30, 2014. 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, 2014, the District's proportion was 0.1052 percent, which was an increase of 0.0031 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of $3,903,723. At June 30, 2015, 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
Net difference between projected and actual investment earnings	$ -	$ 2,977,000
Changes in proportions	1,023,000	-
Difference between employer contributions and proportionate share of total contributions	42,892	-
Contributions subsequent to the measurement date	2,770,875	-
	$ 3,836,767	$ 2,977,000

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

The $2,770,875 reported as deferred outflows of resources resulting from District pension contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. 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:

2016	$ 487,277
2017	487,277
2018	487,277
2019	487,277
2020	(38,000)
	$ 1,911,108

Actuarial Assumptions

The total pension liability as of June 30, 2014 was determined by rolling forward the System's total pension liability as of the June 30, 2013 actuarial valuation to June 30, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level percent of pay
- Investment return - 7.50 percent, includes inflation at 3.00 percent
- Salary increases - Effective average of 5.50 percent, which reflects an allowance for inflation of 3.00 percent, real wage growth of 1 percent, and merit or seniority increases of 1.50 percent
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back three years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back seven years for males and three years for females.

The actuarial assumptions used in the June 30, 2013 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the board at its March 11, 2011 board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

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 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.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public markets global equity	19%	5.0%
Private markets (equity)	21%	6.5%
Private real estate	13%	4.7%
Global fixed income	8%	2.0%
U.S. long treasuries	3%	1.4%
TIPS	12%	1.2%
High yield bonds	6%	1.7%
Cash	3%	0.9%
Absolute return	10%	4.8%
Risk parity	5%	3.9%
MLPs/Infrastructure	3%	5.3%
Commodities	6%	3.3%
Financing (LIBOR)	(9%)	1.1%
	100%	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2014.

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Discount Rate

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

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

The following presents the net pension liability, calculated using the discount rate of 7.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
District's proportionate share of the net pension liability	$ 51,939,000	$ 41,639,000	$ 32,846,000

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.state.pa.us.

Payables to the Pension Plan

At June 30, 2015, the District had an accrued balance due to PSERS of $997,952. This amount represents the District's contractually obligated contributions for wages earned in April 2015 through June 2015. The balance will be paid in September 2015.

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 - OTHER POSTEMPLOYMENT BENEFITS

Plan Description

Kutztown Area School District administers a single-employer defined benefit healthcare plan (the Retiree Health Plan). The Plan provides lifetime healthcare insurance for eligible retirees and their spouses through the District's health insurance plan, which covers both active and retired members. Benefit provisions are established through negotiation with the District and the unions representing the District's employees. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy

Contribution requirements are negotiated between the District and union representatives. The required contribution is based on pay as you go financing. For all employees with 30 years of PSERS service or upon superannuation retirement (age 60 with 30 years of service, age 62 with one year of service, or 35 years of service regardless of age), the retired plan member pays the premium determined for the purpose of COBRA. The retired plan member may elect to continue coverage for themselves and their dependents until the retired plan member reaches Medicare age. For the fiscal year ended June 30, 2015, the District contributed $323,121 to the Plan related to retirees.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution	$ 431,242
Interest on net OPEB obligation	23,094
Adjustment to annual required contribution	(40,849)
Annual OPEB Cost	413,487
Contributions made	(323,121)
Increase in net OPEB obligation	90,366
Net OPEB obligation - beginning of year	577,357
Net OPEB obligation - end of year	$ 667,723

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2015	$ 413,487	78.1%	$ 667,723
6/30/2014	367,272	74.3%	577,357
6/30/2013	374,836	70.0%	482,853

Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was $3,550,794, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $3,550,794. The covered payroll (annual payroll of active employees covered by the Plan) was $12,770,741, and the ratio of the UAAL to the covered payroll was 27.8 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about actuarial value of plan assets and actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the July 1, 2014 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10.0 percent initially, decreasing 1.0 percent per year to an ultimate rate of 5 percent in 2019 and later. The unfunded actuarial accrued liability is being amortized at the end of the year based on level dollar and a twenty-year open amortization period.

NOTE 10 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The following is a summary of interfund receivables and payables at June 30, 2015:

	Interfund Receivables	Interfund Payables
General Fund	$ -	$ 479,765
Capital Projects Fund	500,000	-
Proprietary Fund - Food Service	-	20,235
	$ 500,000	$ 500,000

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.

Interfund transfers are summarized as follows:

	Transfers In	Transfers Out
General Fund	$ -	$ 564,496
Capital Projects Fund	500,000	-
Proprietary Fund - Food Service	64,496	-
	$ 564,496	$ 564,496

Transfers are generally made to subsidize food service fund costs and to reserve for future capital needs.

NOTE 11 - 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 2014/15 year was $580,859.

NOTE 11 - JOINT VENTURE - CONTINUED

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 2014/15 year was $111,054.

Summary financial information as of June 30, 2014 (the most recent information available) is as follows:

Berks Career & Technology Center (Governmental Activities)	
Total Assets and Deferred Outflows of Resources	$ 32,487,994
Total Liabilities	14,495,491
Total Net Position	$ 17,992,503

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

NOTE 12 - 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 80 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, 2015, there was no unfunded liability.

NOTE 13 - 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 $153,226 as of June 30, 2015. This liability is payable in annual installments beginning in the 2011/2012 school year and ending 2018/2019.

During the year, the District awarded a contract for $532,000 for high school renovations. Included in capital project funds are costs totaling $345,800 related to this contract, leaving a commitment remaining of $186,200. Subsequent to year-end, the District awarded additional contracts totaling $9,989,262 for high school renovations. The District plans to use existing resources in the capital projects fund, fund balance in the general fund committed for future capital projects, as well as the long-term debt issuance subsequent to year end noted in Note 7 to fulfill the above commitments.

NOTE 14 - 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, 2015 were as follows:

General Fund

The general fund has a nonspendable fund balance of $22,217, committed funds of $1,981,783 for future capital projects, $1,360,310 for future PSERS contributions, $153,226 for amounts due to the Berks Career & Technology Center, and $115,147 for further development of Kutztown Virtual Academy and assigned fund balance of $1,823,330 to balance the 2015/16 budget and unassigned fund balance of $1,598,709. The commitments were authorized by the board of school directors' motion to set aside resources for specific purposes.

NOTE 14 - FUND BALANCE - CONTINUED

Capital Projects Fund
The capital projects fund has restricted funds of $1,096,442 comprised of surplus monies transferred from the general fund for the acquisition or construction of capital facilities and qualifying capital assets as authorized by Municipal Code P.L. 145 Act of April 30, 1943.

NOTE 15 - NEW ACCOUNTING PRONOUNCEMENTS

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

- Statement No. 72, *Fair Value Measurement and Application* - The requirements of this statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position.

- Statement No. 74, *Financial Reporting for Postemployment Benefits Other Than Pension Plans* - The objective of this statement is to improve the usefulness of information about other postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

- Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* - This statement replaces the requirements of Statement No. 45, A*ccounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The scope of this statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures.

- Statement No. 77, *Tax Abatement Disclosures* - The requirements enhance the disclosure of information about the nature and magnitude of tax abatements and will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition.

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, 2015

	Budgeted Amount		Actual	Variances Final to
	Original	Final	(GAAP) Basis	Actual
REVENUES				
Local Sources	$ 21,589,882	$ 21,589,882	$ 22,164,432	$ 574,550
State Sources	7,685,515	7,685,515	7,760,522	75,007
Federal Sources	465,968	465,968	283,353	(182,615)
TOTAL REVENUES	29,741,365	29,741,365	30,208,307	466,942
EXPENDITURES				
EXPENDITURES - INSTRUCTION				
Regular Programs - Elementary/Secondary	11,969,814	11,969,814	11,396,383	573,431
Special Programs - Elementary/Secondary	4,482,169	4,482,169	4,188,439	293,730
Vocational Education Programs	1,172,589	1,172,589	1,127,321	45,268
Other Instructional Programs - Elementary/Secondary	195,694	195,694	164,632	31,062
Adult Education Programs	4,904	4,904	4,250	654
TOTAL INSTRUCTION	17,825,170	17,825,170	16,881,025	944,145
SUPPORT SERVICES				
Pupil Personnel	975,912	975,912	942,250	33,662
Instructional Staff	1,571,773	1,571,773	1,680,027	(108,254)
Administration	1,822,373	1,822,373	1,828,048	(5,675)
Pupil Health	360,994	360,994	409,457	(48,463)
Business	419,458	419,458	377,801	41,657
Operation and Maintenance of Plant Services	2,852,876	2,852,876	2,658,158	194,718
Student Transportation Services	1,300,973	1,300,973	1,144,984	155,989
Central Services	106,030	106,030	110,501	(4,471)
Other Support Services	28,000	28,000	25,654	2,346
TOTAL SUPPORT SERVICES	9,438,389	9,438,389	9,176,880	261,509
OPERATION OF NONINSTRUCTIONAL SERVICES				
Student Activities	555,491	555,491	645,700	(90,209)
Community Services	19,650	19,650	12,374	7,276
TOTAL OPERATION OF NONINSTRUCTIONAL SERVICES	575,141	575,141	658,074	(82,933)
Debt Service	2,124,293	2,124,293	2,319,445	(195,152)
Refund of Prior Year Revenues	-	-	41,213	(41,213)
TOTAL EXPENDITURES	29,962,993	29,962,993	29,076,637	886,356
EXCESS OF REVENUES OVER EXPENDITURES	(221,628)	(221,628)	1,131,670	1,353,298
OTHER FINANCING SOURCES (USES)				
Sale of Fixed Assets	500	500	-	(500)
Operating Transfers Out	(532,000)	(532,000)	(564,496)	(32,496)
TOTAL OTHER FINANCING SOURCES (USES)	(531,500)	(531,500)	(564,496)	(32,996)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	$ (753,128)	$ (753,128)	567,174	$ 1,320,302
FUND BALANCE - BEGINNING OF YEAR			6,487,548	
FUND BALANCE - END OF YEAR			$ 7,054,722	

See note to required supplementary information.

KUTZTOWN AREA SCHOOL DISTRICT

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

June 30, 2015

	2015	2014
District's proportion of the net pension liability	0.1052%	0.1021%
District's proportionate share of the net pension liability	$ 41,639,000	$ 41,796,000
District's covered employee payroll	$ 13,427,382	$ 13,101,947
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	310.11%	319.01%
Plan fiduciary net position as a percentage of the total pension liability	57.24%	54.50%

The District's covered employee payroll noted above is as of the measurement date of the net pension liability (June 30, 2014 and 2013).

Note: This schedule is to present the requirement to show information for ten years. However, until a full ten-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 10 FISCAL YEARS

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	$ 2,770,875	$ 2,149,875	$ 1,507,024	$ 1,077,193	$ 678,682	$ 568,704	$ 538,419	$ 761,745	$ 681,212	$ 463,837
Contributions in relation to the contractually required contribution	2,770,875	2,149,875	1,507,024	1,077,193	678,682	568,704	538,419	761,745	681,212	463,837
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered employee payroll	$ 13,409,238	$ 13,427,382	$ 13,101,947							
Contributions as a percentage of covered employee payroll	20.66%	16.01%	11.50%							

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

See note to required supplementary information.

KUTZTOWN AREA SCHOOL DISTRICT

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
Governmental Activities	7/1/2014	$ -	$ 3,491,774	$ 3,491,774	0.00%	N/A	N/A
	7/1/2012	-	2,996,213	2,996,213	0.00%	N/A	N/A
	7/1/2010	-	2,550,079	2,550,079	0.00%	N/A	N/A
Business-type Activities	7/1/2014	-	59,020	59,020	0.00%	N/A	N/A
	7/1/2012	-	29,393	29,393	0.00%	N/A	N/A
	7/1/2010	-	21,656	21,656	0.00%	N/A	N/A
Total	7/1/2014	-	3,550,794	3,550,794	0.00%	$ 12,770,741	27.8%
	7/1/2012	-	3,025,606	3,025,606	0.00%	12,006,662	25.2%
	7/1/2010	-	2,571,735	2,571,735	0.00%	11,992,719	21.4%

See note to required supplementary information.

KUTZTOWN AREA SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2015

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.

SUPPLEMENTARY INFORMATION

KUTZTOWN AREA SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2015

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 July 1, 2014	Revenue Recognized	Expenditures	Accrued or (Unearned) Revenue at June 30, 2015
U.S. Department of Education										
Passed through the State Department of Education:										
Title I Grants to Local Educational Agencies	I	84.010	13-15-0215	$ 228,930	07/01/14-09/30/15	$ 234,031	$ -	$ 224,794	$ 224,794	$ (9,237)
Title I Grants to Local Educational Agencies	I	84.010	013-14-0215	235,576	07/01/13-09/30/14	(1,916)	(1,916)	-	-	-
Total Title I						232,115	(1,916)	224,794	224,794	(9,237)
Improving Teacher Quality State Grants	I	84.367	20-15-0215	52,631	07/01/14-09/30/15	52,705	-	52,631	52,631	(74)
Improving Teacher Quality State Grants	I	84.367	020-14-0215	52,284	07/01/13-09/30/14	(23)	(208)	185	185	-
Total Title IIA						52,682	(208)	52,816	52,816	(74)
Passed through the Berks County Intermediate Unit:										
Special Education Cluster (IDEA)										
Special Education - Grants to States	I	84.027	N/A	282,982	07/01/14-06/30/15	-	-	283,866	283,866	283,866
Special Education - Grants to States	I	84.027	N/A	291,915	07/01/13-06/30/14	282,982	282,982	-	-	-
Special Education - Preschool Grants	I	84.173	N/A	1,843	07/01/14-06/30/15	-	-	1,843	1,843	1,843
Special Education - Preschool Grants	I	84.173	N/A	938	07/01/13-06/30/14	938	938	-	-	-
Total Special Education Cluster (IDEA)						283,920	283,920	285,709	285,709	285,709
ARRA Race to the Top - Phase III	I	84.413A	N/A	14,505	12/22/11-12/22/15	-	530	5,655	5,655	6,185
TOTAL U. S. DEPARTMENT OF EDUCATION						568,717	282,326	568,974	568,974	282,583
U.S. Department of Health and Human Services										
Passed through the Pennsylvania Department of Welfare:										
Medical Assistance Program	I	93.778	N/A	N/A	07/01/14-06/30/15	4,444	-	5,743	5,743	1,299
Medical Assistance Program	I	93.778	N/A	N/A	07/01/13-06/30/14	2,199	2,199	-	-	-
TOTAL U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						6,643	2,199	5,743	5,743	1,299
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	07/01/14-06/30/15	18,997	-	19,414	19,414	417
School Breakfast Program	I	10.553	N/A	N/A	07/01/13-06/30/14	3,421	3,421	-	-	-
National School Lunch Program					07/01/14-06/30/15	165,793	-	166,399	166,399	606
National School Lunch Program	I	10.555	N/A	N/A	07/01/13-06/30/14	26,727	26,727	-	-	-
Passed through the PA Department of Agriculture:										
National School Lunch Program	I	10.555	N/A	N/A	07/01/14-06/30/15	43,826	(9,509)	37,578	37,578	(15,757)
TOTAL CHILD NUTRITION CLUSTER AND U. S. DEPARTMENT OF AGRICULTURE						258,764	20,639	223,391	223,391	(14,734)
TOTAL FEDERAL AWARDS						$ 834,124	$ 305,164	$ 798,108	$ 798,108	$ 269,148

KUTZTOWN AREA SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2015

NOTE 1 - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting, which is the same basis used for the basic financial statements.

NOTE 2 - FOOD COMMODITIES

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2015, the District had $15,757 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, 2015, 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 October 22, 2015.

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
October 22, 2015

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Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

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 Circular A-133 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, 2015. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2015.

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 OMB Circular A-133, 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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Herbein + Company, Inc.

Reading, Pennsylvania
October 22, 2015

KUTZTOWN AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2015

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 Circular A-133, Section .510(a)?	____ yes	__X__ no

Identification of Major Program(s):

CFDA Number(s)	Name of Federal Program or Cluster
	SPECIAL EDUCATION CLUSTER (IDEA):
84.027	Special Education - Grants to States
84.173	Special Education - Preschool Grants

Dollar Threshold used to distinguish between Type A and Type B Programs: $300,000

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, 2015

Section II - Financial Statement Findings

There were no financial statements findings reported.

Section III - Federal Award Findings and Questioned Costs

There were no federal award findings or questioned costs reported.

KUTZTOWN AREA SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2015

Section III - Federal Award Findings and Questioned Costs

There were no federal award findings or questioned costs reported.