Pequea Valley School District

Year Ended June 30, 2018

TROUT, EBERSOLE & GROFF LLP
CPAs | BUSINESS ADVISORS
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Pequea Valley School District

Financial Statements with Supplementary Information

Year Ended June 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board Officers and Members
Pequea Valley School District
Lancaster County, 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 **Pequea Valley School District** (the School District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School 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 misstatements, whether due to fraud or error.

Auditors' 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 auditors' 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 auditors consider 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 **Pequea 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 21 to the financial statements, in 2018 the School District adopted new accounting guidance, GASB Statement No.75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 14, the budgetary comparison information on pages 64 and 65, the other postemployment benefits (OPEB) health care benefits plan information on pages 66 through 70, and the pension information on pages 71 through 73 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2018, on our consideration of **Pequea Valley School District's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to soley 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 **Pequea Valley School 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 **Pequea Valley School District's** internal control over financial reporting and compliance.

Trout, Ebersole & Groff, LLP

November 15, 2018
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

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

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments*. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

Overall expenditures in the general fund for the 2017-2018 fiscal year were expected to increase by 3.44% from the previous year's expenditure budget with the anticipation of utilizing $727,535 of fund balance. At year end, actual expenditures and other financing sources and uses were 1.91% lower than budgeted, and revenues were greater than budgeted by 3.85%. The result of having expenditures lower than anticipated and revenues higher than anticipated resulted in an increase to fund balance in the amount of $1,355,933 for the 2017-2018 fiscal year. An explanation of these differences is below.

Instructional services expenses were lower than budgeted by $480,977 or 2.45%, whereas support services were higher than budgeted by $10,497 or 0.09%. The reason for instructional expenses being lower than budgeted was due primarily to a decrease in other purchased services which includes payments to other Local Education Agency (LEA's) and Charter Schools. This decreased by approximately $325,000. Additionally, there was a decrease in employee benefits by approximately $95,000. Both of these variances were not anticipated at the time of budget.

Total revenues were $1,384,124 higher than budgeted. Local revenue was $1,049,046 or 3.93% higher than budgeted. Real estate and other taxes attributed to $461,087 of this increase with interest on investments accounting for $225,003 of the increase and other revenue accounting for $362,956 of the increase. State revenue was $337,793 more than budgeted and federal revenue was $2,715 less than budgeted.

During the current year, the School District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions,* which requires the School District to report its full net OPEB liability for the single-employer OPEB plan and its proportionate share of the cost-sharing multiple-employer OPEB plan. Consequently, the School District's net position as of July 1, 2017, has been restated to record the cumulative effect of the change in this accounting principle.

Using this Annual Report

The annual report consists of a series of financial statements and notes to those statements. These statements are organized so that the reader can understand **Pequea Valley School District** as a financial whole.

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 School District's overall financial status.

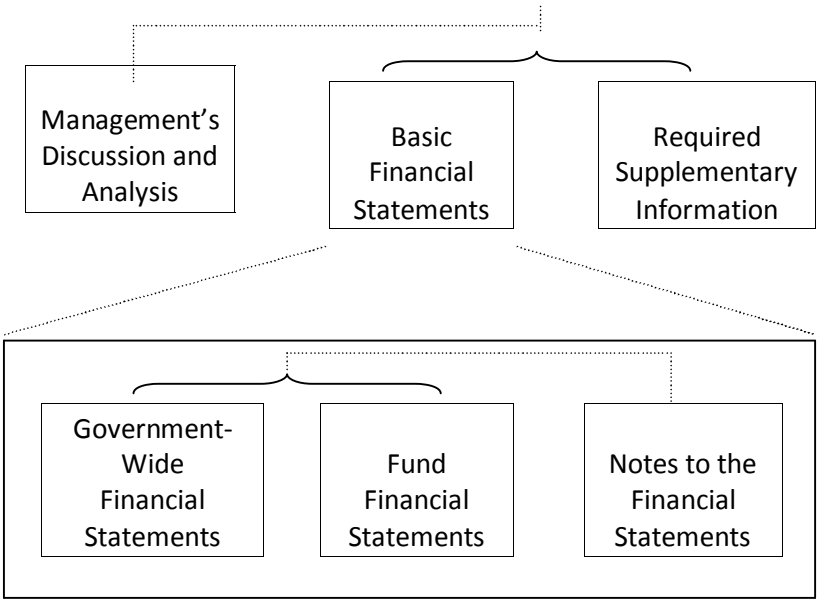
Using this Annual Report (Continued)

The remaining statements are fund financial statements that focus on individual parts of the School District's operations in more detail than the government-wide statements. The governmental funds statements tell how general School District services 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 School District operates like a business. For this School District, this is the food service fund. Fiduciary fund statements provide information about financial relationships where the School District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Figure A-1 shows how the required parts of the financial report are arranged and relate to one another.

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



Using this Annual Report (Continued)

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

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

		Fund Statements		
	Government-Wide Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire School District (except fiduciary funds)	The activities of the School District that are not proprietary or fiduciary, such as education, administration, and community services	Activities the School District operates similar to private business - food service and internal services funds	Instances in which the School District is the trustee or agent for someone else's resources - scholarship and activity funds
Required financial statements	Statement of Net Position and Statement of Activities	Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances	Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flow	Statement of Net Position and Statement of Changes in 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, 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, both financial and capital, and short-term and long-term	All assets and liabilities, both 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

Overview of Financial Statements

Government-Wide Statements
The government-wide statements report information about the School 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 and deferred outflows, and liabilities and deferred inflows. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the School District's net position and how it has changed. Net position, the difference between the School District's assets and deferred outflows, and liabilities and deferred inflows, is one way to measure the School District's financial health or position.

Over time, increases or decreases in the School District's net position is an indication of whether its financial health is improving or deteriorating, respectively.

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

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

- Governmental activities - All of the School District's basic services are included here, such as instruction, administration, and community services. Property taxes, state and federal subsidies, and grants finance most of these activities.
- Business-type activities - The School District operates a food service operation and charges fees to staff, students, and visitors to help cover the costs of the food service operation.

Fund Financial Statements
The School District's fund financial statements, which begin on page 19, provide detailed information about the most significant funds - not the School District as a whole. Some funds are required by state law and by bond requirements.

Governmental funds - Most of the School District's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. 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 School 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 School 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.

Overview of Financial Statements (Continued)

Fund Financial Statements (Continued)

Proprietary funds - These funds are used to account for the School District activities that are similar to business operations in the private sector; or where the reporting is determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the School District charges customers for services it provides, whether to outside customers or to other units in the School District, these services are generally reported in proprietary funds. The food service fund is the School District's proprietary fund and is the same as the business-type activities reported in the government-wide statements, but provides more detail and additional information, such as cash flow.

The School District's other proprietary fund is the internal service fund. This fund is used to facilitate the payments of actual claims incurred by the School District's self-funded medical and dental plans. The School District contracts with third-party administrators to process all claims and notify the School District on a weekly basis of the dollar amount of claims that are to be paid.

Fiduciary funds - The School District is the trustee, or fiduciary, for some scholarship funds and student activity funds. All of the School District's fiduciary activities are reported in separate statements of net position and changes in net position - fiduciary funds. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations.

Financial Analysis of the School District as a Whole

The School District's total net position was $1,890,506 as of June 30, 2018. The negative unrestricted net position is due to GASB 68, *Accounting and Financial Reporting for Pensions*, which requires recognition of an approximately $45.6 million net pension liability at June 30, 2018, and significant footnote disclosure found in Note 15.

Financial Analysis of the School District as a Whole (Continued)

Table A-1
Fiscal Years Ended June 30, 2018 and 2017
Net Position

	2018			2017*		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and Other Assets	18,789,686	165,707	18,955,393	16,747,960	102,829	16,850,789
Capital Assets and Other Noncurrent Assets	39,614,303	105,567	39,719,870	40,826,953	124,761	40,951,714
Total Assets	**58,403,989**	**271,274**	**58,675,263**	**57,574,913**	**227,590**	**57,802,503**
Deferred Outflows of Resources	**9,489,310**	**99,800**	**9,589,110**	**9,472,453**	**97,000**	**9,569,453**
Current and Other Liabilities	8,438,368	9,341	8,447,709	6,865,240	10,217	6,875,457
Long-Term Liabilities	56,668,158	510,000	57,178,158	58,942,363	493,000	59,435,363
Total Liabilities	**65,106,526**	**519,341**	**65,625,867**	**65,807,603**	**503,217**	**66,310,820**
Deferred Inflows of Resources	**740,000**	**8,000**	**748,000**	**1,031,000**	**11,000**	**1,042,000**
Net Position:						
Net Investment in Capital Assets	28,860,975	105,567	28,966,542	26,595,062	124,761	26,719,823
Unrestricted	(26,814,202)	(261,834)	(27,076,036)	(26,386,299)	(314,388)	(26,700,687)
Total Net Position	**2,046,773**	**(156,267)**	**1,890,506**	**208,763**	**(189,627)**	**19,136**

*2017 amounts have been adjusted to reflect the retroactive adoption of GASB 75 for comparative purposes only.

Most of the School District's net position is invested in capital assets (buildings, land, and equipment). The remaining unrestricted net position is a combination of designated and undesignated amounts. The deferred inflows and outflows of resources are discussed in Note 1 to the financial statements. The negative unrestricted net position is due to the requirement of the School District to report its proportionate share of the PSERS net pension liability as defined in GASB statement No. 68. Note 15 of these financial statements further explains the defined benefit pension plan.

The results of this year's operations as a whole are reported in the statement of activities on pages 17 and 18. 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 School District's activities that are supported by other general revenues.

Financial Analysis of the School District as a Whole (Continued)

The two largest general revenues are the local real estate taxes assessed to community taxpayers and basic education subsidy provided by the State of Pennsylvania.

Table A-2 takes the information from the statement of activities and rearranges it slightly so that you can see the total revenues for the year.

Table A-2
Fiscal Years Ended June 30, 2018 and 2017
Changes in Net Position

	2018			2017		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Revenues:						
Program Revenues:						
Charges for Services	246,492	210,794	457,286	110,039	202,964	313,003
Operating Grants and Contributions	6,699,508	558,369	7,257,877	6,328,040	541,294	6,869,334
Capital Grants and Contributions	342,152	-0-	342,152	498,386	-0-	498,386
General Revenues:						
Property Taxes	23,822,900	-0-	23,822,900	23,020,529	-0-	23,020,529
Other Taxes	2,697,752	-0-	2,697,752	2,740,156	-0-	2,740,156
Grants, Subsidies, and Contributions, Unrestricted	3,167,718	-0-	3,167,718	3,142,078	-0-	3,142,078
Other	(103,038)	11,777	(91,261)	(254,341)	2,676	(251,665)
Total Revenues	**36,873,484**	**780,940**	**37,654,424**	**35,584,887**	**746,934**	**36,331,821**
Expenses:						
Instructional Programs	21,567,353	-0-	21,567,353	20,894,950	-0-	20,894,950
Instructional Student Support	3,700,896	-0-	3,700,896	4,289,355	-0-	4,289,355
Administrative and Financial Support Services	3,521,679	-0-	3,521,679	3,400,785	-0-	3,400,785
Operation and Maintenance of Plant Services	2,784,248	-0-	2,784,248	3,443,389	-0-	3,443,389
Pupil Transportation	2,401,543	-0-	2,401,543	2,297,855	-0-	2,297,855
Student Activities	678,167	-0-	678,167	626,960	-0-	626,960
Community Services	33,774	-0-	33,774	35,435	-0-	35,435
Interest on Long-Term Debt	347,814	-0-	347,814	452,164	-0-	452,164
Food Services	-0-	747,580	747,580	-0-	755,504	755,504
Total Expenses	**35,035,474**	**747,580**	**35,783,054**	**35,440,893**	**755,504**	**36,196,397**
Increase (Decrease) in Net Position	**1,838,010**	**33,360**	**1,871,370**	**143,994**	**(8,570)**	**135,424**

Financial Analysis of the School District as a Whole (Continued)

Table A-3 shows the School District's eight largest functions - instructional programs, instructional student support, administrative and financial support services, operation and maintenance of plant services, pupil transportation, student activities, community services, and interest on long-term debt, as well as each program's net cost (total cost less revenues generated by the activities). This table also shows the net costs offset by the other unrestricted grants and subsidies to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

Table A-3
Fiscal Years Ended June 30, 2018 and 2017
Governmental Activities

	2018		2017	
	Total Cost of Services	**Net Cost of Services**	**Total Cost of Services**	**Net Cost of Services**
Instructional Programs	21,567,353	16,966,177	20,894,950	16,488,194
Instructional Student Support	3,700,896	3,361,186	4,289,355	3,936,031
Administrative and Financial Support Services	3,521,679	3,138,306	3,400,785	3,056,737
Operation and Maintenance of Plant Services	2,784,248	2,428,914	3,443,389	3,322,653
Pupil Transportation	2,401,543	1,242,967	2,297,855	1,197,990
Student Activities	678,167	592,158	626,960	539,338
Community Services	33,774	11,952	35,435	9,707
Interest on Long-Term Debt	347,814	5,662	452,164	(46,222)
Total Governmental Activities	**35,035,474**	**27,747,322**	**35,440,893**	**28,504,428**
Unrestricted Grants, Subsidies		**(3,167,718)**		**(3,142,078)**
Total Needs from Local Taxes and Other Revenues		**24,579,604**		**25,362,350**

Table A-4 reflects the activities of the food service program, the only business-type activity of the School District.

Table A-4
Fiscal Years Ended June 30, 2018 and 2017
Business-Type Activities

	2018		2017	
	Total Cost of Services	**Net Cost of Services**	**Total Cost of Services**	**Net Cost of Services**
Food Services	747,580	(21,583)	755,504	11,246

Financial Analysis of the School District as a Whole (Continued)
The decrease in the net cost of services is primarily related to a decrease in the cost of meals served due to a decrease in the number of meals served. The statement of revenues, expenses, and changes in net position for this proprietary fund will further detail the actual results of operations.

The School District Funds
As of June 30, 2018, the School District's governmental funds reported a combined fund balance of $13,522,232 which is an increase of $215,470 from the previous year. The primary reason for this increase is due to revenues exceeding expenditures by $400,917. When you take into account internal service fund transfers, proceeds from capital leases, and the sale of assets the net change in fund balance is an increase of only $215,470.

The capital project fund balance decreased by $1,140,463 primarily due to planned capital projects.

The School District's debt service fund facilitated the payment of debt service of $4,130,542 and carries no fund balance.

General Fund Budget
During the fiscal year, the Board of School Directors (Board) authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the School District. A schedule, showing the School District's original and final budget amounts compared with amounts actually paid and received, is provided on page 64.

Transfers between specific categories of expenditures/financing uses occur during the year. The most significant transfers occur from the budgetary reserve category to specific expenditure areas.

The budgetary reserve includes amounts that will be funded by the designated fund balance for planned opportunities of expenditures for improvements and enhancements to the School District operations. These amounts will only be appropriated into expenditure categories if the fiscal results of the prior year end with a positive addition to fund balance, which exceeds the total of these projected expenditures. The Board is using this method of budgeting to control tax increases while also protecting the integrity of the fund balance.

Debt Administration and Capital Assets

Debt Administration
As of July 1, 2017, the School District had a total outstanding bond principal of $14,265,000. During the year, the School District made payments against principal in the amount of $3,785,000. Current year debt service activity resulted in an ending outstanding debt as of June 30, 2018, of $10,480,000.

Debt Administration and Capital Assets (Continued)

Debt Administration (Continued)

Table A-6
Outstanding Debt

	2018	2017
Issue:		
Series A of 2013	8,665,000	9,555,000
Series B of 2013	-0-	1,670,000
Series of 2015	1,815,000	3,040,000
	10,480,000	**14,265,000**

More detailed information about our long-term liabilities is included in Notes 10, 11, and 12 to the financial statements. Accrued vacation pay and sick leave and accrued retirement bonuses for specific employees of the School District are detailed in Notes 13 and 14 of the financial statements, respectively.

Capital Assets
As of June 30, 2018, the School District had $39,614,303 invested in a broad range of capital assets, including land, buildings, furniture, and equipment for governmental activities. This amount represents a net decrease (including additions, deletions, and depreciation) of $1,212,650.

Table A-5
Governmental Activities
Capital Assets - net of Depreciation

	2018	2017
Land and Site Improvements	1,717,731	1,822,147
Building and Building Improvements	35,786,367	37,796,347
Furniture and Equipment	1,624,153	1,023,430
Vehicles	69,698	87,327
Construction in Process	416,354	97,702
	39,614,303	**40,826,953**

Economic Factors and Next Year's Budgets and Rates
The School District's general obligation bond rating is a Moody's and Standard & Poor's AA. The AA rating is based upon the additional security for bonds provided by the Commonwealth of Pennsylvania Act 150 School District Intercept Program. The Act provides for undistributed state aid to be diverted to bond holders in the event of default. Standard & Poor's cited that the AA rating reflects the School District's stable tax base, very strong financial position with conservative budgeting practices, and low debt burden on market value basis with limited capital needs.

Economic Factors and Next Year's Budgets and Rates (Continued)

The School District does not expect a significant growth in student population. Despite a good amount of available land, current zoning ordinances discourage residential development. Increases in assessed values have been relatively low in recent years, primarily as a result of properties which qualify for preferential assessment under the Clean and Green Act. The wage tax shows a steady annual increase that generally reflects increases at or slightly above the CPI, an indication that employment opportunities are available for residents of our School District.

In the 2018-2019 budget, the School District increased expenditures by 1.7% from the original budget in the previous year. The majority of the increase was in salaries and associated benefits. Debt service is funded at the maximum needed level of $4,203,053. After this year debt service begins to fall off. The School District plans to utilize the excess funds in debt service in future years to fund the capital projects fund.

Budgeted revenue for the 2018-2019 school year is 3.6% higher than the original budget in the previous fiscal year. The School District went through a county-wide reassessment and the rebalanced millage rate for 2017-18 was 14.5064. The original millage rate prior to reassessment was 18.4841. The millage rate for 2018-2019 is 14.6806, which is 1.2% higher than the previous year's reassessment rate. Local revenue continues to provide the majority of funding for School District expenses as noted on page 11.

The comparison of revenue and expenditure categories is as follows:

Table A-7
Budgeted Revenues

	2018-2019	2017-2018
Local Sources	73.8%	74.1%
State Sources	22.7%	22.6%
Federal/Other Sources	3.5%	3.3%

Budgeted Expenditures

	2018-2019	2017-2018
Instruction	54.1%	52.5%
Support Services	32.9%	33.0%
Non-Instruction/Community	1.7%	2.0%
Fund Transfers/Debt	11.3%	12.5%

Contacting the School District Business Administrator
Our financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the School District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact John A. Bowden, Chief of Finance and Operations, **Pequea Valley School District**, 166 S. New Holland Road, P.O. Box 130, Kinzers, PA 17535.

Pequea Valley School District

STATEMENT of NET POSITION

June 30, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	$ 2,774,213	$ 343,819	$ 3,118,032
Investments	13,093,065	95,403	13,188,468
Taxes Receivable, net	1,103,090	-0-	1,103,090
Internal Balances	373,768	(373,768)	-0-
Due from Other Governments	1,315,798	69,701	1,385,499
Other Receivables	119,797	-0-	119,797
Prepaid Expenses	9,955	-0-	9,955
Inventories	-0-	30,552	30,552
Total Current Assets	**18,789,686**	**165,707**	**18,955,393**
Capital Assets			
Non-Depreciable	1,025,025	-0-	1,025,025
Depreciable, Net	38,589,278	105,567	38,694,845
Total Capital Assets	**39,614,303**	**105,567**	**39,719,870**
TOTAL ASSETS	**58,403,989**	**271,274**	**58,675,263**
DEFERRED OUTFLOWS of RESOURCES			
Loss on Bond Refunding, net of Accumulated Amortization	155,310	-0-	155,310
Pension	9,077,000	96,800	9,173,800
Other Postemployment Benefits	257,000	3,000	260,000
TOTAL DEFERRED OUTFLOWS of RESOURCES	**$ 9,489,310**	**$ 99,800**	**$ 9,589,110**

See notes to financial statements.

Pequea Valley School District

STATEMENT of NET POSITION
(Continued)
June 30, 2018

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current Liabilities			
Accounts Payable	$ 359,273	$ 131	$ 359,404
Current Portion of Long-Term Debt	3,910,000	-0-	3,910,000
Current Portion of Capital Lease	125,278	-0-	125,278
Accrued Salaries and Benefits	2,481,981	395	2,482,376
Compensated Absences Due Within One Year	162,644	-0-	162,644
Accrued Interest on Long-Term Debt	78,180	-0-	78,180
Payroll Deductions and Withholdings	159,716	-0-	159,716
Unearned Revenues	83,951	8,815	92,766
Due to Other Governments	811,547	-0-	811,547
Other Current Liabilities	265,798	-0-	265,798
Total Current Liabilities	**8,438,368**	**9,341**	**8,447,709**
Noncurrent Liabilities			
Long-Term Portion of Bonds Payable, net of Unamortized Premium	6,671,766	-0-	6,671,766
Long-Term Portion of Capital Lease	201,594	-0-	201,594
Accrued Retirement Bonuses	718,823	-0-	718,823
Long-Term Portion of Compensated Absences	816,975	-0-	816,975
Net Pension Liability	45,156,000	479,000	45,635,000
Net Other Postemployment Benefits (OPEB) Liability	3,103,000	31,000	3,134,000
Total Noncurrent Liabilities	**56,668,158**	**510,000**	**57,178,158**
TOTAL LIABILITIES	**65,106,526**	**519,341**	**65,625,867**
DEFERRED INFLOWS of RESOURCES			
Pension	653,000	7,000	660,000
Other Postemployment Benefits	87,000	1,000	88,000
TOTAL DEFERRED INFLOWS of RESOURCES	**740,000**	**8,000**	**748,000**
NET POSITION			
Net Investment in Capital Assets	28,860,975	105,567	28,966,542
Unrestricted (Deficit)	(26,814,202)	(261,834)	(27,076,036)
TOTAL NET POSITION	**$ 2,046,773**	**$(156,267)**	**$ 1,890,506**

See notes to financial statements.

Pequea Valley School District

STATEMENT of ACTIVITIES

Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net Revenue (Expense) and Changes in Net Position: Governmental Activities	Net Revenue (Expense) and Changes in Net Position: Business-Type Activities	Net Revenue (Expense) and Changes in Net Position: Total
Governmental Activities:							
Instruction	$ 21,567,353	$ 161,573	$ 4,439,603	$ -0-	$ (16,966,177)	$ -0-	$ (16,966,177)
Instructional Student Support	3,700,896	-0-	339,710	-0-	(3,361,186)	-0-	(3,361,186)
Administrative and Financial Support Services	3,521,679	-0-	383,373	-0-	(3,138,306)	-0-	(3,138,306)
Operation and Maintenance of Plant Services	2,784,248	50,154	305,180	-0-	(2,428,914)	-0-	(2,428,914)
Pupil Transportation	2,401,543	-0-	1,158,576	-0-	(1,242,967)	-0-	(1,242,967)
Student Activities	678,167	32,016	53,993	-0-	(592,158)	-0-	(592,158)
Community Services	33,774	2,749	19,073	-0-	(11,952)	-0-	(11,952)
Interest on Long-Term Debt	347,814	-0-	-0-	342,152	(5,662)	-0-	(5,662)
Total Governmental Activities	**35,035,474**	**246,492**	**6,699,508**	**342,152**	**(27,747,322)**	**-0-**	**(27,747,322)**
Business-Type Activities:							
Food Services	**747,580**	**210,794**	**558,369**	**-0-**	**-0-**	**21,583**	**21,583**
Total Primary Government	**$ 35,783,054**	**$ 457,286**	**$ 7,257,877**	**$ 342,152**	**$ (27,747,322)**	**$ 21,583**	**$ (27,725,739)**

See notes to financial statements.

Pequea Valley School District

STATEMENT of ACTIVITIES
(Continued)
Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net Revenue (Expense) and Changes in Net Position: Governmental Activities	Net Revenue (Expense) and Changes in Net Position: Business-Type Activities	Net Revenue (Expense) and Changes in Net Position: Total
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes					$ 23,822,900	$ -0-	$ 23,822,900
Public Utility Realty, Earned Income, and Other Taxes Levied for General Purposes					2,697,752	-0-	2,697,752
Unrestricted Grants and Subsidies					3,167,718	-0-	3,167,718
Unrestricted Investment Earnings					286,460	11,777	298,237
Loss on Fixed Asset Dispositions					(389,498)	-0-	(389,498)
Total General Revenues					**29,585,332**	**11,777**	**29,597,109**
CHANGES in NET POSITION					**1,838,010**	**33,360**	**1,871,370**
NET POSITION							
Beginning, as Originally Stated					2,910,763	(160,627)	2,750,136
Cumulative Effect of Change in Accounting Principle (Note 21)					(2,702,000)	(29,000)	(2,731,000)
Beginning, Restated					208,763	(189,627)	19,136
Ending					**$ 2,046,773**	**$ (156,267)**	**$ 1,890,506**

See notes to financial statements.

Pequea Valley School District

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2018

	Major Funds			
	General Fund	Capital Project Fund	Debt Service Fund	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	$ 2,774,213	$ -0-	$ -0-	$ 2,774,213
Investments	10,974,756	1,074,510	-0-	12,049,266
Taxes Receivable, net	1,103,090	-0-	-0-	1,103,090
Due from Other Funds	538,430	-0-	-0-	538,430
Due from Other Governments	1,224,529	-0-	-0-	1,224,529
Other Receivables	120,782	-0-	-0-	120,782
Prepaid Expenses	9,955	-0-	-0-	9,955
TOTAL ASSETS	**16,745,755**	**1,074,510**	**-0-**	**17,820,265**
LIABILITIES, DEFERRED INFLOWS of RESOURCES, and FUND BALANCES				
LIABILITIES				
Accounts Payable	216,038	143,235	-0-	359,273
Due to Other Funds	985	-0-	-0-	985
Accrued Salaries and Benefits	2,481,981	-0-	-0-	2,481,981
Payroll Deductions and Withholdings	159,716	-0-	-0-	159,716
Payable to Other Governments	811,547	-0-	-0-	811,547
Other Current Liabilities	71,988	-0-	-0-	71,988
Unearned Revenue	83,951	-0-	-0-	83,951
TOTAL LIABILITIES	**3,826,206**	**143,235**	**-0-**	**3,969,441**
DEFERRED INFLOWS of RESOURCES				
Deferred Taxes	323,592	-0-	-0-	323,592
Other Deferred Revenue	5,000	-0-	-0-	5,000
TOTAL DEFERRED INFLOWS of RESOURCES	**328,592**	**-0-**	**-0-**	**328,592**
FUND BALANCES				
Nonspendable	9,955	-0-	-0-	9,955
Committed	8,200,000	-0-	-0-	8,200,000
Assigned	-0-	931,275	-0-	931,275
Unassigned	4,381,002	-0-	-0-	4,381,002
TOTAL FUND BALANCES	**12,590,957**	**931,275**	**-0-**	**13,522,232**
TOTAL LIABILITIES, DEFERRED INFLOWS of RESOURCES, and FUND BALANCES	**$ 16,745,755**	**$ 1,074,510**	**$ -0-**	**$ 17,820,265**

See notes to financial statements.

Pequea Valley School District

RECONCILIATION of the GOVERNMENTAL FUNDS BALANCE SHEET
to the STATEMENT of NET POSITION
June 30, 2018

Total Fund Balances - Governmental Funds	$ 13,522,232
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds. The cost of assets is $76,810,607 and the accumulated depreciation is $37,196,304.	39,614,303
Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.	776,596
Property taxes and certain other receivables are available for collection this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	323,592
Subsidies receivables are available for current year collection, but not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	5,000
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities and related accounts at year end consist of:	
Accrued Interest on Long-Term Debt	(78,180)
Capital Lease	(326,872)
Bonds Payable	(10,480,000)
Bond Premium, net of Amortization	(101,766)
Net Pension Liability	(45,156,000)
Accrued Retirement Bonuses	(718,823)
Compensated Absences	(979,619)
Net Other Postemployment Benefit (OPEB) Liability	(3,103,000)
Deferred outflows of resources - loss on bond refundings, pension and OPEB are not due and payable in the current period and, therefore, are not reported in the funds.	9,489,310
Deferred inflows of resources - pension and OPEB are not due and collectable in the current period and, therefore, are not reported in the funds.	(740,000)
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	**$ 2,046,773**

See notes to financial statements.

Pequea Valley School District

STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2018

	Major Funds			
	General Fund	Capital Project Fund	Debt Service Fund	Total Governmental Funds
REVENUES				
Local Sources:				
Real Estate Taxes	$ 23,842,767	$ -0-	$ -0-	$ 23,842,767
Other Taxes	2,697,752	-0-	-0-	2,697,752
Investment Earnings	265,003	18,078	-0-	283,081
Other Revenue	930,569	-0-	-0-	930,569
Total Local Sources	27,736,091	18,078	-0-	27,754,169
State Sources	8,487,247	-0-	-0-	8,487,247
Federal Sources	1,094,343	-0-	-0-	1,094,343
Total Revenues	**37,317,681**	**18,078**	**-0-**	**37,335,759**
EXPENDITURES				
Instructional Services	19,132,698	-0-	-0-	19,132,698
Support Services	11,763,576	488,705	-0-	12,252,281
Noninstructional Services	683,555	10,466	-0-	694,021
Capital Outlay	-0-	659,370	-0-	659,370
Debt Service	65,930	-0-	4,130,542	4,196,472
Total Expenditures	**31,645,759**	**1,158,541**	**4,130,542**	**36,934,842**
EXCESS (DEFICIENCY) of REVENUES OVER EXPENDITURES	**5,671,922**	**(1,140,463)**	**(4,130,542)**	**400,917**
OTHER FINANCING SOURCES (USES)				
Internal Service Fund Transfer	(500,000)	-0-	-0-	(500,000)
Proceeds from Capital Leases	271,484	-0-	-0-	271,484
Proceeds from Sale of Capital Assets	43,675	-0-	-0-	43,675
Debt Service Fund Transfer	(4,130,542)	-0-	4,130,542	-0-
Refund of Prior Year Receipts	(606)	-0-	-0-	(606)
Net Other Financing Sources (Uses)	**(4,315,989)**	**-0-**	**4,130,542**	**(185,447)**
NET CHANGES in FUND BALANCES	**1,355,933**	**(1,140,463)**	**-0-**	**215,470**
FUND BALANCES				
Beginning	11,235,024	2,071,738	-0-	13,306,762
Ending	**$ 12,590,957**	**$ 931,275**	**$ -0-**	**$ 13,522,232**

See notes to financial statements.

Pequea Valley School District

RECONCILIATION of the GOVERNMENTAL FUNDS STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES to the STATEMENT of ACTIVITIES

Year Ended June 30, 2018

Net Changes in Fund Balances - Total Governmental Funds		$ 215,470
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The amount by which depreciation exceeds capital outlays in the period is as follows:		
Depreciation Expense	(2,141,671)	
Capital Outlays	1,362,194	(779,477)
Proceeds from the sale of fixed assets are reported in the statement of activities net of the remaining basis of the assets disposed. This amount represents the remaining basis of all disposed assets.		(433,173)
Because some property taxes will not be collected for several months after the School District's fiscal year ends, they are not considered available revenues in the governmental funds. Deferred tax revenues decreased by this amount this year.		(19,867)
An intergovernmental receivable will not be collected for several months after the School District's fiscal year ends, and is not considered available revenue in the governmental funds. The receivable decreased by this amount this year.		(78,926)
The issuance of long-term obligations (e.g., bonds, leases, loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term obligations consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term obligations and related items.		(306,437)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		3,785,000
Repayment of the capital lease payment is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		$ 65,930

See notes to financial statements.

Pequea Valley School District

RECONCILIATION of the GOVERNMENTAL FUNDS STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES to the STATEMENT of ACTIVITIES
(Continued)
Year Ended June 30, 2018

In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is reported when due.	$ 32,681
In the statement of activities, certain operating expenses (e.g., compensated absences) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used.	17
In the statement of activities, certain operating expenses (e.g., accrued retirement bonuses) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used.	2,752
In the statement of activities, deferred inflows of resources - OPEB, deferred outflows of resources - OPEB, and OPEB expense are recognized in conjunction with net OPEB liability. Whereas in the governmental funds, OPEB expense is recorded when required contributions are payable. This amount represents the current OPEB obligation expense over amounts payable.	(29,337)
The internal service funds, which are used by management to charge the costs of services to individual funds, are not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net expense of the internal service funds is allocated among the governmental activities.	503,377
In the statement of activities, deferred inflows of resources - pension, deferred outflows of resources - pension, and pension expense are recognized in conjunction with net pension liability. Whereas in the governmental funds, pension expense is recorded when required contributions are payable. This amount represents the current pension obligation expense.	(1,120,000)
CHANGES in NET POSITION of GOVERNMENTAL ACTIVITIES	**$ 1,838,010**

See notes to financial statements.

Pequea Valley School District

STATEMENT of NET POSITION -
PROPRIETARY FUNDS
June 30, 2018

	Major Fund	
	Enterprise Fund Food Service Fund	Internal Service Fund
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 343,819	$ -0-
Investments	95,403	1,043,799
Due from Other Governments	69,701	91,269
Inventories	30,552	-0-
Total Current Assets	**539,475**	**1,135,068**
Noncurrent Assets		
Depreciable Capital Assets, net of Accumulated Depreciation	**105,567**	**-0-**
TOTAL ASSETS	**645,042**	**1,135,068**
DEFERRED OUTFLOWS of RESOURCES		
Pension	96,800	-0-
Other Postemployment Benefits	3,000	-0-
TOTAL DEFERRED OUTFLOWS of RESOURCES	**99,800**	**-0-**
LIABILITIES		
Current Liabilities		
Accounts Payable	131	-0-
Accrued Salaries and Benefits	395	
Due to Other Funds	373,768	164,662
Other Current Liabilities	-0-	193,810
Unearned Revenues	8,815	-0-
Total Current Liabilities	**383,109**	**358,472**
Noncurrent Liabilities		
Net Pension Liability	479,000	-0-
Net Other Postemployment Benefits (OPEB) Liability	31,000	-0-
Total Noncurrent Liabilities	**510,000**	**-0-**
TOTAL LIABILITIES	**893,109**	**358,472**
DEFERRED INFLOWS of RESOURCES		
Pension	7,000	-0-
Other Postemployment Benefits	1,000	-0-
TOTAL DEFERRED INFLOWS of RESOURCES	**8,000**	**-0-**
NET POSITION		
Net Investment in Capital Assets	105,567	-0-
Unrestricted (Deficit)	(261,834)	776,596
TOTAL NET POSITION	**$ (156,267)**	**$ 776,596**

See notes to financial statements.

Pequea Valley School District

STATEMENT of REVENUES, EXPENSES, and CHANGES in NET POSITION -
PROPRIETARY FUNDS
Year Ended June 30, 2018

	Major Fund	
	Enterprise Fund Food Service Fund	Internal Service Fund
OPERATING REVENUES		
Food Service Revenue	$ 210,794	$ -0-
Charges for Services	-0-	2,910,942
Total Operating Revenues	**210,794**	**2,910,942**
OPERATING EXPENSES		
Salaries	123,937	-0-
Employee Benefits	114,337	2,910,942
Purchased Professional and Technical Services	177,588	-0-
Other Purchased Services	14,474	-0-
Supplies	298,050	-0-
Depreciation	19,194	-0-
Total Operating Expenses	**747,580**	**2,910,942**
OPERATING LOSS	**(536,786)**	**-0-**
NONOPERATING REVENUES		
Investment Earnings	11,777	3,377
State Sources	49,522	-0-
Federal Sources	508,847	-0-
Net Nonoperating Revenues	**570,146**	**3,377**
INTERFUND TRANSFERS	**-0-**	**500,000**
CHANGES in NET POSITION	**33,360**	**503,377**
NET POSITION		
Beginning, as Originally Stated	(160,627)	273,219
Cumulative Effective of Change in Accounting Principle (Note 21)	(29,000)	-0-
Beginning, as Restated	(189,627)	273,219
Ending	**$ (156,267)**	**$ 776,596**

See notes to financial statements.

Pequea Valley School District

STATEMENT of CASH FLOWS -
PROPRIETARY FUNDS
Year Ended June 30, 2018

	Major Fund	
	Enterprise Fund Food Service Fund	Internal Service Fund
CASH FLOWS from OPERATING ACTIVITIES		
Cash Received from Users	$ 210,826	$ 172,103
Cash Received from Assessments Made to Other Funds	-0-	3,396,159
Cash Payments to Employees for Services	(561,964)	-0-
Cash Payments to Suppliers for Goods and Services	(445,214)	(3,083,046)
Net Cash Provided (Used) by Operating Activities	**(796,352)**	**485,216**
CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES		
Transfer in from General Fund	-0-	500,000
State Sources	49,380	-0-
Federal Sources	453,279	-0-
Net Cash Provided by Noncapital Financing Activities	**502,659**	**500,000**
CASH FLOWS from INVESTING ACTIVITIES		
Investment Earnings	11,777	3,377
Sale of Investments	1,000,000	(1,402,398)
Purchase of Investments	(480,764)	413,805
Net Cash Provided (Used) by Investing Activities	**531,013**	**(985,216)**
INCREASE in CASH and CASH EQUIVALENTS	**237,320**	**-0-**
CASH and CASH EQUIVALENTS		
Beginning of Year	106,499	-0-
End of Year	**$ 343,819**	**$ -0-**

See notes to financial statements.

Pequea Valley School District

STATEMENT of CASH FLOWS -
PROPRIETARY FUNDS
(Continued)
Year Ended June 30, 2018

	Major Fund	
	Enterprise Fund Food Service Fund	Internal Service Fund
RECONCILIATION of OPERATING LOSS to NET CASH PROVIDED (USED) by OPERATING ACTIVITIES		
Operating Loss	**$ (536,786)**	**$ -0-**
ADJUSTMENTS to RECONCILE OPERATING LOSS to NET CASH PROVIDED (USED) by OPERATING ACTIVITIES		
Depreciation	19,194	-0-
Use of USDA Commodities	49,737	-0-
Decrease in Interfund Receivable	-0-	649,879
Increase in Inventory	(4,945)	-0-
(Increase) Decrease in Other Current Assets	1,014	(57,209)
Increase (Decrease) in Accounts Payable	91	(107,454)
Increase in Accrued Salaries and Benefits	15	-0-
Decrease in Interfund Payable	(334,890)	-0-
Decrease in Unearned Revenue	(982)	-0-
Pension - Related Changes Other than Periodic Pension Costs	11,200	-0-
Total Adjustments	**(259,566)**	**485,216**
Net Cash Provided (Used) by Operating Activities	**$ (796,352)**	**$ 485,216**
SUPPLEMENTAL DISCLOSURE of CASH FLOW INFORMATION		
NONCASH NONCAPITAL and RELATED FINANCING ACTIVITIES		
Receipt of USDA Donated Commodities	49,737	-0-

See notes to financial statements.

Pequea Valley School District

STATEMENT of NET POSITION -
FIDUCIARY FUNDS
June 30, 2018

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and Cash Equivalents	$ -0-	$ 25,992
Investments	106,321	21,399
Due from Other Funds	-0-	985
TOTAL ASSETS	**106,321**	**48,376**
LIABILITIES		
Other Current Liabilities	-0-	47,106
Interest Payable	-0-	1,270
TOTAL LIABILITIES	**-0-**	**48,376**
NET POSITION		
Restricted for Scholarships	**$ 106,321**	**$ -0-**

See notes to financial statements.

Pequea Valley School District

STATEMENT of CHANGES in NET POSITION -
FIDUCIARY FUNDS
Year Ended June 30, 2018

	Private Purpose Trust Fund
ADDITIONS	
Investment Earnings	**$ 1,149**
DEDUCTIONS	**100**
CHANGES in NET POSITION	**1,049**
NET POSITION	
Beginning	105,272
Ending	**$ 106,321**

See notes to financial statements.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES

Pequea Valley School District, (the School District) located in Lancaster County, Pennsylvania, provides a full range of educational services appropriate to grade levels kindergarten through 12 to students living in Leacock, Paradise, and Salisbury Townships. These include regular, advanced academic, vocational education programs, and special education programs for gifted and handicapped children. The governing body of the School District is a board of nine school directors who are each elected for a four-year term. The daily operation and management of the School District is carried out by the administrative staff of the School District, headed by the Superintendent of Schools who is appointed by the Board of School Directors. The School District is comprised of two elementary schools, one middle school, and one high school, serving approximately 1,600 students.

The accounting policies of **Pequea Valley School District** conform with accounting principles generally accepted in the United States of America as applicable 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 policies are as follows:

Reporting Entity
Consistent with guidance contained in Statement No. 14 of the GASB, *The Financial Reporting Entity*, as amended, the criteria used by the School District to evaluate the possible inclusion of related entities (authorities, boards, councils, and so forth) within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given case, the School District reviews the applicability of the following criteria:

The School District is financially accountable for:

1. Organizations that make up its legal entity.

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

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

   Financial Benefit or Burden - If the School District (1) is entitled to the organization's resources or (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization or (3) is obligated in some manner for the debt of the organization.

3. Organizations which are fiscally dependent on the School District and have a financial benefit or burden as defined above. Fiscal dependency is established if the organization is unable to adopt its own budget, levy taxes or set rates or charges, or issue bonded debt without the approval of the School District.

Based on the foregoing criteria, no additional entities are included in the accompanying general purpose financial statements.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint Ventures

Lancaster County Career and Technology Center
The School District is one of 16 member school districts of the Lancaster County Career and Technology Centers (LCCTC). LCCTC provides vocational-technical training and education to participating students of the member school districts. LCCTC is controlled and governed by the area Career and Technology Center Board for Lancaster County, which is comprised of school board members of all the member school districts. No member school district exercises specific control over the fiscal policies or operations of LCCTC. The LCCTC is not reported as part of the School District's reporting entity. The School District's share of annual operating costs for LCCTC fluctuates, based upon the percentage of enrollment of each member school district. The amount paid for these services for the year ended June 30, 2018, was approximately $435,000. Complete general purpose financial statements for LCCTC can be obtained from the Administrative Office at 1730 Hans Herr Drive, P.O. Box 527, Willow Street, PA 17584.

Lancaster County Career and Technology Center Authority
The School District is also a member of the Lancaster County Career and Technology Center Authority (Authority). In 1968, the Authority entered into an agreement with the member school districts and the Career and Technology Center Board to acquire land and construct buildings to provide the facilities for the operation of LCCTC. The School District entered into an operating lease with LCCTC and the Authority as described in Note 11. Complete general purpose financial statements for the Authority can be obtained from the Administrative Office at 1730 Hans Herr Drive, P.O. Box 527, Willow Street, PA 17584.

Lancaster-Lebanon Joint Authority
The School District is a member of the Lancaster-Lebanon Joint Authority (Authority). The Authority was incorporated on February 14, 1980, under the Municipality Authorities Act of 1945, Act of May 2, 1945, P. L. 382, as amended, by the Boards of School Directors of the 22 school districts located in Lancaster and Lebanon counties. The school districts established the Authority for the purposes of acquiring, holding, constructing, improving, maintaining, operating, owning and/or leasing projects for public school purposes and for the purposes of the Lancaster-Lebanon Intermediate Unit No. 13. The Authority is not reported as part of the School District's reporting entity. The School District did not have any financial transactions with the Authority during the year ended June 30, 2018. Complete general purpose financial statements for the Authority can be obtained from the Administrative Office at 1020 New Holland Pike, Lancaster, PA 17601.

Lancaster-Lebanon Intermediate Unit (LLIU)
The LLIU Board of Directors consists of 22 members from the IU's constituent school districts. The LLIU Board members are school district board members who are elected by the public and are appointed to the LLIU Board by the member school districts' boards of directors. **Pequea Valley School District** is responsible for appointing one of these members. The LLIU Board has decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. **Pequea Valley School District** contracts with the LLIU for special education services for School District students. The amount paid for these services for the year ended June 30, 2018, was approximately $490,000. Complete financial information for LLIU can be obtained from the Administrative Office at 1020 New Holland Pike, Lancaster, PA 17601.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint Ventures (Continued)

Lancaster County Tax Collection Bureau (Bureau)
The School District participates with 16 other school districts and the municipalities represented by those school districts for the collection of earned income taxes. Each public school district appoints one member to serve on the joint operating committee and 16 members are appointed by the participating municipalities. The Bureau's operating expenditures are deducted from the distributions which are made monthly. The School District's portion of the operating expenditures for the year ended June 30, 2018, was $38,984. Complete financial information for the Bureau can be obtained from the Administrative Office at 1845 William Penn Way, Lancaster, PA 17601.

Lancaster-Lebanon Public Schools Employees' Healthcare Consortium (EHCC)
The School District participates with 14 other school districts in a self-insured stop-loss pool. The School District is self-insured for claims up to $100,000. The pool reimburses monies to the School District for individual claims above $100,000 up to $300,000. The pool has commercial insurance for claims greater than $300,000. The School District net contribution to the pool for the year ended June 30, 2018, was approximately $8,000 for administrative fees and $185,000 for excess loss insurance coverage.

Basis of Presentation - Fund Accounting
The accounts of the School District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts comprising each fund's assets, deferred outflow of resources, liabilities, deferred inflow of resources, fund equity, revenues, and expenditures/expenses. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent.

Basis of Presentation - Financial Statements

Government-wide Financial Statements
The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents direct expenses and program revenues for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Financial Statements (Continued)

Government-wide Financial Statements (Continued)
Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements
Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for nonmajor funds. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities, as well as deferred inflows and outflows of resources associated with the operation of these funds, are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds are reported using the economic resources measurement focus.

The School District reports the following major governmental funds:

General Fund - The general fund is the principal operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Project Fund - This fund is used to account for all financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. This fund includes the capital reserve fund and any bond construction funds held by the School District.

Debt Service Fund - This fund is used to account for the accumulation of resources for and the payment of general long-term debt principal and interest, and for the payment of future variable interest debt payments.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Financial Statements (Continued)

Fund Financial Statements (Continued)
The School District reports the following proprietary funds:

> **Food Service Fund** - This fund accounts for the revenues, food purchases, and other costs and expenses of providing meals to students during the school year. This fund is a major fund.
>
> **Internal Service Fund** - This fund is used to account for hospitalization costs which are services provided to the School District employees as benefits.

The School District accounts for assets held by the School District in a trustee capacity in a private purpose trust fund. This fund accounts for the receipts and disbursement of monies contributed to the School District for scholarships and memorials.

The agency fund is used to account for assets held by the School District as agent for others. Agency funds are custodial in nature and do not involve measurement of results of operations. This fund includes the student activities fund.

Basis of Accounting
Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

Government-wide, proprietary, and fiduciary fund financial statements measure and report all assets, liabilities, deferred inflows and outflows of resources, revenues, expenses, gains, and losses using the economic resources measurement focus and 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. Taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the School District is considered to be 60 days after fiscal year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except debt service, compensated absence payments, and other postemployment benefits, which are recognized when due.

Under the modified accrual basis of accounting, the following revenue sources are considered susceptible to accrual at year end: property taxes, tuition, grants and entitlements, student fees, and interest on investments. Current property taxes measurable at June 30, 2018, which are not intended to finance fiscal 2018 operations, have been recorded as deferred inflows of resources. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenues at year end.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)
The accrual basis of accounting is utilized for reporting purposes by the government-wide financial statements, proprietary funds, and the fiduciary funds. Revenues are recognized when they are earned and expenses are recognized when incurred.

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. The principal operating revenues of the School District's food service fund are charges to students and staff for food. Operating expenses include the costs to provide food. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When amounts are available in multiple fund balance classifications, it is the School District's policy to use funds in the following order: restricted, committed, assigned, and unassigned.

Cash and Cash Equivalents
Cash and cash equivalents include amounts in demand and interest-bearing bank deposits. They are carried at cost plus accrued interest, which approximates fair value.

Investments
The School District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: 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.

Investments with remaining maturities at the time of purchase of one year or less are stated at amortized cost which approximates fair value. The securities of 2a7-like investment pools are valued at amortized cost, which approximates fair value of the pool.

Taxes Receivable and Deferred Inflows of Tax Revenues
The portion of delinquent real estate taxes receivable that is expected to be received within 60 days of June 30 is recorded as revenue in the current year. The remaining amount of those and other taxes receivable is recorded as deferred inflows of resources. All taxes receivable are considered to be fully collectible (Note 4).

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories
Inventories in the food service fund represent the cost using the first-in/first-out (FIFO) method of food and supplies on hand at June 30, 2018, including the value of commodities donated by the federal government. Any unused commodities donated by the federal government are reported as unearned revenue until used. The School District combines School District and federal commodities inventories.

Capital Assets and Depreciation
The School District's property, plant, and equipment with useful lives of more than one year are stated at historical cost (or estimated historical cost) and comprehensively reported in the government-wide financial statements. Proprietary fund capital assets are also reported in their fund financial statements. Donated assets are stated at acquisition value on the date donated. The School District's capitalization threshold is individual assets with a cost of $4,000 or more. 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 of, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated historical costs of capital assets were derived, when information supporting historical costs was not obtainable, by adjusting current replacement cost back to the estimated year of acquisition. Estimated useful lives, in years, for depreciable assets are generally as follows:

Building and Building Improvements	20 - 40 Years
Site Improvements	20 Years
Furniture and Equipment	5 - 12 Years
Vehicles	5 - 10 Years

Long-Term Obligations
In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences and Retirement Bonuses
The School District accrues unused vacation and sick leave as a liability. Upon termination or retirement, the employee will be paid for these accumulated unused absences in accordance with School District policy. The School District also accrues retirement bonuses to be paid out at retirement in accordance with School District policy.

For governmental funds, that portion of unpaid compensated absences and retirement bonuses that are expected to be paid using expendable, available resources are reported as expenditures in the fund from which the individual earning the leave or bonus is paid, and a corresponding liability reflected.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences and Retirement Bonuses (Continued)
Additional amounts are accrued for salary-related payments associated with the payment of compensated absences and retirement bonuses using the rates in effect at the balance sheet date. The School District has accrued the employer's share of social security and Medicare taxes, when applicable.

Encumbrances
Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration and project control in the general fund. As of June 30, 2018, the School District had no encumbrances.

Pension Plan
Substantially all full-time and qualifying part-time employees of the School District participate in a cost-sharing multiple-employer defined benefit 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.

Other Postemployment Benefits (OPEB)
Single-Employer Defined Benefit OPEB Plan
The School District sponsors a single-employer defined benefit OPEB plan. For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, the plan recognizes benefit payments when due and payable in accordance with the benefit terms. The single-employer OPEB plan is unfunded.

Cost-Sharing Multiple-Employer Defined Benefit Plan
The School District participates in the PSERS Health Insurance Premium Assistance Program. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the 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.

Interfund Activity
Exchange transactions between governmental funds are eliminated on the government-wide statements. Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classification
Fund balance for the governmental funds can be classified in five different categories: nonspendable, restricted, committed, assigned, and unassigned.

Nonspendable fund balance includes amounts that are not in a spendable form or are required to be maintained intact.

Restricted fund balance includes amounts that can be spent only for specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. Restrictions may be changed only with the consent of the resource providers.

Committed fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the School Board. Commitments may be changed only by the School District taking the same formal action that imposed the constraint originally.

Assigned fund balance comprises amounts intended to be used by the government for specific purposes. Intent can be expressed by the School Board, Superintendent, or Chief of Finance and Operations.

In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are available for any purpose.

The School District considers restricted amounts to have been spent when expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.

The School District considers committed and assigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in committed, assigned, and unassigned fund balance classifications could be used. In the case of a deficit, committed and assigned funds would be used before unassigned funds. If there is no deficit, the School District typically uses unassigned funds before committed or assigned funds.

Estimates
The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates used in preparation of these financial statements include depreciation, compensated absences, retirement bonuses accrual, allowance for uncollectible taxes, claims incurred but not reported, pension related items, and other postemployment benefits.

Extraordinary and Special Items
Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2018.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Current Year Changes in Accounting Principles

During the current year, the School District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.* The objective of this statement is to improve accounting and financial reporting for postemployment benefits other than pensions (other postemployment benefits, or OPEB). This statement replaces the requirements of GASB Statement No. 45. The School District participates in two OPEB plans: a single-employer defined benefit OPEB plan, and a cost-sharing multiple-employer defined benefit pension plan (the Pennsylvania Public School Employees' Retirement System Health Insurance Premium Assistance Program, or PSERS HIPAP.) As a result of implementation of this statement in 2018, the School District reports its full net OPEB liability for the single-employer plan in the statement of net position, and reports its proportionate share of the net OPEB liability of the PSERS HIPAP. The School District has provided additional disclosures related to other postemployment benefits provided to its employees, and provides supplementary information required by GASB Statement No. 75. Since the statement was implemented retroactively, beginning net position was restated, as discussed in Note 21, to account for the cumulative effect.

During the current year, the School District adopted GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The School District's beginning balances and current year results were not affected by the implementation of this new standard.

During the current year, the School District adopted GASB Statement No. 85, *Omnibus 2017.* The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements. The statement addresses a variety of topics including blending component units, goodwill, fair value measurement and application, and postemployment benefits. The School District's beginning balances and current year results were not affected by the implementation of this new standard.

During the current year, the School District adopted GASB Statement No. 86, *Certain Debt Extinguishment Issues.* The primary objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt using only existing resources. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished. The School District's beginning balances and current year results were not affected by the implementation of this new standard.

Pending Changes in Accounting Principles

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations.* The objective of this statement is to provide financial statement users with information about asset retirement obligations (AROs) that were not addressed in GASB standards by establishing uniform accounting and financial reporting requirements for these obligations. An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The provisions of this statement are effective for the School District's June 30, 2019 financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities.* The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how these activities should be reported. The provisions of this statement are effective for the School District's June 30, 2020 financial statements.

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pending Changes in Accounting Principles (Continued)
In June 2017, GASB issued Statement No. 87, *Leases.* The primary objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases; enhancing the comparability of financial statements between governments; and also enhancing the relevance, reliability, and consistency of information about the leasing activities of governments. The provisions of this statement are effective for the School District's June 30, 2021 financial statements.

In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.* The primary objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The provisions of this statement are effective for the School District's June 30, 2019 financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period.* The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period incurred, and not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The provisions of this statement are effective for the School District's June 30, 2021 financial statements.

The effects of implementation of these standards have not yet been determined.

NOTE 2 - CASH and CASH EQUIVALENTS and INVESTMENTS

Under Section 440.1 of the Public School Code of 1949, as amended, the School District is permitted to invest its monies as follows:

> 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.
>
> Certain high-quality bank and corporate debt instruments.
>
> Deposits in savings accounts or 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 is pledged by the depository.

The deposit and investment policy of the School District adheres to state statutes. There were no deposit or investment transactions during the year that were significant violations of either the state statutes or the policy of the School District.

NOTE 2 - CASH and CASH EQUIVALENTS and INVESTMENTS (Continued)

Cash and Cash Equivalents - Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a policy for custodial credit risk although the public school code requires that all deposits of the School District which are not insured are collateralized by the depository institution. As of June 30, 2018, $2,937,773 of the School District's bank balance of $3,187,773 was exposed to custodial credit risk as:

Uninsured and Uncollateralized	-0-
Collateralized with Securities Held by the Pledging Financial Institution	-0-
Uninsured and Collateral Held by the Pledging Bank's Trust Department not in the School District's Name	2,937,773
	2,937,773

Reconciliation of Cash and Cash Equivalents to the Financial Statements

Uninsured Amount Above	2,937,773
Insured Amount	250,000
Bank Balance	3,187,773
Outstanding Checks	(45,199)
Carrying Amount - Bank Balances	3,142,574
Petty Cash	1,450
Total Cash and Cash Equivalents per Financial Statements	**3,144,024**

Investments

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that GASB Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: 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. At June 30, 2018, the School District did not hold any investments classified in the fair value hierarchy.

At June 30, 2018, the School District holds the following investments recorded at cost or amortized cost:

Pennsylvania School District Liquid Asset Fund (PSDLAF) Collateralized Flex CD Pool	10,750,000
PSDLAF Max Series	2,566,188
	13,316,188

The PSDLAF Collateralized Flex CD Pool positions maturities do not exceed one year. The PSDLAF Max Series balances are liquid.

The PSDLAF Collateralized Flex CD Pool is an external short-term fixed income investment pool. The School District carries fixed income investments at cost when the maturity of the underlying collateralized or FDIC insured certificate of deposit investments is one year or less.

NOTE 2 - CASH and CASH EQUIVALENTS and INVESTMENTS (Continued)

Investments (Continued)
The PSDLAF Max Series is a 2a7-like pool. The amortized cost, which approximates fair value of the pool, is determined by the pool's share price. The School District has no regulatory oversight for the pool, which is governed by the board of trustees and is administered by PMA Financial Network, Inc. The pool is audited annually by CliftonLarsonAllen, LLP, an independently elected public official.

Restrictions on Qualified Investment Pool Withdrawals
The School District has an investment in a qualified investment pool with PSDLAF. Except for direct deposits from the Commonwealth, investments in the PSDLAF Max series are subject to a 14-day minimum holding period, and to penalty for early withdrawal. This requirement has been waived by the trust since inception.

Interest Rate Risk
The School District has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

Investments	Standard & Poor's
PSDLAF Max Series	AAAm
PSDLAF Collateralized Flex CD Pool	Unrated

Concentration of Credit Risk
The School District places no limit on the amount they may invest in any one issuer. At June 30, 2018, the School District does not have any concentration of credit risk in its investments.

Custodial Credit Risk
For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School 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 School District has no investments which are subject to custodial credit risk at June 30, 2018.

NOTE 3 - REAL ESTATE TAXES

Based upon assessments provided by the County, the School District bills and collects its own property taxes. The School District tax rate for the year ended June 30, 2018, was 18.48 mills as levied by the Board of School Directors. The schedule for real estate taxes levied for the fiscal year ended June 30, 2018, follows:

July 1	- Levy Date
July 1 - August 31	- 2% Discount Period
September 1 - October 31	- Face Payment Period
November 1 - December 31	- 10% Penalty Period
January 1	- Lien Date (Lancaster County Tax Claim Bureau)

NOTE 4 - TAXES RECEIVABLE and DEFERRED TAXES

The School District, in accordance with accounting principles generally accepted in the United States of America, recognized the delinquent and unpaid taxes receivable. All taxes are determined to be collectible. A portion of the receivable amount which was measurable and available within 60 days was recognized as revenue and the balance deferred in the fund financial statements.

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

	Taxes Receivable	Estimated Uncollectable	Net Taxes Receivable	Revenue Recognized	Deferred Taxes
Real Estate Taxes	644,912	-0-	644,912	321,320	323,592
Realty Transfer Taxes	25,298	-0-	25,298	25,298	-0-
Earned Income Taxes	432,880	-0-	432,880	432,880	-0-
	1,103,090	**-0-**	**1,103,090**	**779,498**	**323,592**

NOTE 5 - DUE from OTHER GOVERNMENTS

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2018, the following amounts are due from other governmental units:

Due From	General Fund	Enterprise Fund	Internal Service Fund	Total
Federal Grants	17,807	66,146	-0-	83,953
State Match for Lunch Program	-0-	3,555	-0-	3,555
State Retirement Subsidy	722,541	-0-	-0-	722,541
State Social Security Subsidy	169,078	-0-	-0-	169,078
Other State Subsidies	256,181	-0-	-0-	256,181
Intermediate Unit	26,326	-0-	-0-	26,326
Local	32,596	-0-	91,269	123,865
	1,224,529	**69,701**	**91,269**	**1,385,499**

NOTE 6 - INTERFUND ACCOUNTS

Individual fund receivable and payable balances at June 30, 2018, are as follows:

Fund	Due from Other Funds	Due to Other Funds
General Fund	538,430	985
Enterprise Fund - Food Service	-0-	373,768
Internal Service Fund	-0-	164,662
Student Activity Fund	985	-0-
	539,415	**539,415**

NOTE 6 - INTERFUND ACCOUNTS (Continued)

The general fund has interfund receivables that represent other fund expenses that were paid for by the general fund. The general fund has an interfund payable that represents net amounts owed to the student activities for outstanding current liabilities. The enterprise fund - food service has an interfund payable owed to the general fund for benefit payments. The internal service fund has an interfund payable that represents net amounts due to the general fund for outstanding current payables. The student activity fund has an interfund receivable from the general fund for outstanding liabilities paid by the student activity fund.

Interfund transfers for the year ended June 30, 2018, are as follows:

Fund	Transfers In	Transfers Out
General Fund	-0-	4,630,542
Internal Service Fund	500,000	-0-
Debt Service Fund	4,130,542	-0-
	4,630,542	**4,630,542**

Transfers are made from the general fund to the debt service fund to provide resources for the payment of principal and interest on general obligation bonds. Transfers are made from the general fund to the internal service fund for future health care expenditures.

NOTE 7 - CHANGES in CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended June 30, 2018, is as follows:

	Balance July 01, 2017	Additions	Deletions	Balance June 30, 2018
Historical Cost:				
Capital Assets not Being Depreciated:				
Land	616,644	-0-	(7,973)	608,671
Construction in Progress	97,702	416,354	(97,702)	416,354
Total Cost	**714,346**	**416,354**	**(105,675)**	**1,025,025**
Capital Assets Being Depreciated:				
Site Improvements	2,313,242	-0-	-0-	2,313,242
Building and Building Improvements	67,643,141	5,973	(1,603,214)	66,045,900
Furniture and Equipment	7,005,667	1,037,569	(884,710)	7,158,526
Vehicles	267,914	-0-	-0-	267,914
Total Cost	**77,229,964**	**1,043,542**	**(2,487,924)**	**75,785,582**

NOTE 7 - CHANGES in CAPITAL ASSETS (Continued)

	Balance July 01, 2017	Additions	Deletions	Balance June 30, 2018
Accumulated Depreciation:				
Site Improvements	1,107,739	96,443	-0-	1,204,182
Building and Building Improvements	29,846,794	1,748,755	(1,336,016)	30,259,533
Furniture and Equipment	5,982,237	278,844	(726,708)	5,534,373
Vehicles	180,587	17,629	-0-	198,216
Total Accumulated Depreciation	**37,117,357**	**2,141,671**	**(2,062,724)**	**37,196,304**
Net Capital Assets Being Depreciated	**40,112,607**	**(1,098,129)**	**(425,200)**	**38,589,278**
Net Capital Assets	**40,826,953**	**(681,775)**	**(530,875)**	**39,614,303**

Capital asset activity for business-type activities for the year ended June 30, 2018, is as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Historical Cost:				
Capital Assets Being Depreciated:				
Equipment	800,197	-0-	(5,565)	794,632
Accumulated Depreciation:				
Equipment	675,436	19,194	(5,565)	689,065
Net Capital Assets	**124,761**	**(19,194)**	**-0-**	**105,567**

Depreciation expenses were charged to governmental functions as follows:

Instructional Programs	1,639,192
Instructional Student Support	172,553
Administration and Financial Support Services	76,408
Operation and Maintenance of Plant Services	252,995
Non-Instructional Services	523
	2,141,671

No interest was capitalized at June 30, 2018. Interest expense of $347,814 was incurred and reported as interest on long-term debt on the statement of activities as of June 30, 2018.

NOTE 8 - ACCRUED SALARIES and BENEFITS

At June 30, 2018, the School District was liable for $966,633 of payroll, payable during July and August 2018, to those employees who have a ten-month contract but are paid over a twelve-month period, to non-salaried employees who performed services through June 30, 2018, and to retiring professional employees who are receiving a payout of their accumulated compensated absences and bonuses. The accrual further includes amounts payable to PSERS in the amount of $1,131,364 as well as other accrued benefit liabilities.

NOTE 9 - UNEARNED REVENUE

Unearned revenue in the general fund consists of miscellaneous funding received, but not yet expended, of $83,951 as of June 30, 2018.

Unearned revenue in the food service fund consists of prepaid lunch sales of $8,815 as of June 30, 2018.

NOTE 10 - LONG-TERM DEBT

General Obligation Debt
The School District issues general obligation debt to provide funds for major capital improvements. These bonds and notes are direct obligations and pledge the full faith and credit of the School District.

On June 20, 2013, the School District issued General Obligation Bonds Series A of 2013 and Series B of 2013 in the amounts of $9,730,000 and $6,605,000, respectively. Proceeds of the Series A of 2013 Bonds were used to provide funds to (1) advance refund a portion of the outstanding General Obligation Bonds, Series of 2006, (2) advance refund the outstanding General Obligation Bonds, Series B of 2010, and (3) pay the cost of issuing the bonds. The principal amount outstanding for Series A of 2013 as of June 30, 2018, was $8,665,000 due in various amounts through February 2021.

Proceeds of the Series B of 2013 Bonds were used to provide funds to advance refund a portion of the outstanding General Obligation Bonds, Series of 2006 and to pay the costs of issuing the bonds. The final principal payment was made during February 2018. There is no principal outstanding on the Series B of 2013 Bonds at June 30, 2018.

On March 17, 2015, the School District issued General Obligation Bonds Series of 2015 in the amount of $6,400,000. The proceeds were used to (1) currently refund outstanding General Obligation Bonds, Series A of 2010 and (2) pay the costs and expenses of issuing the bonds. The principal amount outstanding for Series of 2015 as of June 30, 2018, was $1,815,000 due in various amounts through May 2021.

Currently, the School District has general obligation debt with interest rates and outstanding principal amounts at June 30, 2018, as follows:

Issue	Final Maturity Date	Interest Rates	Principal Amount Outstanding at June 30, 2018	Due Within One Year
Series A of 2013	2/01/2021	.45% - 2.00%	8,665,000	2,815,000
Series of 2015	5/15/2021	1.00% - 2.00%	1,815,000	1,095,000

NOTE 10 - LONG-TERM DEBT (Continued)

General Obligation Debt (Continued)
Long-term obligation activity can be summarized as follows:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018
General Obligation Debt	14,265,000	-0-	3,785,000	10,480,000
Bond Premium	199,956	-0-	98,190	101,766
Loss on Bond Refunding	(288,453)	-0-	(133,143)	(155,310)
Capital Lease Obligations	55,388	271,484	-0-	326,872
Accrued Retirement Bonuses	721,575	7,248	10,000	718,823
Estimated Liability for Compensated Absences	979,636	20,289	20,306	979,619
	15,933,102	**299,021**	**3,780,353**	**12,541,770**

Aggregate annual debt service requirements to maturity for the above governmental debt obligations are as follows:

	Interest	Principal	Total
2019	231,500	3,910,000	4,141,500
2020	131,400	3,605,000	3,736,400
2021	59,300	2,965,000	3,024,300
	422,200	**10,480,000**	**10,902,200**

The School District pays the long-term obligations of the governmental activities from the general fund, except for debt service. Debt service payments are paid from the debt service fund which is, however, funded by transfers from the general fund.

NOTE 11 - OPERATING LEASES

The School District leases equipment under an operating lease ending December 2020. Total lease rental expense for the operating leases reflected in the accompanying financial statements is $29,585 during the year ended June 30, 2018. Minimum future rental payments under the operating lease in excess of one year as of June 30, 2018, is as follows:

2019	29,585
2020	29,585
2021	14,793
	73,963

On January 11, 2017, the Lancaster County Career and Technology Center Authority (the Authority) authorized the issuance of Guaranteed Lease Revenue Bonds, Series 2016 to undertake the refunding of all or a portion of the 2012 Bonds, the 2013 Bonds, and the 2014 Bonds in accordance with the provisions of the Authorities Act. The LCCTC and the 16 member schools have entered into a lease agreement with the Authority stipulating that each school district will pay its proportionate share of the lease rentals in order to fund the debt based on real estate market values as set forth in the LCCTC organization agreement. The bonds will be issued in one or more series over a several year period.

NOTE 11 - OPERATING LEASES (Continued)

On February 1, 2017, the Authority issued the first of three series, the Lancaster County Career and Technology Center General Obligation Bonds, Series of 2017, for the advance refunding of the Lancaster County Career and Technology Center General Obligation Bonds, Series of 2013, in the total amount of $9,380,000.

The School District's lease rental obligations include interest and will fluctuate from time to time during the term of the lease, based on the market values in the School District and the actual interest rates. The School District's estimated lease rental obligations for future minimum rental payments related to the issued debt are as follows:

Fiscal Year Ended June 30,	Estimated Future Minimum Rental Payments
2019	58,453
2020	55,446
2021	58,397
2022	58,320
2023	58,402
2024 - 2028	292,161
2029 - 2033	291,965
2034 - 2037	233,480
	1,106,624

NOTE 12 - CAPITAL LEASE OBLIGATION

The School District leases computer equipment under a capital lease arrangement, which requires four annual payments of $65,930 during the years ended June 30, 2016 through 2019. The nominal annual interest rate of the lease is 2.79%. Lease amortization is included in depreciation expense. The lease is secured by the leased computer equipment.

During May 2018, the School District entered into a capital lease agreement to lease computer equipment, which requires four annual payments of $69,890 beginning July 1, 2018. The nominal interest rate of the lease is 1.88%. The lease is secured by the leased computer equipment.

The book value of the leased hardware and software is $535,207 with accumulated depreciation of $189,037 for the year ended June 30, 2018.

The following is a schedule of future minimum lease payments under the capital leases, together with the net present value of the minimum lease payments as of June 30, 2018:

2019	135,820
2020	69,890
2021	69,890
2022	69,890
Amount Representing Interest	(18,618)
Present Value of Minimum Lease Payments	**326,872**

NOTE 12 - CAPITAL LEASE OBLIGATION (Continued)

Current Maturities	125,278
Long-Term Portion	201,594

NOTE 13 - COMPENSATED ABSENCES

A summary of the amount recorded as a liability in the governmental activities for compensated absences is as follows as of June 30, 2018:

Accumulated Sick Days	816,974
Accumulated Vacation Days	119,259
Accumulated Personal Days	31,828
Employer Social Security and Medicare, when Applicable	11,558
	979,619

NOTE 14 - ACCRUED RETIREMENT BONUSES

Upon voluntary retirement, an administrative, supervisory, or non-supervisory employee with 25 years or more of credited service with PSERS and at least 10 consecutive years employment with the School District will receive a retirement stipend of $600 per year of service, with a maximum of 35 years, if notice is given of their intent to retire by March 1 of the school year in which the retirement is effective. An employee covered under the Collective Bargaining Agreement will receive a retirement stipend of $400 per year of service under the same requirements as noted previously. Upon retirement, amounts due to the retiree are deposited into an individual 403(b) plan. The amount recorded as a liability in the governmental activities for this supplemental retirement benefit was $718,823 at June 30, 2018.

NOTE 15 - DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

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

NOTE 15 - DEFINED BENEFIT PENSION PLAN (Continued)

Benefits Provided
PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service: or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who 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 3 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 ten years of service.

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

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

Contributions
The contribution policy is set by the Code and requires contributions by active members, participating employers, and the Commonwealth of Pennsylvania. Plan members may belong to one of four membership classes. Class T-C, Class T-D, Class T-E, and Class T-F are available to plan members.

Member Contributions
Active members who joined the plan before July 22, 1983, are required to contribute 5.25% of their compensation if they are in Class T-C or 6.50% for Class T-D. Members who joined on or after July 22, 1983, and were active or inactive as of July 1, 2001, are required to contribute 6.25% for Class T-C or 7.50% for Class T-D. Members who joined the plan after June 30, 2001 and before July 1, 2011, are automatically in Class T-D and are required to contribute 7.50%.

Members who joined the plan 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 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%.

NOTE 15 - DEFINED BENEFIT PENSION PLAN (Continued)

Employer Contributions
The School District's contractually required contribution rate for 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 School District were $3,974,000 for the year ended June 30, 2018.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
At June 30, 2018, the School District reported a liability of $45,635,000 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 PSERS' total pension liability as of June 30, 2016, to June 30, 2017. The School 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, 2017, the School District's proportion was .0924%, which was an increase of .0038% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the School District recognized pension expense of $5,105,200. At June 30, 2018, the School 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
Difference between Expected and Actual Experience	476,000	276,000
Changes in Assumptions	1,240,000	-0-
Net Difference between Projected and Actual Investment Earnings	1,057,000	-0-
Change in Proportions	2,270,000	344,000
Difference between Employer Contributions and Proportionate Share of Total Contributions	156,800	40,000
Contributions Subsequent to the Measurement Date	3,974,000	-0-
	9,173,800	**660,000**

$3,974,000 reported as deferred outflows of resources related to pensions resulting from the School District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

NOTE 15 - DEFINED BENEFIT PENSION PLAN (Continued)

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

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as an increase in pension expense as follows:

Year Ended June 30:	
2019	989,200
2020	1,856,200
2021	1,470,200
2022	224,200
	4,539,800

Actuarial Assumptions

The total pension liability as of June 30, 2017, was determined by rolling forward PSERS' total pension liability as of the June 30, 2016 actuarial valuation to June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement. There were no changes in assumptions used in measurement of the total pension liability beginning June 30, 2017.

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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%
MLPs/Infrastructure	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%	

NOTE 15 - DEFINED BENEFIT PENSION PLAN (Continued)

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

Sensitivity of the School 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 1% lower (6.25%) or 1% higher (8.25%) than the current rate.

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
School District's Proportionate Share of the Net Pension Liability	56,173,000	45,635,000	36,738,000

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 PSERS' website at www.psers.state.pa.us.

Payable to the Pension Plan
At June 30, 2018, the School District reported a payable of $1,131,364 for the outstanding amount of employer contributions to PSERS required for the year ended June 30, 2018. These amounts relate to the second quarter of 2018 and are payable to PSERS within five business days of the School District receiving its related retirement subsidy from the Commonwealth of Pennsylvania.

Pension Reform
Pursuant to Commonwealth Act 2017-5, members hired on or after July 1, 2019, will be required to choose one of three new retirement plan design options for retirement benefits. The current defined benefit plan will no longer be available to new members hired on or after July 1, 2019. The new plan design options include two hybrid plans consisting of defined benefit and defined contribution components. The third option is a stand-alone defined contribution plan.

PSERS school employers will be charged interest at the assumed rate of return, currently 7.25%, for delinquent payments to PSERS rather than 6.00%.

NOTE 15 - DEFINED BENEFIT PENSION PLAN (Continued)

Pension Reform (Continued)
The pension reform act is anticipated to result in increases to employer contribution rates for the next 15 years through 2034 due to higher initial costs of the new retirement plans. From 2035 to 2050, employer rates are projected to begin to decline due to the lower long-term employer cots of the new retirement plans.

NOTE 16 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

SINGLE-EMPLOYER DEFINED BENEFIT OPEB PLAN

General Information about the OPEB Plan

Plan Description
The School District maintains a single-employer defined benefit OPEB plan to provide postemployment health care benefits. The Board of School Directors is authorized to establish and amend the financing requirements and benefits, subject to collective bargaining for certain classes of employees. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. The plan does not issue stand-alone financial statements.

Benefits Provided
The plan provides medical and prescription drug coverage to employees who retire from active service and qualify for pension benefits, and their spouse and eligible dependents. Retirees are eligible for benefits until age 65 upon paying 100% of the premium; spouse and dependents are eligible for benefits until age 65, and may continue coverage for no more than three years after the retiree's death upon paying the COBRA-equivalent premium.

Employees Covered by Benefit Terms
At July 1, 2017, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	35
Inactive Employees Entitled to but not yet Receiving Benefits	-0-
Active Employees	159
	194

Total OPEB Liability
The School District's total OPEB liability of $1,251,000 was measured as of July 1, 2017, and was determined by an actuarial valuation as of July 1, 2016.

Actuarial Assumptions and Other Inputs
The total OPEB liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate: 3.13%, Based on 20-Year High Grade Municipal Rate Index
Long Term Expected Rate of Return: N/A, the Plan is Unfunded
Actuarial Cost Method: Entry Age Normal, Level Percent of Pay

NOTE 16 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

SINGLE-EMPLOYER DEFINED BENEFIT OPEB PLAN (Continued)

Actuarial Assumptions and Other Inputs (Continued)

Healthcare Cost Trend: 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.

Retirees' Share of Benefit-Related Costs: 100.0% of Premium

Mortality Rates:

Preretirement - RP-2014 Employee (Male and Female)

Postretirement - RP-2014 Health Annuitant (Male and Female)

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period ended July 1, 2016.

Changes in the Total OPEB Liability

Balance, June 30, 2016	**1,347,000**
Changes for the Year	
Service Cost	90,000
Interest	33,000
Changes of Benefit Terms	-0-
Differences Between Expected and Actual Experience	-0-
Changes of Assumptions	2,000
Benefit Payments	(221,000)
Net Changes	**(96,000)**
Balance, June 30, 2018	**1,251,000**

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

The following presents the total OPEB liability of the School District for the single-employer plan, as well as what the School District's total OPEB liability for the single-employer plan would be if it were calculated using a discount rate that is 1.0% lower or 1.0% higher than the current discount rate:

Total OPEB Liability	
2.13% Discount Rate (1.0% Decrease)	1,353,000
3.13% Discount Rate (Current Rate)	1,251,000
4.14% Discount Rate (1.0% Increase)	1,156,000

NOTE 16 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

SINGLE-EMPLOYER DEFINED BENEFIT OPEB PLAN (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates
The following presents the total OPEB liability of the School District's single-employer plan, as well as what the School District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1.0% lower or 1.0% higher than the current healthcare cost trend rates:

	Total OPEB Liability
4.5% (1% Decrease)	1,086,000
5.5% (Current Rate)	1,251,000
6.5% (1% Increase)	1,453,000

COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT OPEB PLAN

General Information about the Health Insurance Premium Assistance Program

Health Insurance Premium Assistance Program
The Pennsylvania Public School Employees' Retirement System (System) provides Premium Assistance which is a governmental cost-sharing, multiple-employer other postemployment benefit plan (OPEB) for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002 under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of $100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program (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 Premium Assistance program 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.

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 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 School District were $104,000 for the year ended June 30, 2018.

NOTE 16 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT OPEB PLAN (Continued)

OPEB Liabilities and OPEB Expense

At June 30, 2018, the School District reported a liability of $1,883,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System's total OPEB liability as of June 30, 2016, to June 30, 2017. The School District's proportion of the net OPEB 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, 2017, the School District's proportion was 0.0924%, which was an increase of 0.0038% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the School District recognized OPEB expense of $95,000 related to this plan.

Actuarial Assumptions

The total OPEB liability as of June 30, 2017, was determined by rolling forward the System's total OPEB liability 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 Percent of Pay
Investment Return: 3.13%, Based on the S&P 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: Applied to retirees with less than $1,200 in Premium Assistance per year
Mortality Rates: 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%

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)

NOTE 16 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT OPEB PLAN (Continued)

Actuarial Assumptions (Continued)
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 System's 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.

OPEB - Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	76.40%	0.60%
Fixed Income	23.60%	1.50%
	100.00%	

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

Discount Rate
The discount rate used to measure the total OPEB liability 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 School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate
The following presents the School District's proportionate share of the net OPEB liability, as well as what the School District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1.0% lower or 1.0% higher than the current discount rate:

	Net OPEB Liability
2.13% Discount Rate (1.0% Decrease)	2,140,000
3.13% Discount Rate (Current Rate)	1,883,000
4.13% Discount Rate (1.0% Increase)	1,669,000

NOTE 16 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT OPEB PLAN (Continued)

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

The following presents the School District's proportionate share of the net OPEB liability, as well as what the School District's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1.0% lower or 1.0% higher than the current healthcare cost trend rates:

	Net OPEB Liability
1% Decrease	1,882,000
Current Rate	1,883,000
1% Increase	1,883,000

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued PSERS comprehensive annual financial report, available at http://www.psers.pa.gov.

AGGREGATE OPEB INFORMATION

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

For the year ended June 30, 2018, the School District recognized OPEB expense of $218,000. At June 30, 2018, the School 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**
Contributions and Benefit Payments After the Measurement Date	188,000	-0-
Changes of Assumptions	2,000	88,000
Changes in Proportion	70,000	-0-
	260,000	**88,000**

NOTE 16 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT OPEB PLAN (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

$188,000 reported as deferred outflows of resources related to OPEB resulting from the School District's benefit payments after the measurement date of the single-employer plan and contributions after the measurement date of the cost-sharing multiple-employer plan will be recognized as a reduction in the total or net OPEB liability, respectively, in the year ended June 30, 2019. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as an increase (decrease) in OPEB expense as follows:

Fiscal Year Ended June 30:	
2019	(2,900)
2020	(2,900)
2021	(2,900)
2022	(2,900)
2023	(2,900)
Thereafter	(1,500)
	(16,000)

NOTE 17 - RISK MANAGEMENT

Hospitalization

The School District participates in the insurance consortium with the Lancaster-Lebanon Intermediate Unit (the LLIU) to provide for the medical care for eligible employees and their dependents. The School District remits funds to the LLIU. The LLIU deposits the funds into the School District trust account to be held for the benefits described above, and Aetna, the plan administrator, upon receiving funds from the trust account, processes and pays the claims. The School District is limited in liability for claims to $100,000 per individual and $3,916,169 in total per year.

A liability for claims incurred prior to June 30, 2018, and subsequently paid is recorded in the amount of $193,810 in other current liabilities in the internal service fund.

Changes in the School District's claims liability amount in fiscal years 2018 and 2017 are:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2017 - 2018	301,264	2,910,942	3,018,396	193,810
2016 - 2017	435,590	3,872,246	4,006,572	301,264

NOTE 17 - RISK MANAGEMENT (Continued)

Workers' Compensation
The School District participates in the Lancaster-Lebanon Public Schools Workers' Compensation Fund (the Fund) which is a cooperative voluntary trust arrangement for 19 member school districts and the Lancaster-Lebanon Intermediate Unit, and the Lancaster County Academy. This agreement states that the School District pays an annual premium to the Fund for the purpose of seeking prevention or lessening of claims due to injuries of employees of the members and pooling workers' compensation and occupational disease insurance risks, reserves, claims and losses, and providing self-insurance and reinsurance thereof. It is the intent of the members of the Fund that the Fund will utilize funds contributed by the members, which shall be held in trust by the Fund, to provide self-insurance and reimbursement to the members for their obligations to pay compensation as required under the Workers' Compensation Act and the Pennsylvania Occupational Disease Act and to purchase excess and aggregate insurance. As of June 30, 2018, the School District is not aware of any additional assessments relating to the Fund.

Other Risks
The School District is exposed to various risks of loss related to theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. The School District has purchased various insurance policies to safeguard its assets from risk of loss. During the year ended June 30, 2018, and the two previous fiscal years, no settlements exceeded insurance coverage.

NOTE 18 - FUND BALANCE CLASSIFICATIONS

Nonspendable fund balance represents fund balances that are not in a spendable form or are required to be maintained intact.

General Fund - Nonspendable Prepaid Expenses	9,955

Committed fund balances represent fund balances that can be used only for the specific purposes determined by a formal action of the government's highest level of decision making authority.

At June 30, 2018, the School District has included the following as committed fund balances:

General Fund - Committed to Offset Future Retirement Contributions	5,300,000
General Fund - Committed for Future Health Care Increases	2,900,000
	8,200,000

Assigned fund balance comprises amounts intended to be used by the government for specific purposes determined by the governing body or by an official or a body to which the governing body delegates the authority. At June 30, 2018, the School District has included the following as assigned fund balance:

Capital Project Fund - Assigned for Capital Outlays	931,275

NOTE 19 - CONTINGENCIES and COMMITMENTS

Grant Programs

Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the School District expects such amounts, if any, to be immaterial.

Legal Matters

The School District is involved in claims and legal actions arising in the ordinary course of business. The outcome of these matters cannot be determined at this time.

Construction Commitments

The School District has entered into various contracts for the construction of a softball field. The amount remaining on the outstanding contracts is approximately $218,000 at June 30, 2018. The School District has entered into various contracts for the installation of a new phone system. The amount remaining on the outstanding contracts is approximately $73,000 at June 30, 2018. The School District has entered into various contracts for the installation of a district-wide system automation. The amount remaining on the outstanding contracts is approximately $1,300 at June 30, 2018.

NOTE 20 - TAX ABATEMENTS

The Pennsylvania General Assembly enacted the Keystone Opportunity Zone (KOZ) Act Program authorizing certain exemptions, abatements, credits, and deductions from certain state and local taxes within the state in order to promote economic development and job creation. The School District entered into a property tax abatement with a local business under the KOZ Program that commenced on January 1, 2014, and will conclude on December 31, 2023. The property tax abatement is equal to 100% of the real property tax on the assessed value of property within the Keystone Opportunity Expansion Zone. The abatement is available only as long as the initial qualified business obtains annual renewal of its certification as a qualified business from the Pennsylvania Department of Community and Economic Development, and is not transferable.

If the initial qualified business relocates within the first five years, the qualified business shall refund to the School District the real estate tax from which it was exempted based on percentages set forth in the Act, unless waived pursuant to the Act. During the terms of this agreement, the local business will make an annual payment in lieu of real estate taxes, which increases annually by the increase in tax levy mills for the fiscal year.

For the year ended June 30, 2018, the School District abated approximately $147,000 of property taxes under this agreement.

Subsequent to year end, the School District approved an additional KOZ exemption to be effective for ten years starting January 1, 2019. The business receiving the exemption is required to make annual payments of $5,750 plus an increase in tax levy mills, as applicable, during the terms of the agreement.

NOTE 21 - CHANGE in ACCOUNTING PRINCIPLE

In conjunction with implementation of GASB Statement No. 75, the School District restated the beginning net position of the governmental activities, the business-type activities, and proprietary fund. In prior years, the School District accounted for other postemployment benefits (OPEB) in accordance with GASB Statement No. 45, which permitted amortization of the initial unfunded OPEB liability for a period of thirty years, and did not require the School District to report its proportionate share of cost-sharing multiple-employer OPEB plans. Accordingly, net position as of July 1, 2017, has been restated as follows:

	Governmental Activities	Business-Type Activities and Proprietary Fund
Net Position as Previously Reported on June 30, 2017	**2,910,763**	**(160,627)**
Prior Period Adjustment:		
Net OPEB Liability	(3,021,000)	(32,000)
Deferred Outflows of Resources	319,000	3,000
Total Prior Period Adjustment	**(2,702,000)**	**(29,000)**
Net Position as Restated, July 1, 2017	**208,763**	**(189,627)**

NOTE 22 - SUBSEQUENT EVENTS

Subsequent to June 30, 2018, the School District entered into an operating lease arrangement for office equipment, which requires 60 monthly payments of $7,949 beginning on September 30, 2018. The lease is secured by the leased computer equipment. Minimum future lease payments under the operating lease in excess of one year are as follows:

2019	79,490
2020	95,388
2021	95,388
2022	95,388
2023	95,388
Thereafter	15,898
	476,940

Pequea Valley School District

SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -
BUDGET and ACTUAL -
GENERAL FUND
Year Ended June 30, 2018

	Budgeted Amounts		Actual Budgetary Basis	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
REVENUES				
Local Sources:				
Real Estate Taxes	$ 23,513,901	$ 23,513,901	$ 23,842,767	$ 328,866
Other Taxes	2,565,531	2,565,531	2,697,752	132,221
Investment Earnings	40,000	40,000	265,003	225,003
Other Revenue	561,600	567,613	930,569	362,956
Total Local Sources	26,681,032	26,687,045	27,736,091	1,049,046
State Sources	8,143,413	8,149,454	8,487,247	337,793
Federal Sources	1,180,584	1,097,058	1,094,343	(2,715)
Total Revenues	**36,005,029**	**35,933,557**	**37,317,681**	**1,384,124**
EXPENDITURES				
Instructional Services:				
Regular Programs	13,928,098	13,699,194	13,358,540	340,654
Special Programs	4,244,102	4,866,790	4,752,943	113,847
Vocational Programs	919,115	728,362	720,161	8,201
Other Instructional Programs	174,969	319,329	301,054	18,275
Total Instructional Services	**19,266,284**	**19,613,675**	**19,132,698**	**480,977**
Support Services:				
Pupil Personnel Services	1,634,519	1,349,088	1,325,474	23,614
Instructional Staff Services	1,797,248	1,693,521	1,950,586	(257,065)
Administrative Services	2,296,368	2,402,269	2,374,781	27,488
Pupil Health	402,428	391,043	381,133	9,910
Business Services	630,270	615,570	606,434	9,136
Operation of Plant and Maintenance Services	2,607,484	2,552,602	2,398,950	153,652
Student Transportation Services	2,471,131	2,398,632	2,395,086	3,546
Central and Other Business Services	254,867	294,854	277,752	17,102
Other Support Services	25,500	55,500	53,380	2,120
Total Support Services	**12,119,815**	**11,753,079**	**11,763,576**	**(10,497)**
Noninstructional Services:				
Student Activities	728,017	657,530	649,781	7,749
Community Services	15,395	33,755	33,774	(19)
Total Noninstructional Services	**743,412**	**691,285**	**683,555**	**7,730**
Debt Service:				
Principal	**-0-**	**-0-**	**65,930**	**(65,930)**
Total Expenditures	**32,129,511**	**32,058,039**	**31,645,759**	**412,280**
EXCESS of REVENUES OVER EXPENDITURES	**3,875,518**	**3,875,518**	**5,671,922**	**1,796,404**
OTHER FINANCING SOURCES (USES)				
Debt Service Fund Transfer	(4,203,053)	(4,203,053)	(4,130,542)	72,511
Other Fund Transfers	-0-	-0-	(500,000)	(500,000)
Proceeds from Sale of Capital Assets	-0-	-0-	43,675	43,675
Proceeds from Capital Leases	-0-	-0-	271,484	271,484
Refund of Prior Year Receipts	-0-	-0-	(606)	(606)
Budgetary Reserve	(400,000)	(400,000)	-0-	400,000
Net Other Financing Uses	**(4,603,053)**	**(4,603,053)**	**(4,315,989)**	**287,064**
NET CHANGES in FUND BALANCES	**$ (727,535)**	**$ (727,535)**	**1,355,933**	**$ 2,083,468**
FUND BALANCES				
Beginning			11,235,024	
Ending			**$ 12,590,957**	

See independent auditors' report.

Pequea Valley School District follows the following procedures in establishing the budgetary data reflected in the financial statements:

1. The Pennsylvania Department of Education (PDE) issues a schedule of actions for school districts for the development of the annual budget under Act 1. One deadline is the action to resolve to keep any tax increase in the real estate tax millage rate below the index announced by the PDE. Prior to that deadline, management submits to the School Board, for consideration, a draft operating budget projection or other information to review, for the fiscal year commencing the following July 1. The School Board determines if it will approve a resolution to keep any tax increase below the index.

2. If the School Board adopts the resolution, management submits prior to May 31 to the School Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the general fund.

3. A public hearing is conducted to obtain taxpayer comments.

4. If the School Board does not adopt the resolution, management prepares and submits a proposed operating budget for the fiscal year commencing the following July 1 in accordance to the deadlines established by PDE under Act 1. These deadlines will vary with the setting of the spring municipal election date each year.

5. In either case, prior to June 30, the budget is legally enacted through adoption of a resolution.

6. Legal budgetary control is maintained by the School Board at the departmental level. Transfers between departments, whether between funds or within a fund, or revisions that alter the total revenues and expenditures of any fund, must be approved by the School Board. Budgetary information in the combined operating statements is presented at or below the legal level of budgetary control. It also includes the effects of approved budget amendments.

7. Budgetary data is included in the School District's management information system and is employed as a management control device during the year.

8. Unused appropriations lapse at the end of each fiscal year; however, the School District increases the subsequent year's appropriation by an amount equal to outstanding encumbrances and reserves a portion of the fund balance in a like amount. There were no outstanding encumbrances for the year ended June 30, 2018.

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

10. Where applicable, unbudgeted federal and state revenues and expenditures have been added to the original budgeted revenues and expenditures.

See independent auditors' report.

Pequea Valley School District

SCHEDULE of CHANGES in TOTAL OPEB LIABILITY and RELATED RATIOS -
SINGLE-EMPLOYER DEFINED BENEFIT OPEB PLAN
Last 10 Fiscal Years

	2018
Total OPEB Liability	
Service Cost	$ 90,000
Interest	33,000
Change of Benefit Terms	-0-
Differences Between Expected and Actual Experience	-0-
Change of Assumptions	2,000
Benefit Payments	(221,000)
Net Change in Total OPEB Liability	**(96,000)**
Total OPEB Liability - Beginning	1,347,000
Total OPEB Liability - Ending	**$ 1,251,000**
Covered Payroll	10,000,537
Total OPEB Liability as a Percentage of Covered Payroll	12.51%

Note: Information is not available prior to 2018.

See independent auditors' report.

Funding:

No assets are accumulated in a trust that meet the criteria included in GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions,* to pay related benefits.

Changes of Assumptions:

Measurement period ending June 30, 2016:

Discount rate was increased from 2.49% to 3.13%.

See independent auditors' report.

Pequea Valley School District

SCHEDULE of EMPLOYER CONTRIBUTIONS -
PSERS HEALTH INSURANCE PREMIUM ASSISTANCE PLAN
Last 10 Fiscal Years

Fiscal Year Ended June 30	Contractually Required Contributions	Contributions from Employer	Contributions Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2015	99,000	99,000	-0-	10,967,393	0.90%
2016	97,000	97,000	-0-	11,480,587	0.84%
2017	102,000	102,000	-0-	12,291,107	0.83%
2018	104,000	104,000	-0-	12,501,983	0.83%

Note: Information is not available prior to 2015.

See independent auditors' report.

Changes of Assumptions:

Measurement period ending June 30, 2016:

Discount rate was increased from 2.71% to 3.13%.

Salary growth changes from an effective average of 5.50% to 5.00%

Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to 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.

Pequea Valley School District

SCHEDULE of the SCHOOL DISTRICT'S PROPORTIONATE SHARE of the NET OPEB LIABILITY -
PSERS HEALTH INSURANCE PREMIUM ASSISTANCE PLAN
Last 10 Fiscal Years

Fiscal Year Ended June 30	School District's Proportion of the Net OPEB Liability	School District's Proportionate Share of the Net OPEB Liability	School District's Covered-Employee Payroll	School District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2016	0.0886%	1,908,000	11,480,587	16.62%	5.73%
2017	0.0924%	1,883,000	12,291,107	15.32%	5.47%

Note: Information is not available prior to 2016. The data provided in the schedule is based on the measurement date, which is the beginning of the School District's fiscal year.

See independent auditors' report.

Pequea Valley School District

SCHEDULE of EMPLOYER CONTRIBUTIONS -
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
Last 10 Fiscal Years

	Contractually Required Contribution	Contributions from Employer	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
Defined Benefit Pension Plan:					
2009	544,646	544,646	-0-	13,616,155	4.00%
2010	469,011	469,011	-0-	11,725,272	4.00%
2011	584,567	584,567	-0-	11,691,348	5.00%
2012	957,237	957,237	-0-	11,965,457	8.00%
2013	1,341,437	1,341,437	-0-	11,377,079	11.79%
2014	1,716,414	1,716,414	-0-	10,915,904	16.00%
2015	2,199,016	2,199,016	-0-	10,967,393	20.50%
2016	2,818,386	2,818,386	-0-	11,480,587	25.00%
2017	3,675,000	3,675,000	-0-	12,291,107	29.20%
2018	3,974,000	3,974,000	-0-	12,501,983	31.74%

See independent auditors' report.

Pequea Valley School District

SCHEDULE of SCHOOL DISTRICT'S PROPORTIONATE SHARE of the NET PENSION LIABILITY -
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
Last 10 Fiscal Years

For the Fiscal Year Ended June 30	School District's Proportion of the Net Pension Liability (Asset)	School District's Proportionate Share of the Net Pension Liability (Asset)	School District's Covered-Employee Payroll	School District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0855%	33,842,000	10,915,904	310.02%	57.24%
2015	0.0852%	36,905,000	10,967,393	336.50%	54.36%
2016	0.0886%	43,907,000	11,480,587	382.45%	50.14%
2017	0.0924%	45,635,000	12,291,107	371.28%	51.84%

Note: Information is not available prior to 2014. The data provided in the schedule is based on the measurement date, which is the beginning of the School District's fiscal year.

See independent auditors' report.

Changes of Benefit Terms:

Measurement period ending June 30, 2017:

Beginning June 12, 2017, with the passage of Act 5 Class T-E & T-F members are now permitted to elect a lump sum payment of member contributions upon retirement.

Changes of Assumptions:

Measurement period ending June 30, 2016:

Investment Rate of Return was adjusted from 7.50% to 7.25%.

Inflation assumption was decreased from 3.00% to 2.75%.

Salary growth changed from an effective average of 5.50% to 5.00%.

Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to 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.

Pequea Valley School District

SCHEDULE of EXPENDITURES of FEDERAL AWARDS

Year Ended June 30, 2018

Federal Grantor	Pass-Through Agency	Federal Program	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date	Grant Amount	Accrued (Deferred) Revenue at July 1, 2017	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2018	Passed Through to Subrecipients
Child Nutrition Cluster												
U.S. Department of Agriculture	Pennsylvania Department of Education	School Breakfast Program	I	10.553	N/A	07/01/17 - 06/30/18	N/A	$ -0-	$ 84,430	$ 98,927	$ 14,497	$ -0-
U.S. Department of Agriculture	Pennsylvania Department of Education	School Breakfast Program (Note 4)	I	10.553	N/A	07/01/16 - 06/30/17	N/A	13,994	13,994	-0-	-0-	-0-
			Total	**10.553**				**13,994**	**98,424**	**98,927**	**14,497**	**-0-**
U.S. Department of Agriculture	Pennsylvania Department of Education	National School Lunch Program	I	10.555	N/A	07/01/17 - 06/30/18	N/A	-0-	306,468	358,117	51,649	-0-
U.S. Department of Agriculture	Pennsylvania Department of Education	National School Lunch Program (Note 4)	I	10.555	N/A	07/01/16 - 06/30/17	N/A	46,321	46,321	-0-	-0-	-0-
U.S. Department of Agriculture	Pennsylvania Department of Agriculture	National School Lunch Program (Note 2)	I	10.555	N/A	07/01/17 - 06/30/18	N/A	-0- A)	49,737 B)	49,737 C)	-0- D)	-0-
			Total	**10.555**				**46,321**	**402,526**	**407,854**	**51,649**	**-0-**
U.S. Department of Agriculture	Pennsylvania Department of Education	Summer Food Service Program for Children	I	10.559	N/A	07/01/17 - 06/30/18	N/A	**-0-**	**2,066**	**2,066**	**-0-**	**-0-**
			Total Child Nutrition Cluster					**60,315**	**503,016**	**508,847**	**66,146**	**-0-**
Special Education Cluster												
U.S. Department of Education	Lancaster-Lebanon Intermediate Unit #13	Special Education - Grants to States	I	84.027	062-180013	07/01/17 - 09/30/18	368,120	-0-	368,120	368,120	-0-	-0-
U.S. Department of Education	Lancaster-Lebanon Intermediate Unit #13	Special Education - Preschool Grants	I	84.173	131-170013	07/01/17 - 06/30/18	1,914	-0-	1,914	1,914	-0-	-0-
U.S. Department of Education	Lancaster-Lebanon Intermediate Unit #13	Special Education - Preschool Grants	I	84.173	131-160013	07/01/16 - 06/30/17	793	793	793	-0-	-0-	-0-
			Total Special Education Cluster					**793**	**370,827**	**370,034**	**-0-**	**-0-**
U.S. Department of Education	Pennsylvania Department of Education	Title I Grants to Local Educational Agencies (Note 6)	I	84.010	013-180332	07/18/17 - 09/30/18	851,417	-0-	851,417	867,153	15,736	-0-
U.S. Department of Education	Pennsylvania Department of Education	Title I Grants to Local Educational Agencies	I	84.010	013-170332	07/01/16 - 09/30/17	998,970	129,932	131,940	2,008	-0-	-0-
			Total	**84.010**				**129,932**	**983,357**	**869,161**	**15,736**	**-0-**
U.S. Department of Education	Pennsylvania Department of Education	Improving Teacher Quality State Grants (Note 7)	I	84.367	020-180332	07/18/17 - 09/30/18	159,016	-0-	159,778	134,763	(25,015)	-0-
U.S. Department of Education	Pennsylvania Department of Education	Improving Teacher Quality State Grants	I	84.367	020-170332	07/01/16 - 09/30/17	149,617	26,589	29,187	2,598	-0-	-0-
			Total	**84.367**				**$ 26,589**	**$ 188,965**	**$ 137,361**	**$ (25,015)**	**$ -0-**

See independent auditors' report.

Pequea Valley School District

SCHEDULE of EXPENDITURES of FEDERAL AWARDS

(Continued)

Year Ended June 30, 2018

Federal Grantor	Pass-Through Agency	Federal Program	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date	Grant Amount	Accrued (Deferred) Revenue at July 1, 2017	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2018	Passed Through to Subrecipients
U.S. Department of Education	Pennsylvania Department of Education	Striving Readers Literacy Grant	I	84.371	143-160332	03/23/17 - 09/30/17	150,000	**$ 87,214**	**$ 150,000**	**$ 62,786**	**$ -0-**	**$ -0-**
U.S. Department of Education	Pennsylvania Department of Education	Student Support and Academic Enrichment Program (Note 6)	I	84.424	144-180332	07/18/17 - 09/30/18	19,233	**-0-**	**6,411**	**742**	**(5,669)**	**-0-**
Medicaid Cluster												
U.S. Department of Health and Human Services	Pennsylvania Department of Public Welfare	Medical Assistance Program	I	93.778	N/A	07/01/17 - 09/30/18	N/A	-0-	1,535	6,519	4,984	-0-
U.S. Department of Health and Human Services	Pennsylvania Department of Public Welfare	Medical Assistance Program	I	93.778	N/A	07/01/16 - 09/30/17	N/A	2,855	2,855	-0-	-0-	-0-
		Total Medicaid Cluster						**2,855**	**4,390**	**6,519**	**4,984**	**-0-**
		TOTAL EXPENDITURES of FEDERAL AWARDS						**$ 307,698**	**$ 2,206,966**	**$ 1,955,450**	**$ 56,182**	**$ -0-**

Legend

I = Indirect funding

CFDA = Catalog of Federal Domestic Assistance

See independent auditors' report.

Pequea Valley School District

SCHEDULE of EXPENDITURES of FEDERAL AWARDS
(Continued)
Year Ended June 30, 2018

NOTES to SCHEDULE of EXPENDITURES of FEDERAL AWARDS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

NOTE 2 - NATIONAL SCHOOL LUNCH PROGRAM - PASSED THROUGH the PENNSYLVANIA DEPARTMENT of AGRICULTURE

A) Beginning inventory at July 1.
B) Total amount of commodities received from the Department of Agriculture.
C) Total amount of commodities used.
D) Ending inventory at June 30.

NOTE 3 - DE MINIMIS INDIRECT COST RATE

The School District did not elect to use the 10% de minimis indirect cost rate.

NOTE 4 - ACCRUAL (DEFERRAL) ADJUSTMENTS at June 30, 2017

Project Title	Source Code	Grantor's Number	Beginning/ Ending Date	Accrued(Deferred) Shown at June 30, 2017	Correct Accrued (Deferred) at June 30, 2017
School Breakfast Program	I	N/A	07/01/16 - 06/30/17	$23,528	$13,994
National School Lunch Program	I	N/A	07/01/16 - 06/30/17	$86,061	$46,321

NOTE 5 - ACCESS

The ACCESS Program is a medical assistance program that reimburses local educational agencies for direct, eligible health-related services provided to enrolled special needs students. Reimbursements are federal monies but are classified as fee-for-service revenues and are not considered federal financial assistance. Because only federal financial assistance is included on the schedule of expenditures of federal awards, ACCESS reimbursements are not included on the schedule. The amount of ACCESS funding received for the year ended June 30, 2018, was $17,774 listed on the PDE confirmation as program #044-007332.

NOTE 6 - TRANSFERABILITY

As allowed by federal regulations, the School District expended $18,491 from Student Support and Academic Enrichment Program (84.424) funds for activities of the Title I - Grants to Local Educational Agencies (84.010). This amount is reflected in the expenditures of Title I - Grants to Local Educational Agencies (84.010).

NOTE 7 - RETURN of FUNDS

The School District returned funds totaling $762 to the grantor agency during the year ended June 30, 2019, due to an overpayment received during the year ended June 30, 2018.

See independent auditors' report.

INDEPENDENT AUDITORS' 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 Officers and Members
Pequea Valley School District
Lancaster County, 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 **Pequea Valley School District**, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise **Pequea Valley School District's** basic financial statements and have issued our report thereon dated November 15, 2018.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered **Pequea 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 **Pequea Valley School District's** internal control. Accordingly, we do not express an opinion on the effectiveness of **Pequea 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and questioned costs as items #2018-001 and #2018-002 that we consider to be material weaknesses.

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Compliance and Other Matters

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

Pequea Valley School District's Response to Findings

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

Purpose of this Report

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

Trout, Ebersole & Groff, LLP

November 15, 2018
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT on COMPLIANCE for EACH MAJOR PROGRAM and on INTERNAL CONTROL over COMPLIANCE REQUIRED by the UNIFORM GUIDANCE

To the Board Officers and Members
Pequea Valley School District
Lancaster County, Pennsylvania

Report on Compliance for Each Major Federal Program
We have audited **Pequea Valley School District's** compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on **Pequea Valley School District's** major federal program for the year ended June 30, 2018. **Pequea Valley School District's** major federal program is identified in the summary of auditors' 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.

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

Opinion on Each Major Federal Program
In our opinion, **Pequea Valley School District** has complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

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Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item #2018-003. Our opinion on **Pequea Valley School District's** major federal program is not modified with respect to this matter.

Pequea Valley School District's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. **Pequea 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 **Pequea 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 **Pequea Valley School District's** internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its 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 **Pequea 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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Trout, Ebersole & Groff, LLP

November 15, 2018
Lancaster, Pennsylvania

TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Pequea Valley School District

SCHEDULE of FINDINGS and QUESTIONED COSTS

Year Ended June 30, 2018

A. Summary of Auditors' Results

1. The independent auditors' report expresses unmodified opinions on the financial statements of **Pequea Valley School District.**

2. Two material weaknesses and no significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditors' 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.*

3. No instances of noncompliance material to the financial statements of **Pequea Valley School District** were disclosed during the audit.

4. No significant deficiencies or material weaknesses relating to the audit of the major federal program are reported in the Independent Auditors' Report on Compliance for each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.

5. The independent auditors' report on compliance for the major federal award program for **Pequea Valley School District** expresses an unmodified opinion.

6. Audit findings relative to the major federal award program for **Pequea Valley School District** are reported in part C of this schedule.

7. The program tested as a major program is: Title I Grants to Local Educational Agencies - CFDA #84.010.

8. The threshold for distinguishing type A and B programs was $750,000.

9. **Pequea Valley School District** was not determined to be a low-risk auditee.

B. Findings - Financial Statements Audit

Material Weaknesses

#2018-001 - Internal Control over Financial Reporting

Criteria: An integral component of an entity's internal control over financial reporting is the ability to prepare financial statements and the related notes to the financial statements.

Statement of Condition: The School District has designated an individual responsible to oversee Trout, Ebersole & Groff, LLP's preparation of the financial statements. The School District has assumed responsibility for evaluating the adequacy and results of the financial statements and related notes to the financial statements and accepted responsibility for them. However, the School District's designee is not experienced in preparing all of the required financial statements and the notes to the financial statements for the School District in conformity with accounting principles generally accepted in the United States of America.

Cause and Effect: It is not uncommon for small entities to lack the experience necessary to prepare the financial statements and the notes to the financial statements. The School District has evaluated the costs and benefits of developing this expertise, and determined that it is more beneficial to engage its independent auditors to provide this service.

Identification of Repeat Finding: Yes - #2017-001, #2016-001 and #2015-001

Recommendation: The School District needs to annually evaluate having someone on staff with the ability to draft the financial statements of the School District. This evaluation should consider the cost and benefits associated with having this expertise on staff.

Management Response: At this time District's staff is unable to prepare the financial statements and the notes to the financial statements for the Pequea Valley School District, in conformity with the accounting principles generally accepted in the United States of America. The District is working toward staff being trained in order to properly prepare the financial statements.

#2018-002 - Year-End Close Process

Criteria: The financial closing process includes preparation of reconciliations, capital asset schedules, year-end accrual and adjusting journal entries. A well designed financial closing process ensures that the accounting books and records are accurate and that they provide the basis for preparation of financial statements.

B. Findings - Financial Statements Audit (Continued)

Material Weaknesses (Continued)

#2018-002 - Year-End Close Process (Continued)

Statement of Condition: During our audit, we noted that certain elements related to the year-end closing process required adjustments. These adjustments included the following items: adjustments for fixed asset additions; accrual of retainage payable in the capital reserve fund; an entry to record a capital lease in the general fund; and an entry to reverse claims payable in the general fund, as the liability recorded within the internal service fund included this amount.

Cause and Effect: When the financial closing process does not properly include all year-end accrual and adjusting journal entries, the accounting records do not provide the proper basis for preparation of financial statements.

Recommendation: The School District should adjust their year-end close process to ensure any retainage on open contracts at year end is recorded, general fund does not have any claims payments recorded as payables if the internal service fund has the IBNR recorded, any new capital leases are appropriately recorded, and that all fixed asset additions are identified.

Identification of Repeat Finding: Yes - #2017-002, #2016-002, #2016-003 and #2015-002

Management Response: The School District will continue to improve on year end closeout procedures and will contact the auditors prior to the audit should any questions arise.

C. Findings and Questioned Costs - Major Federal Awards Program Audit

Compliance Finding

#2018-003 - Title I Grants to Local Educational Agencies - CFDA #84.010, Year Ended June 30, 2018

Criteria: An LEA must serve eligible schools or attendance areas in rank order according to their percentage of poverty. An LEA must serve those areas or schools above 75 percent poverty, including any middle or high schools, before it serves any with a poverty-percentage at or below 75 percent. After an LEA has served all areas and schools with a poverty rate above 75 percent, the LEA may serve lower-poverty areas and schools either by continuing with the district-wide ranking or by ranking its schools at or below 75 percent poverty according to grade-span grouping.

Statement of Condition: The School District did not distribute funds in proper rank order for the 2016-2017 Title I grant. The failure to distribute funds in rank order caused a misallocation of funds between Paradise Elementary School and Salisbury Elementary.

Cause and Effect: The LEA did not maintain proper monitoring of the rank order between the two elementary schools throughout the grant year allowing the School District to adjust allocation of resources to the proper eligible school.

C. Findings and Questioned Costs - Major Federal Awards Program Audit (Continued)

Compliance Finding (Continued)

#2018-003 - Title I Grants to Local Educational Agencies - CFDA #84.010, Year Ended June 30, 2018 (Continued)

Questioned Costs: None over the reportable threshold of $25,000.

Recommendation**:** We recommend that the School District periodically monitor the distribution of federal funds to ensure the LEA is serving its eligible schools in proper rank order.

Identification of Repeat Finding: No

Management Response: The District will periodically monitor the ranking of each school and make distribution adjustments as needed.

Material Weaknesses

#2017-001, #2016-001 and #2015-001 - Internal Control over Financial Reporting for the Years Ended June 30, 2017, 2016, and 2015

Condition: The School District had designated an individual responsible to oversee Trout, Ebersole & Groff, LLP's preparation of the financial statements. The School District had assumed responsibility for evaluating the adequacy and results of the financial statements and related notes to the financial statements and accepted responsibility for them. However, the School District's designee was not experienced in preparing all of the required financial statements and notes to the financial statements for the School District in conformity with accounting principles generally accepted in the United States of America.

Recommendation: The School District needs to annually evaluate having someone on staff with the ability to draft the financial statements of the School District. The evaluation should consider the cost and benefits associated with having this expertise on staff.

Current Status: As noted in #2018-001, the School District is still unable to prepare the financial statements and notes to the financial statements in conformity with the accounting principles generally accepted in the United States of America.

#2017-002 - Year-End Close Process for the Year Ended June 30, 2017

Condition: During our audit, we noted that certain elements related to the year-end closing process required adjustments. These adjustments included the following items: adjustments for fixed asset additions and deletions; additional accrual of accounts payable in the capital reserve fund; entry to correct beginning fund balance in the food service fund; entry to correct beginning fund balance in the scholarship fund.

Recommendation: The School District should adjust their year-end close process to ensure all accounts payable are accrued, beginning fund balances agree to prior year ending fund balances, and that all fixed asset additions and deletions are identified.

Identification of Repeat Finding: As noted in #2018-002, the School District did not record all fixed asset additions.

#2017-003 - Food Service Deferred Revenues

Condition: During our audit, we noted that the deferred revenue balance in the food service fund did not agree to the ending report detailing the actual remaining pre-funded balances and was in a debit position, which would indicate that pre-funded accounts were overdrawn. Based upon discussions with management, it was noted that each month the adjustment to deferred revenue liability account is actually the difference between breakfast/lunch revenues (provided by the POS system) and cash per the cash registers. An assumption was made that this difference is the net amount of pre-funded account activity within the online software, and management recorded the difference to the deferred revenue account. This resulted in the material difference between the ending balances per the online system and the balance within the food service fund deferred revenue account. A journal entry to the food service fund was proposed, and ultimately accepted by management.

Material Weaknesses (Continued)

#2017-003 - Food Service Deferred Revenues (Continued)

Recommendation: The School District should implement a monthly reconciliation process surrounding the pre-funded account balances and compare the reconciled balances to the net differences identified between the POS system and actual cash in the registers. The School District should also include Hildebrandt and Special Events revenue to their monthly internal reconciliation worksheet.

Current Status: The School District corrected their processes for recoding and reconciling food service deferred revenues and this is no longer an issue for the year ended June 30, 2018.

#2016-002 and #2015-002 - Year-End Close Process for the Years Ended June 30, 2016 and 2015

Condition: The School District had designated an employee responsible to oversee the adjusting cash to accrual journal entries as a part of the year-end close process. Once all adjusting journal entries were made within the accounting software (CSIU), the trial balance was provided to the auditors for the annual audit at the beginning of October. There were material, recurring adjusting entries identified by the auditors that needed to be made for the financial statements to be prepared in conformity with generally accepted accounting principles.

Recommendation: The trial balance should have been provided to the auditors for the annual audit with substantially all adjusting entries made previously, therefore we recommended the School District train someone with the knowledge to make correct adjusting journal entries.

Current Status: As noted in #2018-002, the School District continued to have material adjustments needed.

#2016-003 - Capital Assets for the Year Ended June 30, 2016

Condition: The School District had not updated the capital asset records for all assets placed in service throughout the 2016 fiscal year prior to the start of the year-end audit. Upon receipt of the capital asset reports, we identified the following:

- Beginning balances at July 1, 2015, per the capital asset software did not agree to ending balances at June 30, 2015, as disclosed in prior year's financial statements.
- Fixed asset additions per the capital asset software did not include all capital asset additions identified during the current year audit.

Recommendation: We recommended that the School District be recording capital asset additions on a regular basis throughout the fiscal year. We also recommended the School District, on an annual basis, should perform a second level review of ending capital asset balances as well as review the asset valuation report in the upcoming year and compare the capital asset software balances to identify and delete assets no longer in service or in possession of the School District.

Current Status: The beginning balances for capital assets were corrected and the School District recorded all fixed asset deletions for June 30, 2018. However as noted in #2018-002, the School District, as a part of the year-end close process, did not record all fixed asset additions.

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Corrective Action Plan
November 15, 2018

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

Oversight Agency for Audit: U.S. Department of Education

Name and address of independent public accounting firm: Trout, Ebersole & Groff, LLP, 1705 Oregon Pike, Lancaster, Pennsylvania 17601-4200

Audit Period: July 1, 2017 through June 30, 2018.

The findings from the Schedule of Findings and Questioned Costs for the year ended June 30, 2018 is discussed below. The findings are numbered consistently with the number assigned in the schedule:

Findings - Financial Statements Audit

Material Weaknesses

#2018-001 - Internal Control Over Financial Reporting

Criteria: An integral component of an entity's internal control over financial reporting is the ability to prepare financial statements and the related notes to the financial statements.

Statement of Condition: The School District has designated an individual responsible to oversee Trout, Ebersole & Groff, LLP's preparation of the financial statements. The School District has assumed responsibility for evaluating the adequacy and results of the financial statements and related notes to the financial statements and accepted responsibility for them. However, the School District's designee is not experienced in preparing all of the required financial statements and the notes to the financial statements for the School District in conformity with accounting principles generally accepted in the United States of America.
Cause and Effect: It is not uncommon for small entities to lack the experience necessary to prepare the financial statements and the notes to the financial statements. The School District has evaluated the costs and benefits of developing this expertise, and determined that it is more beneficial to engage its independent auditors to provide this service.

Recommendation: The School District needs to annually perform a cost benefit analysis of having an individual in the Business Office with the expertise to draft the financial statements of the School District.

Management Response: At this time District's staff is unable to prepare the financial statements and the notes to the financial statements for the Pequea Valley School District, in conformity with the accounting principles generally

accepted in the United States of America. The District is working toward staff being trained in order to properly prepare the financial statements.

#2018-002 - Year-End Close Process

Criteria: The financial closing process includes preparation of reconciliations, capital asset schedules, year-end accrual and adjusting journal entries. A well-designed financial closing process ensures that the accounting books and records are accurate, and that they provide the basis for preparation of financial statements.

Statement of Condition: During our audit, we noted that certain elements related to the year-end closing process required adjustments. These adjustments included the following items: adjustments for fixed asset additions; accrual of retainage payable in the Capital Reserve Fund; an entry to record a capital lease in the General Fund; and an entry to reverse claims payable in the General Fund, as the liability recorded within the Internal Service Fund included this amount.

Cause and Effect: When the financial closing process does not properly include all year-end accrual and adjusting journal entries, the accounting records do not provide the proper basis for preparation of financial statements.

Recommendation: The School District should adjust their year-end close process to ensure any retainage on open contracts at year end is recorded, general fund does not have any claims payments recorded as payables if the Internal Service Fund has the IBNR recorded, any new capital leases are appropriately recorded, and that all fixed asset additions are identified.

Management Response: The School District will continue to improve on year end closeout procedures and will contact the auditors prior to the audit should any questions arise.

Findings and Questioned Costs – Major Federal Awards Program Audit

Compliance Finding

#2018-003 - Title I Grants to Local Educational Agencies - CFDA #84.010, Year Ended June 30, 2018

Criteria: An LEA must serve eligible schools or attendance areas in rank order according to their percentage of poverty. An LEA must serve those areas or schools above 75 percent poverty, including any middle or high schools, before it serves any with a poverty-percentage at or below 75 percent. After an LEA has served all areas and schools with a poverty rate above 75 percent, the LEA may serve lower-poverty areas and schools either by continuing with the district-wide ranking or by ranking its schools at or below 75 percent poverty according to grade-span grouping.

Statement of Condition: The School District did not distribute funds in proper rank order for the 2016-2017 Title I grant. The failure to distribute funds in rank order caused a misallocation of funds between Paradise Elementary School and Salisbury Elementary.

Cause and Effect: The LEA did not maintain proper monitoring of the rank order between the two elementary schools throughout the grant year allowing the School District to adjust allocation of resources to the proper eligible school.

Recommendation: We recommend that the School District periodically monitor the distribution of federal funds to ensure the LEA is serving its eligible schools in proper rank order.

Management Response: The district will periodically monitor the ranking of each school and make distribution adjustments as needed.

If the United States Department of Education has questions regarding this plan, please call John A. Bowden at 717-768-5530.

Sincerely,

John A. Bowden
Chief of Finance and Operations
Pequea Valley School District