



SCHUYLKILL VALLEY
SCHOOL DISTRICT

SCHUYLKILL VALLEY SCHOOL DISTRICT

FINANCIAL AND COMPLIANCE REPORT

Year Ended June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Schuylkill Valley School District as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 16 to the financial statements, effective July 1, 2017, the Schuylkill Valley School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Schuylkill Valley School District's basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 combining and individual fund financial statements and the schedule of expenditures of federal awards are 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 10, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Herbein + Company, Inc.

**Reading, Pennsylvania
October 10, 2018**



Schuylkill Valley School District

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Required Supplementary Information (RSI)

(UNAUDITED)

For the Fiscal Year Ended June 30, 2018

The following is a discussion and analysis of the Schuylkill Valley School District's annual financial performance during the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Highlights

- The District's net position decreased during the 2017-2018 fiscal year. The net position for governmental activities that include the general fund, the capital project fund, and the debt service funds decreased by \$934,134 or -5.00%.
- The net position for business-type activities (food services) increased by \$4,674 or 0.72%.
- General revenues accounted for \$30,542,888 or 80.07% of all governmental and business-type activities. Program specific revenues in the form of charges for services, grants, and contributions, accounted for \$7,601,933 or 19.93% of total revenues of \$38,144,821.
- The District had \$38,168,070 in expenses related to governmental activities; only \$6,691,909 of these expenses were offset by program specific charges for services, grants, and contributions. General revenues (primarily property taxes, earned income tax, and unrestricted grants and subsidies) of \$30,542,027 were adequate to provide for these programs.
- The District had \$906,211 in expenses related to business-type activities (food service). All of these expenses were covered by charges for services and grants totaling \$910,024.
- As of June 30, 2018, the General Fund ending fund balance decreased by \$918,944 to \$3,593,498. The District had budgeted for a \$1.2 million use of fund balance. The other reason for this decrease is due to transferring out \$375,000 to the Technology Reserve Fund.
- Effective July 1, 2014, the district adopted Governmental Accounting Standards Board Statements (GASB) No. 68 and No. 71. As of June 30, 2018, the net pension liability in governmental activities was \$60,085,226 and the food service fund was \$1,057,774, an increase of \$89,000 from the prior year.
- Effective July 1, 2017, the district adopted Governmental Accounting Standards Board Statement No. 75. The adoption of this statement resulted in a restatement to total net position of (\$3,474,272). At June 30, 2018, the District has a liability for other postemployment benefits of \$4,384,160.

SCHUYLKILL VALLEY SCHOOL DISTRICT
Management's Discussion and Analysis

Overview of the Financial Statements

This annual report consists of the Management Discussion and Analysis, the basic financial statements, and required supplementary information. These statements are organized so that the reader can understand Schuylkill Valley School District as an entire entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

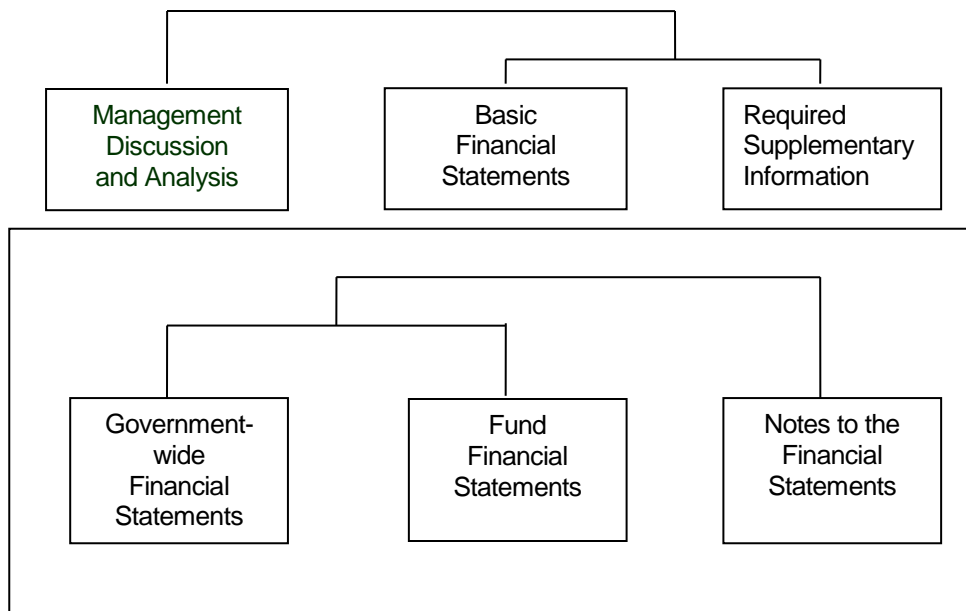
The first two statements are government-wide financial statements – the Statement of Net Position and the Statement of Activities. These provide both long-term and short-term information about the District's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the District's operations in more detail than the government-wide statements. The governmental funds statements tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending. Proprietary fund statements offer short-term and long-term financial information about the activities that the District operates like a business. The only proprietary fund is the Food Service Fund. Fiduciary fund statements provide information about financial relationships where the District acts solely as a trustee or agent for the benefit of others, such as student activity funds and scholarship funds.

The financial statements also include notes that explain some of the information in the statements, as well as provide more detailed data. The statements also include a statement that further explains and supports the general fund with a comparison of the District's budget for the year.

Figure A-1 shows how the various parts of the annual report are arranged and related to the other.

Figure A-1
Required Components of
Schuylkill Valley School District's
Financial Report



**SCHUYLKILL VALLEY SCHOOL DISTRICT
Management's Discussion and Analysis**

Figure A-2 summarizes the major features of the district's financial statements, including the portion of the District they cover and the types of information they contain. The remainder of this overview section of management discussion and analysis explains the structure and contents of each of the statements.

**Figure A-2
Major Features of Schuylkill Valley
School District's Government-Wide and Fund Financial Statements**

	Government-wide Statements	FUND STATEMENTS		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as education, administration and community services	Activities the District operates similar to private business - Food Services	Instances in which the District is the trustee or agent to someone else's resources – Private Purpose Trust and Activity Funds
Required financial statements	Statement of net position Statement of activities	Balance Sheet Statement of revenues, expenditures, and changes in fund balance	Statement of net position Statement of revenues, expenses and changes in net position Statement of cash flows	Statement of fiduciary net position Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, and deferred outflows and inflows of resources, both financial and capital, and short- term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, and deferred outflows and inflows of resources, both financial and capital, and short- term and long-term	All assets and liabilities, both financial and capital, and short- term and long-term
Type of inflow- outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

SCHUYLKILL VALLEY SCHOOL DISTRICT Management's Discussion and Analysis

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private sector companies. The statement of net position includes all of the government's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities using the accrual basis of accounting. Current year revenue and expenditures are therefore taken into account regardless of when the cash is received or paid.

The statement of net position presents all the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases and decreases in net position are one way to measure the District's financial health or position; and whether that position is improving or deteriorating.

To assess the overall health of the District, you also need to consider additional non-financial factors such as changes in the District's property tax base and the performance of the students.

The statement of activities presents information showing how the District's net position changed during the year. All changes in net position are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some events that will result in cash flows in future periods, such as uncollected taxes, and unused vacation leave.

The government-wide financial statements of the District are divided into two categories:

- *Governmental activities* – All of the District's basic services such as instruction, maintenance and operation of plant services, and administration are reported under this category. Taxes, state and federal subsidies, and grants finance most of these activities.
- *Business-type activities* – the only business-type activity in the District is food service operations. The sources of funding for operations consist of charges for meal purchases and federal and state subsidies.

Fund Financial Statements

The District's fund financial statements provide more detailed information about the major individual funds of the District, not the District as a whole. A fund is a fiscal and accounting entity with a self-balancing set of accounts used to keep track of specific sources of funding and spending for particular programs. The District's funds are divided into three categories – (1) governmental, (2) proprietary, and (3) fiduciary.

- *Governmental Funds* – Most of the District's activities are reported in governmental funds that focus on how money flows into and out of these funds and the balances left at the year end. They are reported using an accounting method called modified accrual accounting, 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 District's operations and the services it provides. Governmental Fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.
- *Proprietary Funds* – These funds are used to account for the District activities that are similar to business operations in the private sector and utilize the accrual accounting method. The Food Service Fund is the District's only proprietary fund and is the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows.

SCHUYLKILL VALLEY SCHOOL DISTRICT
Management's Discussion and Analysis

- *Fiduciary Funds* – The District acts as a trustee or fiduciary for assets that belong to others such as scholarship funds or student activity funds. The District is responsible for ensuring that the assets reported in these funds are used only for the intended purposes and by those to whom the assets belong. These activities are excluded from the District-wide financial statements since these assets cannot be used to finance the District's operations.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of supplementary information that further explains and supports financial statements.

Financial Analysis of the District as a Whole

The District's total net position was (\$20,270,172) at June 30, 2018.

Table A-3
Fiscal Year Ended June 30
Net Position

	2018			2017		
	Govern- mental Activities	Business- Type Activities	Total	Govern- mental Activities	Business- Type Activities	Total
Current and other assets	\$ 10,214,434	\$ 205,989	\$ 10,420,423	\$ 14,083,885	\$ 154,946	\$ 14,238,831
Non-Current Assets	49,487,896	92,338	49,580,234	47,759,739	103,789	47,863,528
Deferred Outflow of Resources	<u>10,455,536</u>	<u>211,966</u>	<u>10,667,502</u>	<u>11,455,781</u>	<u>186,487</u>	<u>11,642,268</u>
Total Assets & Deferred Outflow of Resources	<u>\$ 70,157,866</u>	<u>\$ 510,293</u>	<u>\$ 70,668,159</u>	<u>\$ 73,299,405</u>	<u>\$ 445,222</u>	<u>\$ 73,744,627</u>
Current and other liabilities	6,430,093	31,358	6,461,451	6,085,502	28,413	6,113,915
Long-term liabilities	22,461,178	52,370	22,513,548	21,455,002	8,147	21,463,149
Net Pension Liability	60,085,226	1,057,774	61,143,000	60,052,714	1,001,286	61,054,000
Deferred Inflow of Resources	<u>808,695</u>	<u>11,637</u>	<u>820,332</u>	<u>965,406</u>	<u>14,597</u>	<u>980,003</u>
Total Liabilities & Deferred Inflow of Resources	<u>\$ 89,785,192</u>	<u>\$ 1,153,139</u>	<u>\$ 90,938,331</u>	<u>\$ 88,558,624</u>	<u>\$ 1,052,443</u>	<u>\$ 89,611,067</u>
Net Position						
Net Investment in Capital Assets	\$ 30,607,002	\$ 92,338	\$ 30,699,340	\$ 27,478,158	\$ 103,789	\$ 27,581,947
Restricted	1,844,507	-	1,844,507	4,051,996	-	4,051,996
Unrestricted	<u>(52,078,835)</u>	<u>(735,184)</u>	<u>(52,814,019)</u>	<u>(46,789,373)</u>	<u>(711,010)</u>	<u>(47,500,383)</u>
Total Net Position	<u>\$ (19,627,326)</u>	<u>\$ (642,846)</u>	<u>\$ (20,270,172)</u>	<u>\$ (15,259,219)</u>	<u>\$ (607,221)</u>	<u>\$ (15,866,440)</u>

Most of the District's net position are invested in capital assets (building, lands, and equipment). The remaining net position is a combination of restricted and unrestricted amounts.

The restricted balances are amounts set aside to fund future purchases for capital projects and technology as planned by the District. Over the past few years the Board of Directors and Administration have prudently followed a strategy of transferring funds from the general fund into the capital project fund and technology reserve fund in order to fund capital projects, improvements and technology. During the 2017/2018 fiscal year, \$375,000 was transferred to technology reserve fund.

SCHUYLKILL VALLEY SCHOOL DISTRICT
Management's Discussion and Analysis

The results of this year's operation 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 local property taxes and the Basic Education Subsidy provided by the Commonwealth of Pennsylvania.

Table A-4 takes the information from the Statement of Activities, rearranges it slightly, so you can see our total revenues for the year.

Table A-4
Fiscal Year Ended June 30
Changes in Net Position

	<u>2018</u>			<u>2017</u>		
	<u>Govern- mental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>	<u>Govern- mental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
<u>REVENUES</u>						
<i>Program Revenues</i>						
Charges for services	\$ 566,838	\$ 457,919	1,024,757	\$ 590,035	\$ 439,349	1,029,384
Operating grants and contributions	5,931,743	452,105	6,383,848	5,695,213	458,081	6,153,294
Capital grants and contributions	193,328	-	193,328	196,581	-	196,581
<i>General Revenues</i>						
Property taxes	24,969,295	-	24,969,295	24,907,026	-	24,907,026
Other taxes	2,542,310	-	2,542,310	2,438,087	-	2,438,087
Grants, subsidies, and contributions	2,850,221	-	2,850,221	2,763,343	-	2,763,343
Other	180,201	861	181,062	93,315	1,893	95,208
TOTAL REVENUES	\$ 37,233,936	\$ 910,885	\$ 38,144,821	\$ 36,683,600	\$ 899,323	\$ 37,582,923
<u>EXPENSES</u>						
Instruction	24,297,247	-	24,297,247	23,897,562	-	23,897,562
Instructional student support	2,316,028	-	2,316,028	2,172,977	-	2,172,977
Administrative and financial support	2,832,620	-	2,832,620	2,952,275	-	2,952,275
Operation & maintenance						
of plant services	2,318,831	-	2,318,831	2,375,733	-	2,375,733
Pupil transportation	1,897,669	-	1,897,669	2,037,580	-	2,037,580
Central	603,297	-	603,297	561,524	-	561,524
Other Support Services	31,812	-	31,812	30,899	-	30,899
Student activities	1,270,539	-	1,270,539	1,258,814	-	1,258,814
Community services	18,677	-	18,677	21,201	-	21,201
Interest on long-term debt	666,908	-	666,908	671,646	-	671,646
Unallocated depreciation	1,914,442	-	1,914,442	1,872,012	-	1,872,012
Food services	-	906,211	906,211	-	895,779	895,779
TOTAL EXPENSES	38,168,070	906,211	39,074,281	37,852,223	895,779	38,748,002
Increase (decrease) in Net Position	(934,134)	4,674	(929,460)	(1,168,623)	3,544	(1,165,079)
Net Position - Beginning of Year	(18,693,192) *	(647,520) *	(19,340,712) *	(14,090,596)	(610,765)	(14,701,361)
Net Position - End of Year	\$ (19,627,326)	\$ (642,846)	\$ (20,270,172)	\$ (15,259,219)	\$ (607,221)	\$ (15,866,440)

* Net position was restated at July 1, 2017, for the implementation of GASB Statement No. 75. See Note 16 for details of the restatement.

SCHUYLKILL VALLEY SCHOOL DISTRICT
Management's Discussion and Analysis

The tables below present the expenses of both the Governmental Activities and the Business-type Activities of the District.

Tables A-5 and A-6 show the cost of the District's functions – instructional programs, instructional student support, administrative, operation and maintenance of plant, pupil transportation, student activities, community services, interest, depreciation, and food service as well as each program's net cost (total cost less revenues generated by the functions). These tables also show the net costs offset by the other unrestricted grants, subsidies, and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

Table A-5
Fiscal Year Ended June 30
Governmental Activities

Functions/Programs	2018		2017	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$ 24,297,247	\$ 19,641,086	\$ 23,897,562	\$ 19,466,104
Instructional student support	2,316,028	2,065,202	2,172,977	1,935,159
Administrative	2,832,620	2,555,596	2,952,275	2,697,417
Operation and maintenance	2,318,831	2,108,094	2,375,733	2,195,287
Pupil transportation	1,897,669	1,078,927	2,037,580	1,141,289
Central	603,297	551,104	561,524	517,540
Other Support Services	31,812	31,812	30,899	30,899
Student activities	1,270,539	1,040,749	1,258,814	1,044,223
Community services	18,677	15,569	21,201	(4,601)
Interest-long-term debt	666,908	473,580	671,646	475,065
Unallocated depreciation	<u>1,914,442</u>	<u>1,914,442</u>	<u>1,872,012</u>	<u>1,872,012</u>
Total governmental activities	\$ 38,168,070	31,476,161	\$ 37,852,223	31,370,394
Less: Unrestricted grants, subsidies		<u>2,850,221</u>		<u>2,763,343</u>
Total needs from local taxes and other revenues		\$ 28,625,940		\$ 28,607,051

Table A-6 reflects the activities of the Food Service program, the only Business-type activity of the District.

Table A-6
Fiscal Year ended June 30
Business-type Activities

Functions/Programs	2018		2017	
	Total Cost of Services	Net Cost (Contribution) of Services	Total Cost of Services	Net Cost (Contribution) of Services
Food services	<u>\$ 906,211</u>	\$ (3,813)	<u>\$ 895,779</u>	\$ (1,651)
Investment earnings		(861)		(143)
Loss on sale of Capital Assets		-		(1,750)
Total business-type activities		\$ (4,674)		\$ (3,544)

SCHUYLKILL VALLEY SCHOOL DISTRICT
Management's Discussion and Analysis

The District Funds

At June 30, 2018, the District governmental funds reported a combined fund balance of \$5,793,411, which is a decrease of \$4,168,569, or 41.8%, from the prior fiscal year. This decrease reflects the district used over \$3.2 million to pay for the stadium project and capital projects.

General Fund Budget

The District's budget for fiscal year 2017-2018 anticipated that expenditures would exceed anticipated revenues by \$1,232,746 and reduce the existing fund balance by that amount; the actual results show expenditure exceeding revenues by \$918,944. A statement showing a budget to actual comparison is provided as part of the required supplementary information.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2018, the District had investments of \$49,580,234 in capital investments after depreciation costs. Capital investments include land, buildings and building improvements, furniture and equipment, site improvements, and construction in progress. Total depreciation expense for the year amounted to \$1,925,893.

Table A-7
Fiscal Year ended June 30
Capital Assets-net of depreciation

	<u>2018</u>			<u>2017</u>		
	Govern- mental Activities	Business- Type Activities	Total	Govern- mental Activities	Business- Type Activities	Total
Land	\$ 286,722	\$ -	\$ 286,722	\$ 286,722	\$ -	\$ 286,722
Site improvements	4,931,152	-	4,931,152	1,157,288	-	1,157,288
Building and building improv.	42,062,727	-	42,062,727	43,670,723	-	43,670,723
Furniture and equipment	2,070,968	92,338	2,163,306	2,001,664	103,789	2,105,453
Construction in progress	136,327	-	136,327	643,342	-	643,342
TOTAL	<u>\$ 49,487,896</u>	<u>\$ 92,338</u>	<u>\$ 49,580,234</u>	<u>\$ 47,759,739</u>	<u>\$ 103,789</u>	<u>\$ 47,863,528</u>

SCHUYLKILL VALLEY SCHOOL DISTRICT
Management's Discussion and Analysis

Debt Administration

At June 30, 2018, the District had \$18,555,000 in general obligation bonds. This represents a decrease of \$2,405,000 from the prior year.

Table A-8
Outstanding Debt

	2018	2017
General Obligation Bonds		
Series - October, 2014	14,960,000	17,360,000
Series - March, 2017	3,595,000	3,600,000
TOTAL	\$ 18,555,000	\$ 20,960,000

Other long-term obligations include accrued retirement benefits and the long term portion of compensated absences.

Factors bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the following circumstances that may affect its future growth.

- The local property tax continues to bear a disproportionate responsibility to fund public education. With the enactment of Act 1, the legislature has attempted to address this issue. The Act calls for a reduction in property taxes through an allocation of gaming revenue to each School District. Schuylkill Valley's share for the 2017-18 year is \$591,058 which gave all approved homestead taxpayers a reduction of \$154.65 on their real estate property taxes. The amount for 2018-2019 is estimated at \$589,875, which will provide all approved homestead taxpayers a reduction of \$154.79 on their real estate property taxes.
- Another major provision of Act 1 is that all School Districts are limited in their ability to raise real estate millage rates. All Districts will have to seek voter approval through a referendum for any tax increase that exceeds an annually determined "index". This index is the average of the State-wide Average Weekly Wage (SAWW) and the Employment Cost Index for Elementary and Secondary Education (ECI), with some adjustments made based on each District's aid ratio. Schuylkill Valley's adjusted index for 2017-18 was 3.0%. The adjusted index for 2018-2019 is 2.9%.
- The District anticipates rising health premiums in the ensuing fiscal year as industry indicators report increases in the 8 -10% range.
- The Pennsylvania School Employees Retirement System (PSERS) continues to reset the percentage of payroll that school districts must pay as the actuarial projections based on required investment returns are analyzed. The rate for 2017-2018 was 32.57% with rates projected to continue to climb into the future. The projected rate for 2018-2019 is 33.43%; 2019-2020 is 34.79%; and 2020-2021 is 35.26%.
- The District experienced an overall increase of 8,632,225 in property tax assessment values for tax year 2018. The District did not increase real estate tax millage. Total increased projected revenue of approximately \$1,615,068 was estimated due to the increased assessments, increased earned income tax, and increased reimbursement from the state related to the increased PSERS employer contribution rate.

SCHUYLKILL VALLEY SCHOOL DISTRICT
Management's Discussion and Analysis

2018-2019 Budget

The revenue budget for the 2018-2019 year is \$1,615,068 more than the 2017-2018 budget which represents a 4.39% increase. The expenditure budget for the 2018-2019 year is \$959,786 more than the budget for 2017-2018, or a 2.53% increase. The District is anticipating a budget deficit of \$577,464 which is funded by using \$206,172 from the committed fund balance for PSERS, and \$371,292 from the unassigned fund balance to balance the 2018-2019 budget.

The comparison of revenue and expenditure categories is as follows:

Table A-9
Budgeted Revenues

	2018-19	2017-18
Local	74.7%	75.3%
State	23.9%	24.0%
Federal/other	1.4%	0.7%

Budgeted Expenditures

	2018-19	2017-18
Instruction	60.1%	61.0%
Support Services	27.0%	26.3%
Non-Instruction/community	3.4%	3.3%
Fund transfers/Debt service	9.5%	9.4%

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the Board's accountability for the money it receives. If you have any questions about this report or wish to request additional financial information, please contact Wendy Boarder, Business Manager at Schuylkill Valley School District, 929 Lakeshore Drive, Leesport, PA, 19533-8631 (610-916-0957).

SCHUYLKILL VALLEY SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2018

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and Investments	\$ 7,865,665	\$ 176,299	\$ 8,041,964
Taxes Receivable, Net	813,948	-	813,948
Intergovernmental Receivables	1,495,028	8,439	1,503,467
Other Receivables	4,596	115	4,711
Inventories	17,262	21,136	38,398
Prepaid Expenses	17,935	-	17,935
Capital Assets Not Being Depreciated	423,049	-	423,049
Capital Assets, Net of Accumulated Depreciation	49,064,847	92,338	49,157,185
TOTAL ASSETS	59,702,330	298,327	60,000,657
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charge on Bond Refunding	627,032	-	627,032
Deferred Outflows of Resources for Other Postemployment Benefits - Health Insurance Premium Assistance Program	151,221	2,311	153,532
Deferred Outflows of Resources for Other Postemployment Benefits - District Plan	185,028	7,014	192,042
Deferred Outflows of Resources for Pension	9,492,255	202,641	9,694,896
TOTAL DEFERRED OUTFLOWS OF RESOURCES	10,455,536	211,966	10,667,502
LIABILITIES			
Accounts Payable	437,441	4,011	441,452
Accrued Interest	169,202	-	169,202
Accrued Salaries and Benefits	3,303,325	-	3,303,325
Unearned Revenues	784	27,347	28,131
Noncurrent Liabilities Due Within One Year	2,519,341	-	2,519,341
Noncurrent Liabilities:			
Bonds and Notes Payable, Net	17,368,332	-	17,368,332
Long-Term Portion of Compensated Absences	598,276	780	599,056
Long-Term Portion of Retirement Severance	162,000	-	162,000
Net Other Postemployment Benefit Obligation - Health Insurance Premium Assistance Program	2,478,370	43,630	2,522,000
Total Other Postemployment Benefit Obligation - District Plan	1,854,200	7,960	1,862,160
Net Pension Liability	60,085,226	1,057,774	61,143,000
TOTAL LIABILITIES	88,976,497	1,141,502	90,117,999
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources for Other Postemployment Benefits - Health Insurance Premium Assistance Program	114,976	2,024	117,000
Deferred Inflows of Resources for Pension	693,719	9,613	703,332
TOTAL DEFERRED INFLOWS OF RESOURCES	808,695	11,637	820,332
NET POSITION			
Net Investment in Capital Assets	30,607,002	92,338	30,699,340
Restricted for Capital Projects	1,844,507	-	1,844,507
Unrestricted (Deficit)	(52,078,835)	(735,184)	(52,814,019)
TOTAL NET POSITION (DEFICIT)	\$ (19,627,326)	\$ (642,846)	\$ (20,270,172)

See accompanying notes.

SCHUYLKILL VALLEY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
Instructional Services:							
Regular Programs - Elementary/Secondary	\$ 18,065,884	\$ -	\$ 2,505,171	\$ -	\$ (15,560,713)	\$ -	\$ (15,560,713)
Special Programs - Elementary/Secondary	5,137,676	400,755	1,744,703	-	(2,992,218)	-	(2,992,218)
Vocational Education	587,097	-	-	-	(587,097)	-	(587,097)
Other Instructional Programs - Elementary/Secondary	501,448	-	390	-	(501,058)	-	(501,058)
Nonpublic School Programs	5,142	-	5,142	-	-	-	-
Total Instructional Services	24,297,247	400,755	4,255,406	-	(19,641,086)	-	(19,641,086)
Support Services:							
Students	1,277,241	-	128,589	-	(1,148,652)	-	(1,148,652)
Instructional Staff	653,778	-	52,808	-	(600,970)	-	(600,970)
Administration	2,212,949	-	210,045	-	(2,002,904)	-	(2,002,904)
Pupil Health	385,009	-	69,429	-	(315,580)	-	(315,580)
Business Services	619,671	-	66,979	-	(552,692)	-	(552,692)
Operation and Maintenance of Plant Services	2,318,831	59,021	151,716	-	(2,108,094)	-	(2,108,094)
Student Transportation Services	1,897,669	-	818,742	-	(1,078,927)	-	(1,078,927)
Central	603,297	-	52,193	-	(551,104)	-	(551,104)
Other Support Services	31,812	-	-	-	(31,812)	-	(31,812)
Total Support Services	10,000,257	59,021	1,550,501	-	(8,390,735)	-	(8,390,735)
Noninstructional Services:							
Student Activities	1,270,539	107,062	122,728	-	(1,040,749)	-	(1,040,749)
Community Services	18,677	-	3,108	-	(15,569)	-	(15,569)
Interest on Long-Term Debt	666,908	-	-	193,328	(473,580)	-	(473,580)
Unallocated Depreciation Expense	1,914,442	-	-	-	(1,914,442)	-	(1,914,442)
Total Noninstructional Services	3,870,566	107,062	125,836	193,328	(3,444,340)	-	(3,444,340)
Total Governmental Activities	38,168,070	566,838	5,931,743	193,328	(31,476,161)	-	(31,476,161)
Business-Type Activities							
Food Services	906,211	457,919	452,105	-	-	3,813	3,813
Total Primary Government	<u>\$ 39,074,281</u>	<u>\$ 1,024,757</u>	<u>\$ 6,383,848</u>	<u>\$ 193,328</u>	(31,476,161)	3,813	(31,472,348)
General Revenues							
Taxes:							
Property Taxes					24,969,295	-	24,969,295
Public Utility Realty, Earned Income, and Mercantile Tax					2,542,310	-	2,542,310
Grants, Subsidies, and Contributions Not Restricted for a Specific Program					2,850,221	-	2,850,221
Investment Earnings					179,708	861	180,569
Miscellaneous Revenue					493	-	493
Total General Revenues					30,542,027	861	30,542,888
Change in Net Position					(934,134)	4,674	(929,460)
Net Position (Deficit) - Beginning of Year - Restated					(18,693,192)	(647,520)	(19,340,712)
Net Position (Deficit) - End of Year					<u>\$ (19,627,326)</u>	<u>\$ (642,846)</u>	<u>\$ (20,270,172)</u>

See accompanying notes.

SCHUYLKILL VALLEY SCHOOL DISTRICT

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2018

	General	Capital Projects	Total Governmental Funds
ASSETS			
Cash and Investments	\$ 5,961,497	\$ 1,904,168	\$ 7,865,665
Interfund Receivable	-	375,000	375,000
Taxes Receivable	904,136	-	904,136
Intergovernmental Receivables	1,495,028	-	1,495,028
Other Receivables	4,596	-	4,596
Prepaid Expenditures	17,935	-	17,935
TOTAL ASSETS	\$ 8,383,192	\$ 2,279,168	\$ 10,662,360
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
LIABILITIES			
Interfund Payable	\$ 375,000	\$ -	\$ 375,000
Accounts Payable	358,186	79,255	437,441
Compensated Absences	24,341	-	24,341
Accrued Salaries and Benefits	3,303,325	-	3,303,325
Unearned Revenues	784	-	784
TOTAL LIABILITIES	4,061,636	79,255	4,140,891
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property and Per Capita Taxes	728,058	-	728,058
FUND BALANCES			
Nonspendable	17,935	-	17,935
Restricted	20,629	2,199,913	2,220,542
Committed for:			
Retirement	412,345	-	412,345
Insurance Deductible	50,000	-	50,000
Assigned	371,292	-	371,292
Unassigned	2,721,297	-	2,721,297
TOTAL FUND BALANCES	3,593,498	2,199,913	5,793,411
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 8,383,192	\$ 2,279,168	\$ 10,662,360

SCHUYLKILL VALLEY SCHOOL DISTRICT

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

June 30, 2018

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

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS		\$ 5,793,411
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 \$78,769,056 and the accumulated depreciation is \$29,281,160.		49,487,896
Property and other taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and therefore are reported as unavailable revenue in the funds adjusted for allowance for doubtful accounts.		637,870
The governmental funds follow the purchase method of inventory; therefore, no inventory is reflected on the balance sheet. However, the statement of net position uses the consumption method of inventory.		17,262
The net pension liability and related deferred outflows and inflows of resources for pensions are not reflected on the fund financial statements.		(51,286,690)
The other postemployment benefit obligations and related deferred outflows and inflows of resources for other postemployment benefits are not reflected on the fund financial statements.		(4,111,297)
Long-term liabilities, including bonds and notes 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 and Notes Payable	\$ (18,555,000)	
Accrued Interest on Bonds	(169,202)	
Unamortized Bond Premium	(1,308,332)	
Deferred Charge on Bond Refunding	627,032	
Long-Term Portion of Compensated Absences	(598,276)	
Retirement Severance	(162,000)	(20,165,778)
TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES		<u><u>\$ (19,627,326)</u></u>

SCHUYLKILL VALLEY SCHOOL DISTRICT

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

For the Year Ended June 30, 2018

	General	Capital Projects	Total Governmental Funds
REVENUES			
Local Sources	\$ 27,993,174	\$ 48,201	\$ 28,041,375
State Sources	8,889,723	-	8,889,723
Federal Sources	271,821	-	271,821
	<u>37,154,718</u>	<u>48,201</u>	<u>37,202,919</u>
TOTAL REVENUES			
EXPENDITURES			
Current:			
Instructional Services	23,449,101	135,897	23,584,998
Support Services	9,648,302	3,690,936	13,339,238
Operation of Noninstructional Services	1,250,036	45,993	1,296,029
Debt Service:			
Principal	2,405,000	-	2,405,000
Interest	728,181	-	728,181
Refund of Prior Year Revenue	10,535	-	10,535
	<u>37,491,155</u>	<u>3,872,826</u>	<u>41,363,981</u>
TOTAL EXPENDITURES			
DEFICIENCY OF REVENUES OVER EXPENDITURES			
	(336,437)	(3,824,625)	(4,161,062)
OTHER FINANCING SOURCES (USES)			
Transfers In	-	575,000	575,000
Sale of Capital Assets	493	-	493
Transfers Out	(583,000)	-	(583,000)
	<u>(582,507)</u>	<u>575,000</u>	<u>(7,507)</u>
TOTAL OTHER FINANCING SOURCES (USES)			
NET CHANGE IN FUND BALANCES			
	(918,944)	(3,249,625)	(4,168,569)
FUND BALANCES - BEGINNING OF YEAR			
	<u>4,512,442</u>	<u>5,449,538</u>	<u>9,961,980</u>
FUND BALANCES - END OF YEAR			
	<u>\$ 3,593,498</u>	<u>\$ 2,199,913</u>	<u>\$ 5,793,411</u>

SCHUYLKILL VALLEY SCHOOL DISTRICT

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

For the Year Ended June 30, 2018

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

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (4,168,569)

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	\$ 3,642,599	
Less: Depreciation Expense	<u>(1,914,442)</u>	1,728,157

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. 41,059

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 and Note Principal	2,405,000	
Amortization of Bond Premium	227,535	
Amortization of Deferred Charge on Bond Refunding	<u>(167,208)</u>	2,465,327

Interest expense incurred on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. 946

In the statement of activities, certain operating expenses - compensated absences (vacations and sick days) and retirement severance are measured by the amounts earned during the year. (5,522)

In the statement of activities, inventory is reflected on the consumption method. 2,522

The change in net pension liability and related deferred outflows and inflows of resources for pension are reflected as an adjustment to expense on the statement of activities, but not included in the fund statements. (930,111)

The change in other postemployment benefit obligations and related deferred outflows and inflows of resources for other postemployment benefits are reflected as an adjustment to expense on the statement of activities, but not included in the fund statements. (67,943)

CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES \$ (934,134)

SCHUYLKILL VALLEY SCHOOL DISTRICT

**STATEMENT OF NET POSITION -
PROPRIETARY FUND**

June 30, 2018

	Enterprise Fund Food Service
ASSETS	
CURRENT ASSETS	
Cash and Investments	\$ 176,299
Intergovernmental Receivables	8,439
Other Receivables	115
Inventories	21,136
TOTAL CURRENT ASSETS	205,989
NONCURRENT ASSETS	
Furniture and Equipment, Net	92,338
TOTAL ASSETS	298,327
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows of Resources for Other Postemployment Benefits - Health Insurance Premium Assistance Program	2,311
Deferred Outflows of Resources for Other Postemployment Benefits - District Plan	7,014
Deferred Outflows of Resources for Pension	202,641
TOTAL DEFERRED OUTFLOWS OF RESOURCES	211,966
LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	4,011
Unearned Revenues	27,347
TOTAL CURRENT LIABILITIES	31,358
NONCURRENT LIABILITIES	
Compensated Absences	780
Net Other Postemployment Benefit Obligation - Health Insurance Premium Assistance Plan	43,630
Total Other Postemployment Benefit Obligation - District Plan	7,960
Net Pension Liability	1,057,774
TOTAL LIABILITIES	1,141,502
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows of Resources for Other Postemployment Benefits - Health Insurance Premium Assistance Program	2,024
Deferred Inflows of Resources for Pension	9,613
TOTAL DEFERRED INFLOWS OF RESOURCES	11,637
NET POSITION	
Net Investment in Capital Assets	92,338
Unrestricted (Deficit)	(735,184)
TOTAL NET POSITION (DEFICIT)	\$ (642,846)

See accompanying notes.

SCHUYLKILL VALLEY SCHOOL DISTRICT

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

For the Year Ended June 30, 2018

	Enterprise Fund Food Service
OPERATING REVENUES	
Food Service Revenue	\$ 457,919
TOTAL OPERATING REVENUES	457,919
OPERATING EXPENSES	
Salaries	260,180
Employee Benefits	208,615
GASB Statement No. 68 Pension Expense	35,350
GASB Statement No. 75 Other Postemployment Benefit Expense	(3,512)
Other Purchased Services	4,822
Supplies	367,561
Depreciation	11,451
Other Operating Expenses	21,744
TOTAL OPERATING EXPENSES	906,211
OPERATING LOSS	(448,292)
NONOPERATING REVENUES	
Earnings on Investments	861
State Sources	72,298
Federal Sources	379,807
TOTAL NONOPERATING REVENUES	452,966
CHANGE IN NET POSITION	4,674
NET POSITION (DEFICIT) - BEGINNING OF YEAR - RESTATED	(647,520)
NET POSITION (DEFICIT) - END OF YEAR	\$ (642,846)

SCHUYLKILL VALLEY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS -
PROPRIETARY FUND

For the Year Ended June 30, 2018

	<u>Enterprise Fund</u> <u>Food Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Users	\$ 459,672
Payments to Employees for Services	(468,790)
Payments to Suppliers for Goods and Services	(308,184)
Payments for Other Operating Expenses	<u>(21,744)</u>
NET CASH USED FOR OPERATING ACTIVITIES	(339,046)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Sources	72,266
Federal Sources	<u>326,766</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	399,032
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on Investments	<u>861</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	60,847
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>115,452</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 176,299</u>

SCHUYLKILL VALLEY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - CONTINUED
PROPRIETARY FUND

For the Year Ended June 30, 2018

	Enterprise Fund Food Service
<u>Reconciliation of Operating Loss to Net Cash</u>	
<u>Used For Operating Activities:</u>	
Operating Loss	\$ (448,292)
Adjustments to Reconcile Operating Loss to Net Cash	
Used for Operating Activities:	
Depreciation	11,451
Donated Commodities Used	52,382
Changes in Assets, Deferred Outflows of Resources, Liabilities, and Deferred Inflows of Resources:	
Other Receivables	1,616
Inventories	9,009
Deferred Outflows of Resources for Other Postemployment Benefits - Health Insurance Premium Assistance Program	61
Deferred Outflows of Resources for Other Postemployment Benefits - District Plan	(6,424)
Deferred Outflows of Resources for Pension	(16,154)
Accounts Payable	2,808
Interfund Payables	(130)
Other Current Liabilities	137
Compensated Absences	135
Other Postemployment Benefit Obligation - Health Insurance Premium Assistance Program	(2,284)
Total Other Postemployment Benefit Obligation - District Plan	3,111
Net Pension Liability	56,488
Deferred Inflows of Resources for Other Postemployment Benefits - Health Insurance Premium Assistance Program	2,024
Deferred Inflows of Resources for Pension	(4,984)
	109,246
Total Adjustments	109,246
NET CASH USED FOR OPERATING ACTIVITIES	\$ (339,046)

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the District used \$52,382 of commodities from the U.S. Department of Agriculture.

SCHUYLKILL VALLEY SCHOOL DISTRICT

**STATEMENT OF NET POSITION -
FIDUCIARY FUND**

June 30, 2018

	Private Purpose Trust Funds	Agency Funds (Student Activities)
ASSETS		
CURRENT ASSETS		
Cash and Investments	\$ 122,274	\$ 124,859
TOTAL ASSETS	122,274	\$ 124,859
LIABILITIES		
CURRENT LIABILITIES		
Other Current Liabilities	-	\$ 124,859
TOTAL LIABILITIES	-	\$ 124,859
NET POSITION HELD IN TRUST	\$ 122,274	

SCHUYLKILL VALLEY SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION -
FIDUCIARY FUND

For the Year Ended June 30, 2018

	Private Purpose Trust Funds
ADDITIONS	
Contributions	\$ 14,706
Transfers In	8,000
TOTAL ADDITIONS	22,706
DEDUCTIONS	
Instructional Services	4,877
Operation of Noninstructional Services	8,600
TOTAL DEDUCTIONS	13,477
CHANGE IN NET POSITION	9,229
NET POSITION - BEGINNING OF YEAR	113,045
NET POSITION - END OF YEAR	\$ 122,274

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

Schuylkill Valley School District ("School District" or the "District") is located in Berks County, Pennsylvania. The District tax base consists of Bern Township, Centre Township, Ontelaunee Township, Centerport Borough, and Leesport Borough. The Schuylkill Valley School 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 21 years, who may attend.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Schuylkill Valley School District have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting principles are as follows:

A. Reporting Entity

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

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

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A. Reporting Entity - continued

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

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

Joint Venture: The District is a participating member of the Berks Career and Technology Center. See Note 13 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 school 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.

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.

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

C. Basis of Presentation - Fund Financial Statements

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

The District Reports the Following Major Governmental Funds:

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

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

The District has the following Capital Projects Funds:

Capital Projects Fund - This fund was created in accordance with Section 1432 of the Municipal Code. The Municipal Code restricts how the resources are spent within this fund.

Technology Reserve Fund - This fund was established to receive resources from the General Fund to pay for future technological advances in computer hardware and software.

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

The District has the Following Major Enterprise Fund:

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

Additionally, the District Reports the Following Fund Type:

Fiduciary Funds: The District's fiduciary funds are trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust funds are private-purpose trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's student activity fund is an agency fund.

During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as interfund receivables and payables. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (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.

Further, certain activity occurs during the year involving transfers of resources between funds. In the 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.

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Measurement Focus and Basis of Accounting

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

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers tax revenues to be available if they are collected within 30 days of the end of the current fiscal period. Property taxes and interest associated with the current fiscal period is considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met. If time-eligibility requirements are not met, deferred inflows of resources would be recorded. All other revenue items are considered to be measurable and available only when cash is received by the government.

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

The proprietary fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The trust fund is reported using 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.

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Budgetary Process

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

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

Accelerated Budget Process Option

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

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

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

Board Resolution Option

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

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

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Budgetary Process - continued

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

F. Financial Position

1. Cash and Investments

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

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

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

2. Interfund Transactions

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

3. Inventories and Prepaid Items

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

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

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

3. Inventories and Prepaid Items - continued

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

<u>Governmental Activities</u>	
Classroom and office supplies	<u>\$ 17,262</u>
 <u>Enterprise Fund</u>	
Purchased food	\$ 11,131
Supplies	3,995
Donated commodities	<u>6,010</u>
Total Enterprise Fund	<u>\$ 21,136</u>

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 costs of prepaid items are recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital Assets, Depreciation, and Amortization

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

The District generally capitalizes assets with 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. Interest incurred during the construction phase of the business-type activities is included in the capitalized value of the assets constructed. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets 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.

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

4. Capital Assets, Depreciation, and Amortization - continued

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

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

5. Deferred Outflows/Inflows of Resources

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

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

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

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

5. Deferred Outflows/Inflows of Resources - continued

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

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

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

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

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

5. Deferred Outflows/Inflows of Resources - continued

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

6. Unearned Revenues

Revenues that are received but not earned are reported as unearned revenues in the government-wide and fund 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 financial statements and revenue is recognized.

7. Net Position

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

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

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

8. Fund Balance Policies and Flow Assumptions

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

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The board of school 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 superintendent and business manager 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 revise a commitment.

The District will strive to maintain an unassigned general fund balance not more than 8% of the budgeted expenditures for that fiscal year set by board resolution.

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. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. The District's policy states that committed amounts will be reduced first, followed by assigned amounts, and then unassigned amounts for unrestricted fund balances used.

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

G. Revenues and Expenditures/Expense

1. Program Revenues

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

2. Compensated Absences

Sick Pay

Under the District's various bargaining agreements and plans, professional employees and administrators accumulate unused sick days. These unused sick days may be accumulated for future illnesses and are not vested. Upon retirement, employees are paid for unused sick days at varying rates based on position.

Vacation Leave

Unused vacation can be accumulated by administrators and support staff within certain limits. Upon retirement or termination, unused vacation days are paid out based on an agreed-upon formula with cumulative days over 40 paid out at \$75 per day. The District maintains records of all employees' accumulated vacation and personal days.

Retirement Severance

Professional employees of the District with a minimum of 15 years of services with the District are entitled to retirement severance as follows:

15 years of service in the District	\$ 1,800
20 years of service in the District	2,400
25 years of service in the District	3,000
30+ years of service in the District	3,600

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 sales 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.

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

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 Net Position - Proprietary Fund (Food Service Fund)

For the year ended June 30, 2018, the implementation of GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and the accounting under GASB No. 68, *Accounting and Financial Reporting for Pensions* and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* created a deficiency in net position at year end of \$642,846. 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 PSERS.

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, 2018. In addition, the District includes a portion of the prior year's fund balance represented by unappropriated liquid assets remaining in the fund as budgeted revenue in the succeeding year. The results of operations on a GAAP basis do not recognize the fund balance allocation as revenue as it represents prior period's excess of revenues over expenditures.

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 3 - CASH AND INVESTMENTS

Under Section 440.1 of the Public School Code of 1949, as amended, the District is permitted to invest funds in the following types of investments:

Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Deposits in savings accounts, time deposits, or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and for any amounts above the insured maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository.

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

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

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

Petty cash	\$ 624
Demand deposit accounts	2,282,669
Bank certificates of deposit	105,037
Pooled cash and investments	<u>5,900,767</u>
	<u>\$ 8,289,097</u>

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

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. The District does have a policy for custodial credit risk on deposits. At June 30, 2018, the carrying amount of the District's deposits was \$2,282,669 and the bank balance was \$2,621,108. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$2,371,108 was exposed to custodial credit risk but covered by collateralization requirements in accordance with Act 72 of the 1971 Session of the General Assembly.

Bank certificates of deposit are considered to be a cash equivalent for presentation on the government-wide and fund financial statements.

Investments

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

	<u>Maturities</u>	<u>Fair Value</u>	<u>Carrying Value</u>
PA School District Liquid Asset Fund (PSDLAF):			
Full Flex Pool	< 1 year	\$ 4,100,000	\$ 4,100,000
Collateralized Pool	< 1 year	1,800,000	1,800,000
MAX Account Balance		<u>767</u>	<u>767</u>
	Total Investments		<u>\$ 5,900,767</u>

Certain external investments held by the District, based on portfolio maturity, quality, diversification, and liquidity measures, qualify for measurement at amortized cost at both the pool and participating government level consistent with GASB Statement No. 79. The District measures those investments, which include \$5,900,767 (PSDLAF) at amortized cost. All investments in external investment pools that are not registered with the Securities and Exchange Commission are subject to oversight by the Commonwealth of Pennsylvania.

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

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Investments - continued

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

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

As of June 30, 2018, the entire PSDLAF book balance of \$5,900,767 is considered to be a cash equivalent for presentation on the government-wide and fund financial statements.

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2018, the District's investment in certificates and securities of U.S. agencies had maturity dates of less than one year.

Credit Risk

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

<u>Investments</u>	<u>Standard & Poor's</u>
PA School District Liquid Asset Fund	AAA

Concentration of Credit Risk

The District does not have a policy that would limit the amount they may invest in any one issue. The fiduciary fund's investments are in certificates of deposit at one local bank.

Custodial Credit Risk

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

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE

The District has five independently elected tax collectors who are responsible for the collection of real estate taxes. Assessed values are established by the County Board of Assessment. All taxable real property was assessed at \$928,045,125. In accordance with Act 1 of 2006, the District received \$591,058 in property tax reduction funds for the 2017/2018 fiscal year. The District tax rate for the year ended June 30, 2018, was 27.07 mills (\$27.07 per \$1,000 of assessed valuation) as levied by the board of school directors. The schedule for real estate taxes levied for each fiscal year is as follows:

July 1	Levy date
July 1 - August 31	2% discount period
September 1 - October 31	Face payment period
November 1 - 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 30 days was recognized as revenue and the balance unavailable in the fund financial statements.

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

	Gross Taxes Receivable	Allowance for Uncollectible Taxes	Net Estimated to be Collectible	Tax Revenue Recognized	Unavailable Revenue
Real estate tax	\$ 680,986	\$ 12,606	\$ 668,380	\$ 50,684	\$ 630,302
Transfer tax	32,707	-	32,707	32,707	-
Per capita tax	99,274	77,582	21,692	1,518	97,756
Earned income tax	91,169	-	91,169	91,169	-
	<u>\$ 904,136</u>	<u>\$ 90,188</u>	<u>\$ 813,948</u>	<u>\$ 176,078</u>	<u>\$ 728,058</u>

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 5 - TAX ABATEMENTS

The District negotiates property tax abatement agreements on an individual basis. The District has one Local Economic Revitalization Tax Assistance Act (LERTA) agreement as of June 30, 2018. The LERTA program authorized local taxing authorities to exempt property taxes of new construction in deteriorated areas of economically depressed communities and improvements to certain deteriorated individual, commercial, and other business property. The LERTA was negotiated in accordance with Pennsylvania Assembly Act No. 76 of 1977, as amended, and exempts from real property taxation the assessed valuation of improvements to deteriorated properties and the assessed valuation of new construction within the Township of Bern's designated deteriorated area. Any property owner undertaking improvements within a deteriorated area may apply and receive from the District an exemption from School District real property taxes due to the increased or additional assessed valuation attributable to those improvements.

The exemption is limited to a period of seven years using the following schedule:

<u>Year</u>	<u>% of Eligible Assessment Abated</u>
1	100%
2	95%
3	90%
4	85%
5	60%
6	60%
7	60%

As of June 30, 2018, the District has a memorandum of understanding with one entity under the LERTA program. The purpose of the abatement was to enhance the economic use of the tax parcel and create other positive impacts on the business prosperity and economic welfare of the District, such as business expansion, economic development, and stimulated employment. For the year ended June 30, 2018, the foregone real estate tax revenue as a result of the LERTA tax abatement was \$150,234.

The District has not made any commitments as part of the agreement other than to reduce taxes.

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 6 - INTERGOVERNMENTAL RECEIVABLES

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

<u>Name of Government Unit</u>	<u>General Fund</u>	<u>Enterprise Food Service</u>
Commonwealth of Pennsylvania:		
Retirement	\$ 941,023	\$ -
Social Security	235,495	-
Transportation Subsidy	74,037	-
Rental Subsidy	34,766	-
School Lunch Program	-	548
Berks County Intermediate Unit - Special Education	170,622	-
Federal Subsidies:		
Title I Grants to Local Education Agencies	29,308	-
Supporting Effective Instruction State Grant	7,340	-
Title III English Language Acquisition State Grants	2,437	-
School Lunch Program	-	7,891
TOTAL	\$ 1,495,028	\$ 8,439

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 7 - CHANGES IN CAPITAL ASSETS

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

	Beginning Balance	Increase	Reclass/ Decrease	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 286,722	\$ -	\$ -	\$ 286,722
Construction in progress	643,342	3,352,997	(3,860,012)	136,327
Totals not being depreciated	<u>930,064</u>	<u>3,352,997</u>	<u>(3,860,012)</u>	<u>423,049</u>
Capital assets being depreciated:				
Buildings and building improvements	66,588,875	10,250	-	66,599,125
Site improvements	4,245,719	-	3,860,012	8,105,731
Furniture and equipment	3,361,799	279,352	-	3,641,151
Totals being depreciated	<u>74,196,393</u>	<u>289,602</u>	<u>3,860,012</u>	<u>78,346,007</u>
Less accumulated depreciation for:				
Buildings and building improvements	22,918,152	1,618,246	-	24,536,398
Site improvements	3,088,431	86,148	-	3,174,579
Furniture and equipment	1,360,135	210,048	-	1,570,183
Total accumulated depreciation	<u>27,366,718</u>	<u>1,914,442</u>	<u>-</u>	<u>29,281,160</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	<u>46,829,675</u>	<u>(1,624,840)</u>	<u>3,860,012</u>	<u>49,064,847</u>
GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET	<u>\$ 47,759,739</u>	<u>\$ 1,728,157</u>	<u>\$ -</u>	<u>\$ 49,487,896</u>
Business-Type Activities				
Capital assets being depreciated:				
Furniture and equipment	\$ 321,066	\$ -	\$ -	\$ 321,066
Less accumulated depreciation for:				
Furniture and equipment	<u>217,277</u>	<u>11,451</u>	<u>-</u>	<u>228,728</u>
BUSINESS-TYPE ACTIVITIES, CAPITAL ASSETS, NET	<u>\$ 103,789</u>	<u>\$ (11,451)</u>	<u>\$ -</u>	<u>\$ 92,338</u>

Depreciation expense of \$1,914,442 in governmental activities was unallocated for the year ended June 30, 2018.

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 8 - LONG-TERM LIABILITIES

Bonds and notes payable are as follows at June 30, 2018:

General Obligation Note - Series of 2017:

The District is liable for general obligation notes dated March 7, 2017. The bank is making advances of proceeds of the note to the District upon request, with an aggregate amount of advances not to exceed \$3,600,000. Interest is payable semi-annually on April 1 and October 1. The note bears interest at a fixed rate of 2.27%. The balance matures on April 1, 2025. At June 30, 2018, the total available amount of the loan has been drawn down. The proceeds of this note will be used to pay stadium renovation and other capital project costs as well as pay the costs of issuing the note.

\$ 3,595,000

General Obligation Bonds - Series of 2014:

The District is liable for general obligation bonds dated October 1, 2014, in the original principal amount of \$22,530,000. Principal maturities occur on April 1 through the year 2024. Interest is payable semi-annually on October 1 and April 1. Interest rates vary from 1.0% to 5.0%. Proceeds from these bonds were used to advance refund General Obligation Bonds - Series of 2006A and 2006B, as well as to pay debt issuance costs. The District realized a net present value savings of \$1,289,763 as a result of the refunding.

14,960,000

Total Bonds and Notes Payable

\$ 18,555,000

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

	General Obligation Notes, Series of 2017	General Obligation Bonds, Series of 2014	Total Principal	Total Interest
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
2019	\$ 5,000	\$ 2,490,000	\$ 2,495,000	\$ 676,807
2020	5,000	2,570,000	2,575,000	601,093
2021	5,000	2,645,000	2,650,000	518,180
2022	5,000	2,765,000	2,770,000	399,116
2023	10,000	2,895,000	2,905,000	260,753
2024 - 2025	3,565,000	1,595,000	5,160,000	195,120
	<u>\$ 3,595,000</u>	<u>\$ 14,960,000</u>	<u>\$ 18,555,000</u>	<u>\$ 2,651,069</u>

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 8 - LONG-TERM LIABILITIES - CONTINUED

Compensated Absences

Sick-Pay

Under the District's various bargaining agreements and plans, professional employees accumulate unused sick days without limitation. These unused sick days may be accumulated for future illnesses and are vested upon retirement.

The District maintains records of each employee's accumulated sick days that are vested with eligible employees. The sick leave termination benefit of \$361,514 is recorded as a long-term liability in the governmental activities column of the government-wide financial statements and the current portion of \$5,980 is recorded in the fund statements. The liability recorded in the Food Service Fund and in the business-type activity column of the government-wide financial statements is \$780 at June 30, 2018.

Vacation Leave

Unused vacation leave is paid upon an employee's termination. The District maintains records of each employee's accumulated vacation days. Vacation leave earned of \$236,762 is recorded as a long-term liability in the governmental activities column of the government-wide statement of net position and the current portion of \$14,761 is recorded in the fund statements. The liability recorded in the Food Service Fund and in the business-type activity column of the government-wide financial statements is \$0 at June 30, 2018.

Retirement Severance

As described in Note 1, all professional employees of the District are entitled at retirement, with a minimum of 15 years of service with the District, to a retirement severance based on years of service with the District. An accrual of the expense has been made to the government-wide financial statements at June 30, 2018, for \$162,000, and the current portion of \$3,600 has been accrued in the fund statements.

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 8 - LONG-TERM LIABILITIES - CONTINUED

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities					
Bonds and Notes Payable	\$ 20,960,000	\$ -	\$ 2,405,000	\$ 18,555,000	\$ 2,495,000
Premiums	1,535,867	-	227,535	1,308,332	-
Total Payable	<u>22,495,867</u>	<u>-</u>	<u>2,632,535</u>	<u>19,863,332</u>	<u>2,495,000</u>
Compensated Absences	596,954	22,063	-	619,017	20,741
Retirement Severance	<u>157,800</u>	<u>7,800</u>	<u>-</u>	<u>165,600</u>	<u>3,600</u>
Total Governmental Long-Term Liabilities	<u>\$ 23,250,621</u>	<u>\$ 29,863</u>	<u>\$ 2,632,535</u>	<u>\$ 20,647,949</u>	<u>\$ 2,519,341</u>
Business-Type Activities					
Compensated Absences	<u>\$ 645</u>	<u>\$ 135</u>	<u>\$ -</u>	<u>\$ 780</u>	<u>\$ -</u>

Payments on bonds and notes 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, 2018, was \$728,181.

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 9 - EMPLOYEE RETIREMENT PLANS

Employee Defined Benefit Pension Plan

Summary of Significant Accounting Policies

Pension Plan

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

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.pa.gov.

Benefits Provided

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

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information about the Pension Plan - continued

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

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

Contributions

The contribution policy is set by 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% (Membership Class TC) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.

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

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

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

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information about the Pension Plan - continued

Employer Contributions:

The school districts' contractually required contribution rate for the fiscal year ended June 30, 2018 was 31.74% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$5,335,872 for the year ended June 30, 2018.

The District is also required to contribute a percentage of covered payroll to PSERS for healthcare insurance premium assistance. Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for no less than one-half of the employer contributions made, including contributions related to pension and healthcare. This arrangement does not meet the criteria of a special funding situation in accordance with GASB Standards. Therefore, the net pension liability and related pension expense represents 100% of the District's share of these amounts. The total reimbursement recognized by the District for the year ended June 30, 2018, for pension and OPEB benefits was \$2,729,763.

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

At June 30, 2018, the District reported a liability of \$61,143,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2016 to June 30, 2017. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the District's proportion was 0.1238%, which was an increase of 0.0006% from its proportion measured as of June 30, 2017. The net pension liability will be liquidated through future contributions to PSERS at the statutory rates. Contributions will be made from the general and the food service funds.

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

For the year ended June 30, 2018, the District recognized pension expense of \$6,301,333. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	\$ 1,417,000	\$ -
Difference between expected and actual experience	638,000	369,000
Changes in proportions - Plan Level	375,000	265,000
Changes in assumptions	1,661,000	-
Changes in proportions - Internal	69,332	69,332
Difference between employer contributions and proportionate share of total contributions	198,692	-
Contributions made subsequent to the measurement date	5,335,872	-
	\$ 9,694,896	\$ 703,332

The \$5,335,872 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 ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the years ending June 30:

2019	\$ 787,335
2020	1,754,073
2021	1,236,799
2022	(122,515)
	\$ 3,655,692

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

Actuarial Assumptions

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

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

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

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

The PSERS 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.

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

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

Discount Rate

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

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

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

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

	<u>1% Decrease</u> 6.25%	<u>Current</u> Discount Rate 7.25%	<u>1% Increase</u> 8.25%
District's proportionate share of the net pension liability	\$ 75,262,000	\$ 61,143,000	\$ 49,223,000

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, 2018, the District had an accrued balance due to PSERS, including contributions related to pension and OPEB of \$1,449,121. This amount represents the District's contractually obligated contributions for wages earned in April 2018 through June 2018. The balance was paid in September 2018.

403(b) Tax Shelter Plan

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

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 10 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM

Employee Defined Benefit Other Postemployment Benefits Plan

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

Summary of Significant Accounting Policies

Other Postemployment Benefits

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

General Information About the Health Insurance Premium Assistance Program

Health Insurance Premium Assistance Program

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

Premium Assistance Eligibility Criteria

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

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

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 10 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

General Information About the Health Insurance Premium Assistance Program - continued

Pension Plan Description

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

Benefits Provided

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

Contributions:

The contribution policy is set by state statute. A portion of each employer's contribution is set aside for premium assistance. The School District's contractually required contribution rate for the fiscal year ended June 30, 2018, was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$139,532 for the year ended June 30, 2018.

The District is also required to contribute a percentage of covered payroll to PSERS for pension benefits. Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for no less than one-half of the employer contributions made, including contributions related to pension and healthcare. This arrangement does not meet the criteria of a special funding situation in accordance with GASB Standards. Therefore, the net HIPAP obligation and related expense represents 100 percent of the District's share of these amounts. The total reimbursement recognized by the District for the year ended June 30, 2018 for pension and OPEB benefits was \$2,729,763.

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 10 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

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

At June 30, 2018, the District reported an obligation of \$2,522,000 for its proportionate share of the net OPEB obligation. The net OPEB obligation was measured as of June 30, 2017, and the total OPEB obligation used to calculate the net OPEB obligation was determined by rolling forward the System’s total OPEB obligation as of June 30, 2016 to June 30, 2017. The District’s proportion of the net OPEB obligation was calculated utilizing the employer’s one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the District’s proportion was 0.1238%, which was an increase of 0.0006% from its proportion measured as of June 30, 2017. The net OPEB obligation will be liquidated through future contributions to PSERS at statutory rates. Contributions will be made from the general and food service funds.

For the year ended June 30, 2018, the District recognized OPEB expense of \$108,359. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ -	\$ 117,000
Net difference between projected and actual investment earnings	3,000	-
Changes in proportion	11,000	-
Contributions made subsequent to the measurement date	139,532	-
	\$ 153,532	\$ 117,000

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 10 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

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

The \$139,532 reported as deferred outflows of resources related to OPEB resulting from District contributions made subsequent to the measurement date will be recognized as a reduction of the net OPEB obligation in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows for the years ending June 30:

2019	\$ (17,000)
2020	(17,000)
2021	(17,000)
2022	(17,000)
2023	(17,000)
Thereafter	<u>(18,000)</u>
	<u>\$ (103,000)</u>

Actuarial Assumptions

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

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

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 10 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

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

The following assumptions were used to determine the contribution rate:

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

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

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

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

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

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 10 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

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

Discount Rate

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

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

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

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

	1% Decrease (Between 4% to 7%)	Current Trend Rate (Between 5% to 8%)	1% Increase (Between 6% to 9%)
District's proportionate share of the net OPEB obligation	\$ 2,522,000	\$ 2,522,000	\$ 2,523,000

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 10 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

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

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

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

	<u>1% Decrease</u> 2.13%	<u>Current</u> Discount Rate 3.13%	<u>1% Increase</u> 4.13%
District's proportionate share of the net OPEB obligation	\$ 2,867,000	\$ 2,522,000	\$ 2,236,000

OPEB Plan Fiduciary Net Position

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

Payables Related to the Plan

At June 30, 2018, the District had an accrued balance due to PSERS of \$1,449,121, including balances related to pension and OPEB. This amount represents the District's contractually obligated contributions for wages earned in April 2018 through June 2018. The balance was paid in September 2018.

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 11 - DISTRICT OTHER POSTEMPLOYMENT BENEFITS PLAN

Employee Defined Benefit Other Postemployment Benefits Plan

General Information About the OPEB Plan

Plan Description

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

Benefits Provided

Contribution requirements are negotiated between the District and union representatives. Below is a summary of the postemployment benefits provided to retirees:

Employees Retired Before January 1, 1999:

<i>ELIGIBILITY</i>	<i>COVERAGE AND PREMIUM SHARING</i>	<i>DURATION</i>
N/A	<u>Coverage</u> Medical, Prescription Drug, and Dental coverage for Retiree and spouse <u>Premium Sharing</u> Retiree pays 100% of the cost	Retiree coverage ends at Retiree’s death and spouse coverage ends at spouse’s death.

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 11 - DISTRICT OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan – continued

General Information about the OPEB Plan - continued

Employees Retired January 1, 1999 and Later:

<i>ELIGIBILITY</i>	<i>COVERAGE AND PREMIUM SHARING</i>	<i>DURATION</i>
Act 110/43	<u>Coverage</u> Medical, Prescription Drug, and Dental coverage for Retiree and spouse <u>Premium Sharing</u> Retiree pays 100% of the cost	Retiree coverage ends at Retiree Medicare age and spouse coverage ends at earlier of Spouse Medicare age, Retiree Medicare age, or Retiree death.

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

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

PSERS Superannuation Retirement:

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

Employees retired before January 1, 1999 and their spouses are required to enroll in Medicare supplement plan upon reaching Medicare age.

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 11 - DISTRICT OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

General Information About the OPEB Plan - continued

Employees Covered by Benefit Terms

At July 1, 2016, the date of the most recent actuary valuation, the following employees were covered by the benefit terms:

Active participants	230
Retired participants	<u>20</u>
Total	<u><u>250</u></u>

OPEB Liability

Actuarial Assumptions and Other Inputs

The total OPEB obligation as of July 1, 2017, was determined by rolling forward the District's total OPEB obligation as of July 1, 2016 to July 1, 2017, using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Actuarial cost method - Entry Age Normal.
- Salary increases - 2.50% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.75% to 0%.
- Discount rate - 3.13% - based on the Standards & Poors Municipal Bond 20 Year High Grade Rate Index at 7/1/17.
- Mortality rates - Separate rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation. Incorporated into the table are rates projected generationally by the Buck Modified 2016 projection scale to reflect mortality improvement.
- Healthcare cost trend rates - 6.0% in 2017, and 5.5% in 2018 through 2023. Rates gradually decrease from 5.4% in 2024 to 3.9% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.
- Participation rates - 65% of employees are assumed to elect coverage.

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

SCHUYLKILL VALLEY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 11 - DISTRICT OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

Changes in the Total OPEB Liability

	Total OPEB Obligation
Balance at July 1, 2017	\$ 1,637,470
Changes for the year:	
Service cost	124,704
Interest	43,029
Changes of assumptions or other inputs	119,913
Benefit payments	(62,956)
Net changes	224,690
Balance at June 30, 2018	\$ 1,862,160

Changes of assumptions or other inputs reflect the following changes: (1) the discount rate changed from 2.49% to 3.13%; (2) the trend assumption was updated; (3) assumptions for salary, mortality, withdrawal and retirement were updated based on new PSERS assumptions.

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

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

	1% Decrease 2.13%	Current Discount Rate 3.13%	1% Increase 4.13%
OPEB Plan - Total OPEB Obligation	\$ 1,992,298	\$ 1,862,160	\$ 1,737,726

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 11 - DISTRICT OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

Changes in the Total OPEB Liability - continued

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

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
OPEB Plan - Total OPEB Obligation	\$ 1,644,528	\$ 1,862,160	\$ 2,119,429

At June 30, 2018, the District reported an OPEB obligation of \$1,862,160 related to the OPEB Plan. The net OPEB obligation was measured as of July 1, 2017, and was determined by rolling forward an actuarial valuation performed as of July 1, 2016 to July 1, 2017. The liability will be liquidated through future payments from the general and food service funds.

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$178,634. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 109,012	\$ -
Benefit payments made subsequent to the measurement date	83,030	-
	\$ 192,042	\$ -

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 11 - DISTRICT OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

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

The \$83,030 reported as deferred outflows of resources related to OPEB obligations resulting from benefit payments made subsequent to the measurement date will be recognized as a reduction of the net OPEB obligation in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows for the years ending June 30:

2019	\$	10,901
2020		10,901
2021		10,901
2022		10,901
2023		10,901
Thereafter		54,507
Total	\$	109,012

NOTE 12 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

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

	Interfund Receivables	Interfund Payables
General Fund	\$ -	\$ 375,000
Capital Projects	375,000	-
	\$ 375,000	\$ 375,000

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.

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 12 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS - CONTINUED

Interfund transfers are summarized as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 583,000
Capital Projects	575,000	-
Education Trust Fund	<u>8,000</u>	<u>-</u>
	<u>\$ 583,000</u>	<u>\$ 583,000</u>

Transfers were made to fund current and future capital needs and to comply with settlement agreements.

NOTE 13 - JOINT VENTURE

The District is a participating member of the Berks Career & Technology Center. The Berks Career & Technology Center is controlled and governed by a joint board, which is composed of representative school board members of the participating schools. Direct oversight of Berks Career & Technology Center operations is the responsibility of the joint board. The District's share of annual operating and capital costs for Berks Career & Technology Center fluctuates based on the percentage of enrollment. The District's share for the 2017/2018 year was \$464,621.

During the year ended June 30, 1998, Berks Career Vocational Technical School Authority issued \$34,850,000 of General Obligation Bonds and lent the proceeds to Berks Career & Technology Center. The proceeds were used to renovate and build an addition to Berks Career & Technology Center's facilities. Each member district adopted a resolution approving the project and the project's maximum cost. Under the amended Articles of Agreement, each member district is required to pay from current revenues its annual share of the sublease rental based on the District's share of taxable real estate to the total market valuation of the taxable real estate of all participating school districts. The District's share for the 2017/2018 year was \$122,476.

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 13 - JOINT VENTURE - CONTINUED

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

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

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

NOTE 14 - 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. The District's Workmen's Compensation policy is a retrospectively rated policy; the final total premium is based on the actual payroll for the policy year and is determined by the insurance carrier. For insured programs, there were no significant reductions in insurance coverages for the 2017/2018 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 15 - CONTINGENT LIABILITIES AND COMMITMENTS

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.

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 15 - CONTINGENT LIABILITIES AND COMMITMENTS - CONTINUED

The District has awarded contracts for a stadium renovation project. As of June 30, 2018, the following balances remain on awarded contracts:

<u>Contractor</u>	<u>Total Contract</u>	<u>Commitment Remaining</u>
Grace Industries, Inc.	\$ 2,799,679	\$ 9,100

This commitment will be liquidated by the capital projects fund.

NOTE 16 - RESTATEMENT OF BEGINNING NET POSITION

Restatement of Beginning Net Position

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

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

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 16 - RESTATEMENT OF BEGINNING NET POSITION - CONTINUED

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

	Governmental Activities	Business-Type Activities Food Service Fund	Total
Net Position (Deficit) at June 30, 2017	\$ (15,259,219)	\$ (607,221)	\$ (15,866,440)
Restatement for:			
Deferred Outflow - HIPAP contributions made subsequent to the measurement date	134,987	2,372	137,359
Other postemployment benefit obligation - HIPAP	(2,608,086)	(45,914)	(2,654,000)
Deferred Outflow - District benefit plan payments made subsequent to the measurement date	62,366	590	62,956
Other postemployment benefit obligation - District Plan	(1,023,240)	2,653	(1,020,587)
Net Position (Deficit) at July 1, 2017 - restated	\$ (18,693,192)	\$ (647,520)	\$ (19,340,712)

NOTE 17 - FUND BALANCE

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

General Fund

The general fund has nonspendable funds of \$17,935, restricted funds of \$12,350 related to unspent donations for cafeteria tables, and \$8,279 restricted for elementary activities, committed funds of \$412,345 for retirement rate increases and \$50,000 for insurance deductibles, assigned funds of \$371,292 for the purpose of balancing the 2018/2019 budget, and unassigned fund balance of \$2,721,297. The commitments were authorized by the board of school directors' motion to set aside resources to fund anticipated increases in PSERS contributions and insurance deductibles.

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 17 - FUND BALANCE - CONTINUED

Capital Projects Fund

The capital projects fund has restricted funds of \$2,199,913 consisting of \$931,539 of unspent bond funds and \$1,268,374 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 18 - NEW ACCOUNTING PRONOUNCEMENTS

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

- Statement No. 84, *Fiduciary Activities* - This statement establishes criteria for identifying fiduciary activities and describes four types of fiduciary funds, as well as provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. This statement is effective for the District's fiscal year ending June 30, 2020.
- Statement No. 87, *Leases* - This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. This statement is effective for the District's fiscal year ending June 30, 2021.
- Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, have been issued to enhance reporting and disclosures for specific debt transactions. Statement No. 88 is effective for the District's fiscal year ending June 30, 2019.

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

REQUIRED SUPPLEMENTARY INFORMATION

SCHUYLKILL VALLEY SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

For the Year Ended June 30, 2018

	BUDGET		ACTUAL (GAAP Basis)	VARIANCE Final to Actual
	Original	Final		
REVENUES				
Local Sources	\$ 27,680,295	\$ 27,680,295	\$ 27,993,174	\$ 312,879
State Sources	8,816,638	8,816,638	8,889,723	73,085
Federal Sources	271,413	271,413	271,821	408
TOTAL REVENUES	36,768,346	36,768,346	37,154,718	386,372
EXPENDITURES				
INSTRUCTIONAL SERVICES:				
Regular Programs - Elementary/Secondary	17,345,372	17,317,172	17,361,899	(44,727)
Special Programs - Elementary/Secondary	4,742,250	4,751,645	4,994,588	(242,943)
Vocational Education	587,126	587,126	587,097	29
Other Instructional Programs - Elementary/Secondary	504,993	504,493	500,375	4,118
Nonpublic School Programs	-	4,865	5,142	(277)
TOTAL INSTRUCTIONAL SERVICES	23,179,741	23,165,301	23,449,101	(283,800)
SUPPORT SERVICES:				
Students	1,144,104	1,125,494	1,221,343	(95,849)
Instructional Staff	662,051	667,068	639,460	27,608
Administration	2,149,558	2,163,445	2,128,793	34,652
Pupil Health Services	382,271	381,694	375,557	6,137
Business Services	671,247	647,873	587,045	60,828
Operation and Maintenance of Plant Services	2,385,879	2,385,879	2,172,034	213,845
Pupil Transportation Services	1,973,726	1,973,726	1,895,773	77,953
Central	593,300	600,722	596,485	4,237
Other Support Services	31,397	31,812	31,812	-
TOTAL SUPPORT SERVICES	9,993,533	9,977,713	9,648,302	329,411
OPERATION OF NONINSTRUCTIONAL SERVICES:				
Student Activities	1,233,674	1,263,934	1,232,603	31,331
Community Services	29,944	29,944	17,433	12,511
TOTAL OPERATION OF NONINSTRUCTIONAL SERVICES	1,263,618	1,293,878	1,250,036	43,842
DEBT SERVICE PAYMENTS	3,164,200	3,155,108	3,133,181	21,927
REFUND OF PRIOR YEAR REVENUE	-	9,092	10,535	(1,443)
TOTAL EXPENDITURES	37,601,092	37,601,092	37,491,155	109,937
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(832,746)	(832,746)	(336,437)	496,309
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	-	-	493	493
Transfers Out	(200,000)	(200,000)	(583,000)	(383,000)
Budgetary Reserve	(200,000)	(200,000)	-	200,000
TOTAL OTHER FINANCING SOURCES (USES)	(400,000)	(400,000)	(582,507)	(182,507)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (1,232,746)	\$ (1,232,746)	(918,944)	\$ 313,802
FUND BALANCE - BEGINNING OF YEAR			4,512,442	
FUND BALANCE - END OF YEAR			\$ 3,593,498	

See note to required supplementary information.

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2018

BUDGETARY DATA

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

SCHUYLKILL VALLEY SCHOOL DISTRICT

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

LAST TEN FISCAL YEARS

	2018	2017	2016	2015	2014
District's proportion of the collective net pension liability	0.1238%	0.1232%	0.1226%	0.1233%	0.1249%
District's proportionate share of the collective net pension liability	\$ 61,143,000	\$ 61,054,000	\$ 53,104,000	\$ 48,804,000	\$ 51,130,000
District's covered employee payroll	\$ 16,486,173	\$ 15,954,462	\$ 15,779,846	\$ 15,729,185	\$ 16,033,919
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	370.87%	382.68%	336.53%	310.28%	318.89%
Plan fiduciary net position as a percentage of the total pension liability	51.84%	50.14%	54.36%	57.24%	54.50%

The District's covered employee payroll noted above is as of the measurement date of the net pension liability (June 30, 2017, 2016, 2015, 2014, and 2013).

NOTES TO SCHEDULE

Changes of Benefit Terms

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

Changes of Assumptions

None

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

SCHUYLKILL VALLEY SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - PENSION PLAN

LAST TEN FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually required contribution	\$ 5,335,872	\$ 4,832,409	\$ 4,021,594	\$ 3,272,361	\$ 2,542,490	\$ 1,867,624	\$ 1,250,899	\$ 771,309	\$ 612,413	\$ 593,085
Contributions in relation to the contractually required contribution	<u>5,335,872</u>	<u>4,832,409</u>	<u>4,021,594</u>	<u>3,272,361</u>	<u>2,542,490</u>	<u>1,867,624</u>	<u>1,250,899</u>	<u>771,309</u>	<u>612,413</u>	<u>593,085</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	<u>\$ 16,608,222</u>	<u>\$ 16,486,173</u>	<u>\$ 15,954,462</u>	<u>\$ 15,779,846</u>	<u>\$ 15,729,185</u>	<u>\$ 16,033,919</u>				
Contributions as a percentage of covered employee payroll	32.13%	29.31%	25.21%	20.74%	16.16%	11.65%				

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

SCHUYLKILL VALLEY SCHOOL DISTRICT

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

LAST TEN FISCAL YEARS

	<u>2018</u>	<u>2017</u>
District's proportion of the collective HIPAP obligation	0.1238%	0.1232%
District's proportionate share of the collective net HIPAP obligation	\$ 2,522,000	\$ 2,654,000
District's covered employee payroll	\$ 16,486,173	\$ 15,954,462
District's proportionate share of the net HIPAP obligation as a percentage of its covered employee payroll	15.30%	16.63%
Plan fiduciary net position as a percentage of the total HIPAP obligation	5.73%	5.47%

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

NOTES TO SCHEDULE

Changes of Benefit Terms

None

Changes of Assumptions

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

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

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

SCHUYLKILL VALLEY SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM

LAST TEN FISCAL YEARS

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 139,532	\$ 137,360	\$ 135,126	\$ 143,665	\$ 147,782	\$ 139,666	\$ 101,636	\$ 98,727	\$ 119,421	\$ 112,686
Contributions in relation to the contractually required contribution	<u>139,532</u>	<u>137,360</u>	<u>135,126</u>	<u>143,665</u>	<u>147,782</u>	<u>139,666</u>	<u>101,636</u>	<u>98,727</u>	<u>119,421</u>	<u>112,686</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	<u>\$ 16,608,222</u>	<u>\$ 16,486,173</u>	<u>\$ 15,954,462</u>	<u>\$ 15,779,846</u>	<u>\$ 15,729,185</u>	<u>\$ 16,033,919</u>				
Contributions as a percentage of covered employee payroll	0.84%	0.83%	0.85%	0.91%	0.94%	0.87%				

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

SCHUYLKILL VALLEY SCHOOL DISTRICT

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

LAST TEN FISCAL YEARS

	2018
Total OPEB Obligation	
Service cost	\$ 124,704
Interest	43,029
Changes in assumptions	119,913
Benefit payments	(62,956)
Net change in total OPEB obligation	224,690
Total OPEB obligation, beginning	1,637,470
Total OPEB obligation, ending	\$ 1,862,160
 Covered Employee Payroll	 \$ 14,709,398
Total OPEB Obligation as a Percentage of Covered Employee Payroll	12.66%

NOTES TO SCHEDULE

Changes of Benefit Terms

None.

Changes of Assumptions

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

- The discount rate changed from 2.49% to 3.13%.
- The trend assumption was updated.
- Assumptions for salary, mortality, withdrawal and retirement were updated based on new PSERS assumptions.

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

SUPPLEMENTARY INFORMATION

SCHUYLKILL VALLEY SCHOOL DISTRICT

**SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES -
BUDGET AND ACTUAL - GENERAL FUND**

For the Year Ended June 30, 2018

		<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
6000 REVENUES FROM LOCAL SOURCES				
<u>Taxes</u>				
6111	Taxes, Current Real Estate	\$ 23,451,284	\$ 23,603,051	\$ 151,767
6112	Taxes, Interim Real Estate	128,500	139,172	10,672
6113	Public Utility Realty Tax	30,000	27,071	(2,929)
6114	Taxes, Current, Payments in Lieu of Taxes	448	448	-
6120	Current Per Capita Taxes, Section 679	39,900	39,359	(541)
6141	Current Act 511 Per Capita Taxes	39,900	39,359	(541)
6151	Current Act 511 Earned Income Taxes	1,950,000	2,029,554	79,554
6153	Current Act 511 Real Estate Transfer Taxes	300,000	397,137	97,137
6400	Delinquent Taxes (All Levies)	761,050	613,428	(147,622)
	Total	26,701,082	26,888,579	187,497
<u>Other</u>				
6510	Earnings from Temporary Deposits and Investments	45,000	159,007	114,007
6700	Admissions and Fees	112,200	107,062	(5,138)
6830	Revenue from I.U. - Federal	299,713	330,265	30,552
6910	Rent from School and Other Facilities	24,000	36,521	12,521
6920	Contributions	10,000	39,924	29,924
6940	Receipts Other LEA's in PA - Education	455,000	400,755	(54,245)
6990	Miscellaneous Revenue	33,300	31,061	(2,239)
	Total	979,213	1,104,595	125,382
	TOTAL REVENUES FROM LOCAL SOURCES	27,680,295	27,993,174	312,879
7000 REVENUES FROM STATE SOURCES				
7110	Basic Instructional Subsidy	2,687,839	2,764,202	76,363
7160	Tuition/Court Placed Institutions	75,000	56,027	(18,973)
7270	Special Education of Exceptional Pupils	938,053	951,605	13,552
7299	Other Programs	-	375	375
7310	Transportation	717,780	799,708	81,928
7320	Rentals and Sinking Fund Payments	189,000	193,328	4,328
7330	Medical and Dental Services	35,000	36,673	1,673
7340	Property Tax Relief	591,058	591,058	-
7505	Ready to Learn Block Grant	197,972	197,972	-
7810	Social Security	643,827	609,778	(34,049)
7820	Retirement	2,741,109	2,688,997	(52,112)
	TOTAL REVENUES FROM STATE SOURCES	8,816,638	8,889,723	73,085

SCHUYLKILL VALLEY SCHOOL DISTRICT

SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES -
BUDGET AND ACTUAL - GENERAL FUND - CONTINUED

For the Year Ended June 30, 2018

		Budget	Actual	Variance
8000 REVENUES FROM FEDERAL SOURCES				
8514	Title I	220,448	210,243	(10,205)
8515	Title II	50,965	49,607	(1,358)
8516	Title III	-	2,437	2,437
8517	Title IV	-	9,216	9,216
8820	Medical Assistance Reimbursement for Administrative Claiming Program	-	318	318
TOTAL REVENUES FROM FEDERAL SOURCES		271,413	271,821	408
9000 OTHER FINANCING SOURCES				
9400	Proceeds from Sale of Capital Assets	-	493	493
TOTAL OTHER FINANCING SOURCES		-	493	493
TOTAL REVENUES AND OTHER FINANCING SOURCES		<u>\$ 36,768,346</u>	<u>\$ 37,155,211</u>	<u>\$ 386,865</u>

SCHUYLKILL VALLEY SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES -
BUDGET AND ACTUAL - GENERAL FUND**

For the Year Ended June 30, 2018

		<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
1000 INSTRUCTIONAL SERVICES				
1100	Regular Programs	\$ 17,317,172	\$ 17,361,899	\$ (44,727)
1200	Special Programs	4,751,645	4,994,588	(242,943)
1300	Vocational Education Programs	587,126	587,097	29
1400	Other Instructional Programs	504,493	500,375	4,118
1500	Nonpublic School Programs	4,865	5,142	(277)
TOTAL INSTRUCTIONAL SERVICES		23,165,301	23,449,101	(283,800)
2000 SUPPORT SERVICES				
2100	Students	1,125,494	1,221,343	(95,849)
2200	Instructional Staff	667,068	639,460	27,608
2300	Administration	2,163,445	2,128,793	34,652
2400	Pupil Health	381,694	375,557	6,137
2500	Business Services	647,873	587,045	60,828
2600	Operation and Maintenance of Plant Services	2,385,879	2,172,034	213,845
2700	Student Transportation Services	1,973,726	1,895,773	77,953
2800	Central	600,722	596,485	4,237
2900	Other Support Services	31,812	31,812	-
TOTAL SUPPORT SERVICES		9,977,713	9,648,302	329,411
3000 OPERATION OF NONINSTRUCTIONAL SERVICES				
3200	Student Activities	1,263,934	1,232,603	31,331
3300	Community Services	29,944	17,433	12,511
TOTAL OPERATION OF NONINSTRUCTIONAL SERVICES		1,293,878	1,250,036	43,842
5000 OTHER EXPENDITURES AND FINANCING USES				
5110	Debt Service -			
	Principal Payments	2,405,000	2,405,000	-
	Interest Payments	750,108	728,181	21,927
5130	Refund of Prior Year Revenue	9,092	10,535	(1,443)
5230	Transfers to Capital Projects	200,000	575,000	(375,000)
5270	Transfers to Trust and Agency	-	8,000	(8,000)
5990	Budgetary Reserve	200,000	-	200,000
TOTAL OTHER FINANCING USES		3,564,200	3,726,716	(162,516)
TOTAL EXPENDITURES AND OTHER FINANCING USES		\$ 38,001,092	\$ 38,074,155	\$ (73,063)

SCHUYLKILL VALLEY SCHOOL DISTRICT

COMBINING BALANCE SHEET - CAPITAL PROJECTS FUND

June 30, 2018

	<u>Capital Projects Fund</u>	<u>Technology Reserve Fund</u>	<u>Total Capital Projects Fund</u>
ASSETS			
Cash and Investments	\$ 1,637,226	\$ 266,942	\$ 1,904,168
Interfund Receivable	-	375,000	375,000
TOTAL ASSETS	<u>\$ 1,637,226</u>	<u>\$ 641,942</u>	<u>\$ 2,279,168</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 78,755	\$ 500	\$ 79,255
TOTAL LIABILITIES	78,755	500	79,255
FUND BALANCES			
Restricted Fund Balance	<u>1,558,471</u>	<u>641,442</u>	<u>2,199,913</u>
TOTAL FUND BALANCES	<u>1,558,471</u>	<u>641,442</u>	<u>2,199,913</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,637,226</u>	<u>\$ 641,942</u>	<u>\$ 2,279,168</u>

SCHUYLKILL VALLEY SCHOOL DISTRICT

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
CAPITAL PROJECTS FUND**

For the Year Ended June 30, 2018

	Capital Projects Fund	Technology Reserve Fund	Total Capital Projects Fund
REVENUES			
Local Sources	\$ 45,536	\$ 2,665	\$ 48,201
TOTAL REVENUES	45,536	2,665	48,201
EXPENDITURES			
Current:			
Instructional Services	-	135,897	135,897
Support Services	3,672,686	18,250	3,690,936
Operation of Noninstructional Services	45,993	-	45,993
TOTAL EXPENDITURES	3,718,679	154,147	3,872,826
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,673,143)	(151,482)	(3,824,625)
OTHER FINANCING SOURCES (USES)			
Transfers In	200,000	375,000	575,000
TOTAL OTHER FINANCING SOURCES (USES)	200,000	375,000	575,000
NET CHANGE IN FUND BALANCES	(3,473,143)	223,518	(3,249,625)
FUND BALANCES - BEGINNING OF YEAR	5,031,614	417,924	5,449,538
FUND BALANCES - END OF YEAR	<u>\$ 1,558,471</u>	<u>\$ 641,442</u>	<u>\$ 2,199,913</u>

SCHUYLKILL VALLEY SCHOOL DISTRICT
COMBINING STATEMENT OF NET POSITION -
PRIVATE PURPOSE TRUST FUNDS

June 30, 2018

ASSETS	<u>Rieser Scholarship</u>	<u>Wisniewski Scholarship</u>	<u>Flammer Scholarship</u>	<u>Scholastico Scholarship</u>	<u>Kennedy Scholarship</u>	<u>Rotary Club Scholarship</u>	<u>Bauder Scholarship</u>	<u>Kleffel Scholarship</u>	<u>Education Trust Fund</u>	<u>Total Private Purpose Trust Funds</u>
CURRENT ASSETS										
Cash and Investments	\$ 4,646	\$ 18,528	\$ 21,179	\$ 8,453	\$ 21,755	\$ 21,478	\$ 150	\$ 7,195	\$ 18,890	\$ 122,274
TOTAL ASSETS	<u>4,646</u>	<u>18,528</u>	<u>21,179</u>	<u>8,453</u>	<u>21,755</u>	<u>21,478</u>	<u>150</u>	<u>7,195</u>	<u>18,890</u>	<u>122,274</u>
NET POSITION HELD IN TRUST	<u>\$ 4,646</u>	<u>\$ 18,528</u>	<u>\$ 21,179</u>	<u>\$ 8,453</u>	<u>\$ 21,755</u>	<u>\$ 21,478</u>	<u>\$ 150</u>	<u>\$ 7,195</u>	<u>\$ 18,890</u>	<u>\$ 122,274</u>

SCHUYLKILL VALLEY SCHOOL DISTRICT

COMBINING STATEMENT OF CHANGES IN NET POSITION -
PRIVATE PURPOSE TRUST FUNDS

For the Year Ended June 30, 2018

	Rieser Scholarship	Wisniewski Scholarship	Flammer Scholarship	Scolastico Scholarship	Kennedy Scholarship	Rotary Club Scholarship	Bauder Scholarship	Kleffel Scholarship	Education Trust Fund	Total Private Purpose Trust Funds
ADDITIONS										
Contributions	\$ 44	\$ 172	\$ 197	\$ 96	\$ 254	\$ 198	\$ 150	\$ 13,595	\$ -	\$ 14,706
Transfers In	-	-	-	-	-	-	-	-	8,000	8,000
TOTAL ADDITIONS	44	172	197	96	254	198	150	13,595	8,000	22,706
DEDUCTIONS										
Instructional Services	-	-	-	-	-	-	-	-	4,877	4,877
Operation of Noninstructional Services	200	600	750	50	100	500	-	6,400	-	8,600
TOTAL DEDUCTIONS	200	600	750	50	100	500	-	6,400	4,877	13,477
CHANGE IN NET POSITION	(156)	(428)	(553)	46	154	(302)	150	7,195	3,123	9,229
NET POSITION - BEGINNING OF YEAR	4,802	18,956	21,732	8,407	21,601	21,780	-	-	15,767	113,045
NET POSITION - END OF YEAR	\$ 4,646	\$ 18,528	\$ 21,179	\$ 8,453	\$ 21,755	\$ 21,478	\$ 150	\$ 7,195	\$ 18,890	\$ 122,274

SCHUYLKILL VALLEY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2018

Federal Grantor/Pass-Through Grantor/Program Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/Ending Dates	Program or Award Amount	Receipts for the Year	Accrued/ (Unearned) Revenue at June 30, 2017	Revenue Recognized	Expenditures	Accrued/ (Unearned) Revenue at June 30, 2018
U.S. Department of Education										
Passed through Commonwealth of Pennsylvania Department of Education:										
Title I Grants to Local Education Agencies	I	84.010	013-17-0375A	07/01/16-09/30/17	\$ 229,170	\$ 17,927	\$ 17,927	\$ -	\$ -	\$ -
Title I Grants to Local Education Agencies	I	84.010	013-18-0375A	08/30/17-09/30/18	210,243	180,935	-	210,243	210,243	29,308
Subtotal						198,862	17,927	210,243	210,243	29,308
Supporting Effective Instruction State Grant	I	84.367	020-17-0375A	07/01/16-09/30/17	50,700	3,574	3,574	-	-	-
Supporting Effective Instruction State Grant	I	84.367	020-18-0375A	08/30/17-09/30/18	53,512	42,267	-	49,607	49,607	7,340
Subtotal						45,841	3,574	49,607	49,607	7,340
Student Support and Academic Enrichment Program	I	84.424	144-18-0375A	08/30/17-09/30/18	10,000	10,000	-	9,216	9,216	(784)
Passed through Fleetwood Area School District:										
English Language Acquisition State Grants	I	84.365	N/A	08/01/17-06/30/18	2,437	-	-	2,437	2,437	2,437
Passed through Berks County Intermediate Unit:										
Special Education Cluster (IDEA)										
Special Education - Grants to States	I	84.027	N/A	07/01/16-06/30/17	299,714	143,638	143,638	-	-	-
Special Education - Grants to States	I	84.027	N/A	07/01/17-09/30/18	322,765	152,143	-	322,765	322,765	170,622
Special Education - Preschool Grants	I	84.173	N/A	07/01/16-06/30/17	7,500	7,500	-	7,500	7,500	-
Total Special Education Cluster (IDEA)						303,281	143,638	330,265	330,265	170,622
TOTAL U.S. DEPARTMENT OF EDUCATION						557,984	165,139	601,768	601,768	208,923
U.S. Department of Health and Human Services										
Medicaid Cluster										
Passed through Pennsylvania Department of Health & Human Services:										
Medical Assistance Program	I	93.778	N/A	10/01/17-09/30/18	N/A	318	-	318	318	-
TOTAL MEDICAID CLUSTER										
AND U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						318	-	318	318	-
U.S. Department of Agriculture										
Child Nutrition Cluster										
Passed through Commonwealth of Pennsylvania Department of Education:										
School Breakfast Program	I	10.553	N/A	07/01/16-06/30/17	N/A	984	984	-	-	-
School Breakfast Program	I	10.553	N/A	07/01/17-06/30/18	N/A	22,714	-	23,902	23,902	1,188
National School Lunch Program	I	10.555	N/A	07/01/16-06/30/17	N/A	6,248	6,248	-	-	-
National School Lunch Program	I	10.555	N/A	07/01/17-06/30/18	N/A	296,820	-	303,523	303,523	6,703
Passed through Commonwealth of Pennsylvania Department of Agriculture:										
National School Lunch Program	I	10.555	N/A	07/01/17-06/30/18	N/A	50,763	(7,629)	52,382	52,382	(6,010)
TOTAL CHILD NUTRITION CLUSTER										
AND U.S. DEPARTMENT OF AGRICULTURE						377,529	(397)	379,807	379,807	1,881
TOTAL FEDERAL AWARDS						\$ 935,831	\$ 164,742	\$ 981,893	\$ 981,893	\$ 210,804

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

See notes to schedule of expenditures of federal awards.

SCHUYLKILL VALLEY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2018

NOTE 1 - BASIS OF PRESENTATION

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

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

NOTE 3 - DE MINIMIS RATE FOR INDIRECT COSTS

The District did not elect to use the de minimis rate for indirect costs.

NOTE 4 - FOOD COMMODITIES

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. At June 30, 2018, the District had \$6,010 of food commodity inventory.



Herbein + Company, Inc.
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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
Schuylkill Valley School District
Leesport, Pennsylvania**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 Schuylkill Valley School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Schuylkill Valley School District's basic financial statements, and have issued our report thereon dated October 10, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Schuylkill Valley 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 Schuylkill Valley School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Schuylkill Valley 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 Schuylkill Valley 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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Herbein + Company, Inc.

Reading, Pennsylvania
October 10, 2018



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

**To the Board of School Directors
Schuylkill Valley School District
Leesport, Pennsylvania**

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompany schedule of findings and questioned costs as item 2018-001. Our opinion on each major federal program is not modified with respect to these matters.

Schuylkill Valley School District's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Schuylkill Valley School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Schuylkill Valley 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 Schuylkill Valley School District's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Schuylkill Valley School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance as described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a significant deficiency.

Schuylkill Valley School District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Schuylkill Valley School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Herbein + Company, Inc.

Reading, Pennsylvania
October 10, 2018

SCHUYLKILL VALLEY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified
Internal control over financial reporting:
Material weakness(es) identified? yes X no
Significant deficiency(ies) identified not considered to be
material weaknesses? yes X none reported
Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:
Material weakness(es) identified? yes X no
Significant deficiency(ies) identified not considered to be
material weaknesses? X yes none reported

Type of auditor's report issued on compliance for
major programs: Unmodified

Any audit findings disclosed that are required to be
reported in accordance with 2 CFR Section 200.516(a) X yes no

Identification of major programs:

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

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X yes No

SCHUYLKILL VALLEY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2018

Section II - Financial Statement Findings

There were no financial statement findings.

Section III - Federal Awards Findings and Questioned Costs

2018-001 SUBSIDY REPORTING AND VERIFICATION DOCUMENTATION - SIGNIFICANT DEFICIENCY

Federal Program

Child Nutrition Cluster

National School Lunch Program CFDA 10.555; passed through the Pennsylvania Department of Education;

Grant Period 7/1/17-6/30/18

School Breakfast Program CFDA 10.553; passed through the Pennsylvania Department of Education;

Grant Period 7/1/17-6/30/18 -

Reporting and Special Tests and Provisions - Verification of Free and Reduced Price Applications

Criteria

Title 7 CFR 210 covers the reimbursement process under the Child Nutrition Cluster, which requires the submission of claims for reimbursement that include the number of reimbursable meals served by category and type during the period (generally a month) covered by the claim. As a subrecipient of funds passed through the Pennsylvania Department of Education (PDE), Schuylkill Valley School District must submit monthly claim forms to PDE, which include the number of reimbursable meals served by category (free, reduced, paid) and type (breakfast, lunch).

Title 7 CFR 245 covers eligibility requirements for all programs within the Child Nutrition Cluster. Title 7 CFR 245.6a requires that the local education agency must verify eligibility of children in a sample of household applications approved for free and reduced price meal benefits for that school year. The local educational agency must select an allowable sample and complete the verification efforts no later than November 15 of each school year. Based on the verification activities, the education agency must make appropriate modifications to the eligibility determinations made initially if applicable. Failure to cooperate with verification efforts will result in the termination of benefits.

Condition/Cause

From August 2017 through March 2018, claim reimbursement forms did not include meal counts for breakfast. Controls in place over reporting did not catch the error until April 2018. The District was able to revise reports for February and March, as well as one prior month under the one-time exception allowed by PDE. The District chose to revise October 2017 because it was the month with the largest number of breakfasts served.

The District was unable to locate income support used to perform the verification process. The District was able to provide checklists indicating the income support was obtained and used to complete the verification process, as well as proof that status changes were made for the verification process. Furthermore, the monitoring visit in the current year indicated no instances of noncompliance with the verification process. However, because the income support could not be located by the District, we were unable to test compliance with this requirement.

SCHUYLKILL VALLEY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2018

Section III - Federal Awards Findings and Questioned Costs - continued

Effect

As a result of the claim reports not being filed accurately, the District was at risk of losing \$32,000 in subsidy revenue. The District was able to recuperate approximately \$15,000 of subsidy revenue through revised reports; however, because PDE only allows Districts to revise reports for the 2 previous months, with a one-time exception for an additional month, the District was not able to recover \$17,382 in subsidy revenue for the year.

Because income documentation could not be located, we were unable to test that the verification process was performed properly.

Questioned Costs

Less than \$25,000

Context

Total subsidy revenue for the District for the year ended June 30, 2018 was \$399,722. Had the District filed accurate claim reports for the entire year, subsidy revenue would have been \$417,104. The lost revenue is 4.3% of total subsidy revenue for the year.

Four applications were selected for verification during the 2017/2018 school year. Of the sample verified, 2 applications were noted as free verified status and 2 applications were noted as paid verified status.

No statistical sampling was used in our testing.

Repeat Finding

No.

Recommendation

We recommend that all claim reports are reviewed by either the Assistant Business Manager or Business Manager prior to submission. The review should include comparison of the report to meal count reports generated by the point of sale system to verify accuracy. The review should also include a comparison to prior monthly reports for reasonableness. We recommend that the reviewer initial the report draft or otherwise maintain support of this review.

We recommend that the District maintain income support for the applications verified in the verification folder or electronically so that the income support can be provided as needed to demonstrate compliance with the verification process.

Management Response

See corrective action plan included in this report package.



Schuylkill Valley School District

ADMINISTRATION CENTER

929 Lakeshore Drive

Leesport, PA 19533

OFFICE OF THE SUPERINTENDENT

(610) 916-0957

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2018

Section II - Financial Statement Findings

There were no financial statement findings for the year ended June 30, 2017.

Section III - Federal Awards Findings and Questioned Costs

There were no federal awards findings or questioned costs reported for the year ended June 30, 2017.



**SCHUYLKILL VALLEY SCHOOL DISTRICT
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610-916-0957
FAX 610-926-3960

**CORRECTIVE ACTION PLAN
2017-2018 Audit Report**

U.S. Department of Agriculture:

Schuylkill Valley School District respectfully submits the following corrective action plan for the year ended June 30, 2018.

Name and address of independent public accounting firm: Herbein + Company, Inc., 2763 Century Boulevard, Reading, PA 19610

Audit Period: Year Ended June 30, 2018

Finding – Federal Award Findings and Questioned Costs

2018-001 SUBSIDY REPORTING AND VERIFICATION DOCUMENTATION

Federal Program

Child Nutrition Cluster

National School Lunch Program CFDA 10.555; passed through the Pennsylvania Department of Education;

Grant Period 7/1/17-6/30/18

School Breakfast Program CFDA 10.553; passed through the Pennsylvania Department of Education;

Grant Period 7/1/17-6/30/18 -

Reporting and Special Tests and Provisions - Verification of Free and Reduced Price Applications

Criteria

Title 7 CFR 210 covers the reimbursement process under the Child Nutrition Cluster, which requires the submission of claims for reimbursement that include the number of reimbursable meals served by category and type during the period (generally a month) covered by the claim. As a subrecipient of funds passed through the Pennsylvania Department of Education (PDE), Schuylkill Valley School District must submit monthly claim forms to PDE, which include the number of reimbursable meals served by category (free, reduced, paid) and type (breakfast, lunch).

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November 15 of each school year. Based on the verification activities, the education agency must make appropriate modifications to the eligibility determinations made initially if applicable. Failure to cooperate with verification efforts will result in the termination of benefits.

Condition/Cause

From August 2017 through March 2018, claim reimbursement forms did not include meal counts for breakfast. Controls in place over reporting did not catch the error until April 2018. The District was able to revise reports for February and March, as well as one prior month under the one-time exception allowed by PDE. The District chose to revise October 2017 because it was the month with the largest number of breakfasts served.

The District was unable to locate income support used to perform the verification process. The District was able to provide checklists indicating the income support was obtained and used to complete the verification process, as well as proof that status changes were made for the verification process. Furthermore, the monitoring visit in the current year indicated no instances of noncompliance with the verification process. However, because the income support could not be located by the District, we were unable to test compliance with this requirement.

As a result of the claim reports not being filed accurately, the District was at risk of losing \$32,000 in subsidy revenue. The District was able to recuperate approximately \$15,000 of subsidy revenue through revised reports; however, because PDE only allows Districts to revise reports for the 2 previous months, with a one-time exception for an additional month, the District was not able to recover \$17,382 in subsidy revenue for the year.

Because income documentation could not be located, we were unable to test that the verification process was performed properly.

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Four applications were selected for verification during the 2017/2018 school year. Of the sample verified, 2 applications were noted as free verified status and 2 applications were noted as paid verified status.

No statistical sampling was used in our testing.

Repeat Finding

No.

Recommendation

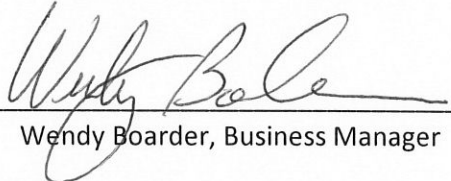
We recommend that all claim reports are reviewed by either the Assistant Business Manager or Business Manager prior to submission. The review should include comparison of the report to meal count reports generated by the point of sale system to verify accuracy. The review should also include a comparison to prior monthly reports for reasonableness. We recommend that the reviewer initial the report draft or otherwise maintain support of this review.

We recommend that the District maintain income support for the applications verified in the verification folder or electronically so that the income support can be provided as needed to demonstrate compliance with the verification process.

Management Response

Management agrees with this response. The District's internal control procedures did identify this finding in early May when federal subsidies were being compared to prior year subsidies. Moving forward, the business manager will review monthly claims, filed by the Food Service Director, to the monthly meal count reports within five days of submission and initial these reports. The documentation will be held by the assistant business manager in a folder for the upcoming audit. In addition, the assistant business manager will review the monthly totals and compare those to the prior year for reasonableness.

The income verification reports and all documentation will be maintained electronically by the Food Service Director and once completed, will be forwarded to the assistant business manager to keep on file for the auditors.



Wendy Boarder, Business Manager