Conestoga Valley School District Lancaster, Pennsylvania Lancaster County

Financial Statements
Year Ended June 30, 2018

bbd

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CONESTOGA VALLEY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Board of School Directors
Conestoga Valley School District
Lancaster, Pennsylvania

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 Conestoga Valley School District, Lancaster, Pennsylvania as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Conestoga Valley 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 misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Conestoga Valley School District, Lancaster, Pennsylvania 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.

Other Matters

Change In Accounting Principle

As described in Note 15 to the financial statements, the District changed its method of accounting for pensions as a result of implementing GASB Statement No. 68, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"*. Our opinions are not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited the Conestoga Valley School District's 2017 financial statements, and our report dated November 8, 2017 expressed unmodified opinions on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule – General Fund, the schedules of the District's proportionate share of the net pension liability and pension plan contributions, schedule of changes in OPEB liability single-employer plan, and the schedules of the District's proportionate share of the OPEB liability - PSERS and OPEB plan PSERS contributions on pages 3 through 14 and 52 through 57 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 Conestoga Valley School District's basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (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 combining and individual fund financial statements and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The supplemental information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2018, on our consideration of Conestoga 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 describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Conestoga Valley School District's internal control over financial reporting and compliance.

BBD, LLP

Philadelphia, Pennsylvania
October 31, 2018

Management's discussion and analysis (***"MD&A"***) of the financial performance of the Conestoga Valley School District (the ***"District"***) provides an overview of the District's financial performance for fiscal year ended June 30, 2018. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

DISTRICT PROFILE

The District consists of four elementary schools, one middle school and one high school consisting of approximately 4,200 students. The District is located in central Lancaster County adjacent to the City of Lancaster, Pennsylvania and covers an area approximately 54 square miles and is comprised of East Lampeter, Upper Leacock and West Earl Townships. During 2017-2018, there were 394 employees in the District consisting of 320 teachers, 26 administrators, including general administration, principals and supervisors and 48 support personnel including administrative assistants and technology staff.

The mission of the District is "To educate all students to strive for personal excellence, while becoming caring and contributing citizens in a global community."

FINANCIAL HIGHLIGHTS

- Effective 2017-2018, the District was required to comply with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The major impact of GASB Statement No. 75 is to present, on the Statement of Financial Position (Deficit), certain items related to the District's proportionate liability from its participation in the Commonwealth's Public School Employees' Retirement System (***"PSERS"***) healthcare insurance premium assistance program, which was not required to be presented in the prior years. Consequently, the implementation of GASB Statement No. 75 resulted in an increase in the deficit in the District's unrestricted net position as of June 30, 2018. For consistency purposes, the June 30, 2017 Statement of Net Position (Deficit) has been restated in the financial statements as if GASB Statement No. 75 had been applied, retroactively.

  Elements of GASB Statement No. 75 included within the Statement of Net Position include actuarially determined liabilities for other postemployment benefits single and cost sharing multiple-employer plans of $3,411,628 and $3,936,280, respectively, and deferred outflows of $526,406 (primarily changes in actuarial assumptions under the new standard and contributions subsequent to the measurement date – an effective reduction of the liability) and deferred inflows of $187,171 (difference between expected and actual experience and changes in assumptions, to be recognized as a future reduction in OPEB expense – an effective increase in the liability until fully recognized).

- On a government-wide basis including all governmental activities and the business type activities, the liabilities and deferred inflows of resources exceeded the assets and deferred outflows of resources of the District resulting in a deficit in total net position at the close of the 2017-2018 fiscal year of $31,984,906. During the 2017-2018 fiscal year, the District had an increase in total net position of $3,642,892. The net position of governmental activities increased by $3,461,296 and the net position of the business-type activities increased by $181,596.

- The General Fund reported an increase of fund balance of $501,155, bringing the cumulative balance to $13,672,586 at the conclusion of the 2017-2018 fiscal year.

- At June 30, 2018, the General Fund fund balance includes $383,445 which is considered nonspendable, $3,590,809 committed to retirement rate stabilization, $400,000 committed to health savings accounts, $1,836,000 committed for future debt service obligations, $1,850,000 committed for property tax assessment appeals and unassigned amounts of $5,612,332 or 7.94% of the $70,705,219 2018-2019 General Fund expenditure budget. This is in compliance with guidelines prescribed by the Pennsylvania Department of Education which allows a school district to maintain an unassigned maximum General Fund fund balance of 8% of the following year's expenditure budget.

- Actual revenues and other financing sources were $1,440,036 or 2.16% more than budgeted amounts and actual expenditures and other financing uses were $699,744 or 1.02% less than budgeted amounts resulting in a net positive variance of $2,139,780.

- At the end of the current fiscal year, the District had total general obligation debt of $11,713,597 consisting of $10,900,000 in bonds payable, $366,673 note payable and net deferred credits of $446,924. The entire amount is backed by the full faith and credit of the District. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior obligation debt. The District's general obligation debt decreased by $5,071,696 or 30.22% during the fiscal year.

- The District reports its allocated portion of its defined benefit unfunded benefit obligation related to its participation in the Pennsylvania State Employee Retirement System (***"PSERS"***). The District's allocated portion of the net pension liability is an actuarially determined estimate of the unfunded cost of the pension plan obligation which totaled $95,418,398 as of June 30, 2018. The District's net pension liability decreased by $424,602 or 0.44% during the fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The MD&A is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the District’s finances, in a manner similar to a private-sector business.

The *Statement of Net Position (Deficit)* presents information on all of the District’s assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating. To assess the District’s overall health, the reader will need to consider additional nonfinancial factors such as changes in the District’s property tax base and the condition of school buildings and other facilities.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish the functions of the District that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

In the government-wide financial statements, the District's activities are divided into two categories:

Governmental Activities

Most of the District's basic services are included here, such as regular and special education, support services, maintenance, transportation and administration.

Business-Type Activities

The District charges fees to cover the costs of its food services program.

The government-wide financial statements can be found on Pages 15 and 16 of this report.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the District's funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds

Most of the District's activities are included in the governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the governmental near-term financing decisions. Both the *Balance Sheet – Governmental Funds* and *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds* provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains five individual governmental funds. Information is presented separately in the *Balance Sheet – Governmental Funds* and *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds* for each of the major funds.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the budget.

The governmental fund financial statements can be found on Pages 17 through 20 of this report.

Proprietary Funds

The District maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Food Service Fund is reported as an enterprise fund of the proprietary fund type. Internal service funds are used to accumulate and allocate certain costs internally among the District's various functions. The District uses its internal service fund to account for the District's self-funded healthcare program. Because an internal service fund predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

The proprietary fund financial statements provide separate financial information for its major fund and internal service fund. The proprietary fund financial statements can be found on Pages 21 through 23 of this report.

Fiduciary Funds

The District is the trustee, or fiduciary, for assets that belong to others, consisting of scholarship and student activity funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purpose and by those to whom the assets belong. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

The fiduciary fund financial statements can be found on Pages 24 and 25 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The notes to the financial statements can be found on Pages 26 through 51 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which consists of the budgetary comparison schedule for the general fund, schedules of the District's proportionate share of the net pension liability and pension plan contributions-PSERS, schedule of changes in OPEB liability single-employer plan, and the schedules of the District's proportionate share of the net OPEB liability and OPEB plan contributions-PSERS, as well as additional analysis which consists of combining and individual fund financial statements.

The required supplementary information and additional analysis can be found on Pages 52 through 61 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted above, net position may serve over time as a useful indicator of the District's financial condition. At the close of the 2017-2018 fiscal year the District's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by $31,984,906. The following table presents condensed information for the *Statement of Net Position (Deficit)* of the District at June 30, 2018 and 2017.

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
ASSETS						
Current assets	$ 28,924,533	$ 27,314,761	$ 386,981	$ 178,781	$ 29,311,514	$ 27,493,542
Noncurrent assets	53,949,629	55,729,757	147,116	145,610	54,096,745	55,875,367
Total assets	82,874,162	83,044,518	534,097	324,391	83,408,259	83,368,909
DEFERRED OUTFLOWS OF RESOURCES	18,163,642	16,946,316	-	-	18,163,642	16,946,316
LIABILITIES						
Current liabilities	9,283,010	8,934,732	84,437	56,327	9,367,447	8,991,059
Noncurrent liabilities	118,053,188	121,190,156	-	-	118,053,188	121,190,156
Total liabilities	127,336,198	130,124,888	84,437	56,327	127,420,635	130,181,215
DEFERRED INFLOWS OF RESOURCES	6,136,172	5,761,808	-	-	6,136,172	5,761,808
NET POSITION (DEFICIT)						
Net investment in capital assets	41,876,228	39,178,850	147,116	145,610	42,023,344	39,324,460
Restricted	3,648,154	3,007,298	-	-	3,648,154	3,007,298
Unrestricted (deficit)	(77,958,948)	(78,082,010)	302,544	122,454	(77,656,404)	(77,959,556)
Total net position (deficit)	$ (32,434,566)	$ (35,895,862)	$ 449,660	$ 268,064	$ (31,984,906)	$ (35,627,798)

The District's total assets as of June 30, 2018 were $83,408,259 of which $23,745,559 or 28.47% consisted of cash and investments and $54,096,745 or 64.86% consisted of the District's net investment in capital assets. The District's total liabilities as of June 30, 2018 were $127,420,635 of which $11,713,597 or 9.19% consisted of general obligation debt used to acquire and construct capital assets and $95,418,398 or 74.88% consisted of the actuarially determined net pension liability.

The District had a deficit in unrestricted net position of $77,656,404 at June 30, 2018. The District's unrestricted net position increased by $303,152 during 2017-2018 primarily due to the current year results of core operations.

A portion of the District's net position reflects its restricted net position which totaled $3,648,154 as of June 30, 2018. All of the District's restricted net position related to amounts restricted for capital expenditures and debt service.

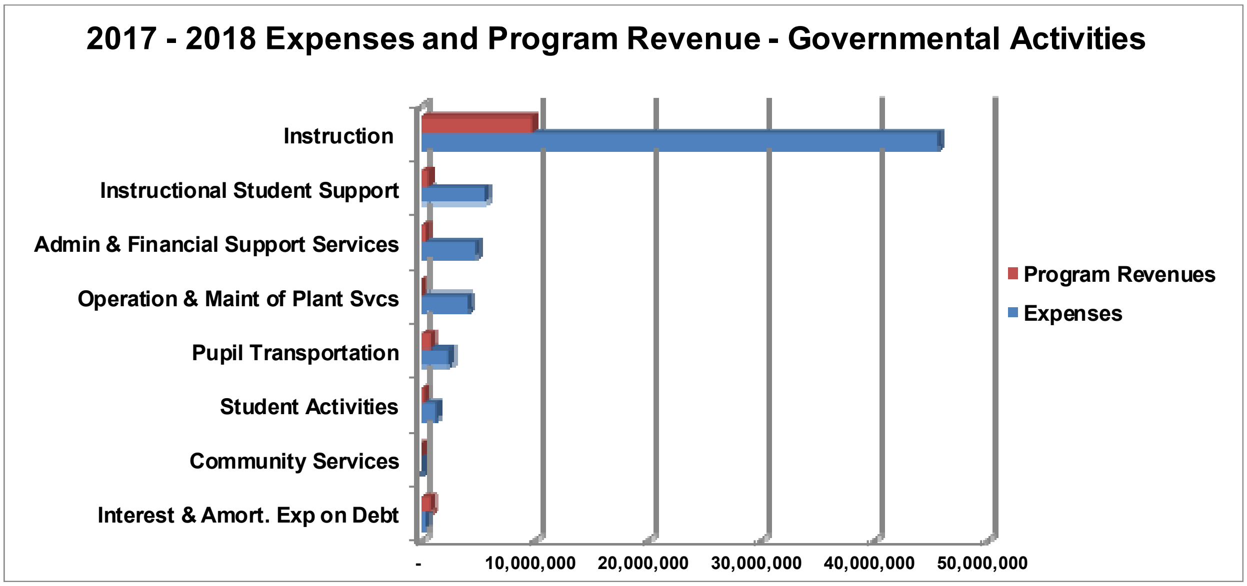
Another portion of the District's net position reflects its investment in capital assets net of accumulated depreciation less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. For the year ended June 30, 2018, the District's net investment in capital assets, increased by $2,698,884 because the debt used to acquire the capital assets was being repaid faster than the capital assets were being depreciated and capital assets were acquired with funding sources other than long-term debt.

The following table presents condensed information for the *Statement of Activities* of the District for 2018 and 2017:

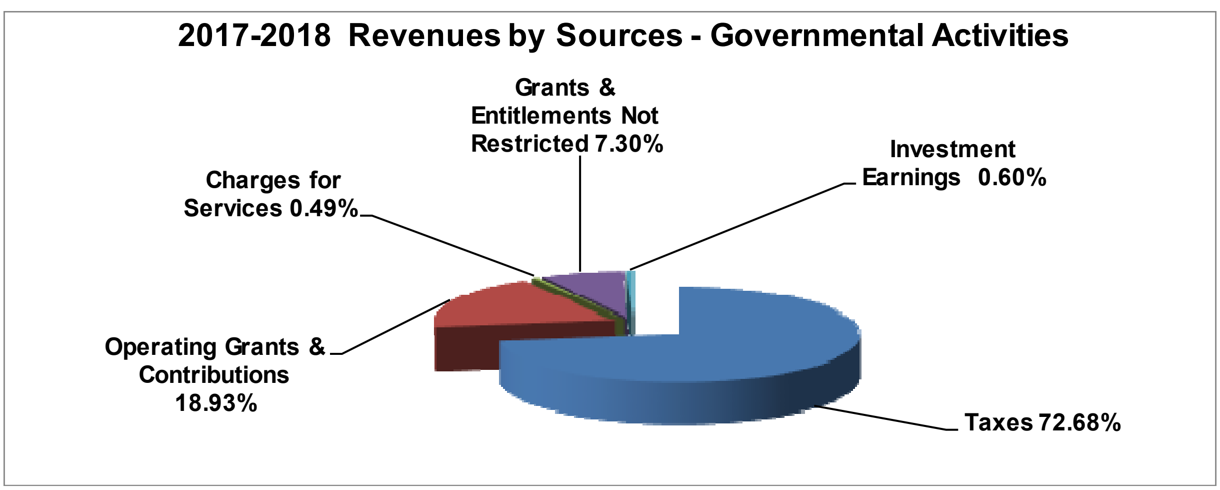
	Governmental Activities		Business-Type Activities		Totals	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
REVENUES						
Program revenues						
Charges for services	$ 335,007	$ 298,504	$ 699,024	$ 689,281	$ 1,034,031	$ 987,785
Operating grants and contributions	12,892,895	12,793,931	1,268,990	1,249,316	14,161,885	14,043,247
Capital grants and contributions	-	-	-	-	-	-
General revenues						
Property taxes levied for general purposes	43,531,100	42,226,172	-	-	43,531,100	42,226,172
Earned income taxes levied for general purposes	4,385,419	4,333,354	-	-	4,385,419	4,333,354
Other taxes	1,587,096	1,384,192	-	-	1,587,096	1,384,192
Grants and entitlements not restricted to specific programs	4,972,603	4,748,447	-	-	4,972,603	4,748,447
Investment earnings	409,578	184,945	4,494	1,961	414,072	186,906
Total revenues	68,113,698	65,969,545	1,972,508	1,940,558	70,086,206	67,910,103
EXPENSES						
Instruction	45,680,697	45,954,314	-	-	45,680,697	45,954,314
Instructional student support services	5,685,843	5,634,284	-	-	5,685,843	5,634,284
Administrative and financial support services	4,850,839	4,680,325	-	-	4,850,839	4,680,325
Operation and maintenance of plant services	4,123,673	4,224,275	-	-	4,123,673	4,224,275
Pupil transportation	2,489,895	2,295,965	-	-	2,489,895	2,295,965
Student activities	1,373,870	1,241,443	-	-	1,373,870	1,241,443
Community services	11,356	33,101	-	-	11,356	33,101
Interest and amortization expense related to non-current liabilities	426,029	694,858	-	-	426,029	694,858
Food service	-	-	1,801,112	1,815,121	1,801,112	1,815,121
Total expenses	64,642,202	64,758,565	1,801,112	1,815,121	66,443,314	66,573,686
Change in net position (deficit) before transfers	3,471,496	1,210,980	171,396	125,437	3,642,892	1,336,417
Transfers	(10,200)	(12,500)	10,200	12,500	-	-
CHANGE IN NET POSITION (DEFICIT)	$ 3,461,296	$ 1,198,480	$ 181,596	$ 137,937	$ 3,642,892	$ 1,336,417

Overall, the District's financial position has been improving but challenges such as increased medical costs, pension contributions, state-mandated programs and negotiated contracts have a potential to offset these gains in future fiscal years. Management of the District continues to aggressively implement cost efficiencies and revenue-generating strategies to combat these factors. In the governmental activities, the District's assessed property tax base drives the majority of the revenue generated. The District's property tax base is evenly distributed between residential and commercial properties, which deviates from the County average that tends to be more residential in nature. Successful property value tax assessment appeals related to commercial properties have offset gains in property tax assessments in recent years.

The *Statement of Activities* provides detail that focuses on how the District finances its services. The *Statement of Activities* compares the costs of the District functions and programs with the resources those functions and programs generate themselves in the form of program revenues. As demonstrated by the following graph, all of the District's governmental activities are not self-supporting, raising enough program revenue to cover their costs, as most traditional governmental services are not.



To the degree that the District's functions or programs cost more than they raise, the *Statement of Activities* shows how the District chose to finance the difference through general revenues. The following chart shows that the District relies on tax revenues to finance its governmental activities.



GOVERNMENTAL FUNDS

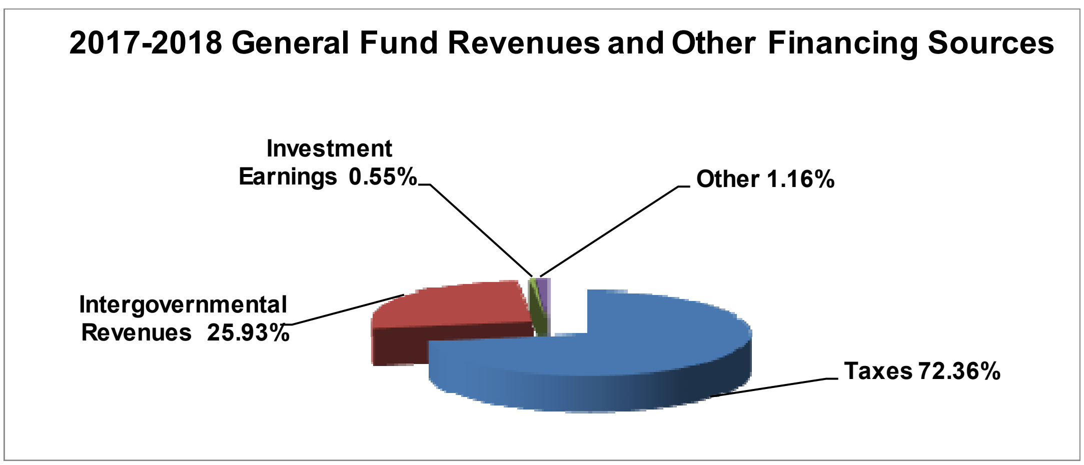
The governmental fund financial statements provide detailed information of the District's major funds. Some funds are required to be established by State statute while other funds are established by the District to manage monies restricted for a specific purpose. As of June 30, 2018, the District's governmental funds reported a combined fund balance of $17,391,824 which is an increase of $1,076,258 from the prior year. The following table summarizes the District's total governmental fund balances as of June 30, 2018 and 2017 and the total 2018 change in governmental fund balances.

	2018	2017	Change
General Fund	$13,672,586	$13,171,431	$ 501,155
Capital Projects Fund	3,415,136	2,813,325	601,811
Debt Service Fund	133,973	193,973	(60,000)
Nonmajor Governmental Funds	170,129	136,837	33,292
	$17,391,824	$16,315,566	$1,076,258

GENERAL FUND

The General Fund is the District's primary operating fund. At the conclusion of the 2017-2018 fiscal year, the General Fund fund balance was $13,672,586 representing an increase of $501,155 in relation to the prior year. The increase in the District's General Fund fund balance is due to many factors. The following analysis has been provided to assist the reader in understanding the financial activities of the General Fund during the 2017-2018 fiscal year.

The District's reliance upon tax revenues is demonstrated by the graph below that indicates 72.36% of General Fund revenues are derived from local taxes.



General Fund Revenues and Other Financing Sources

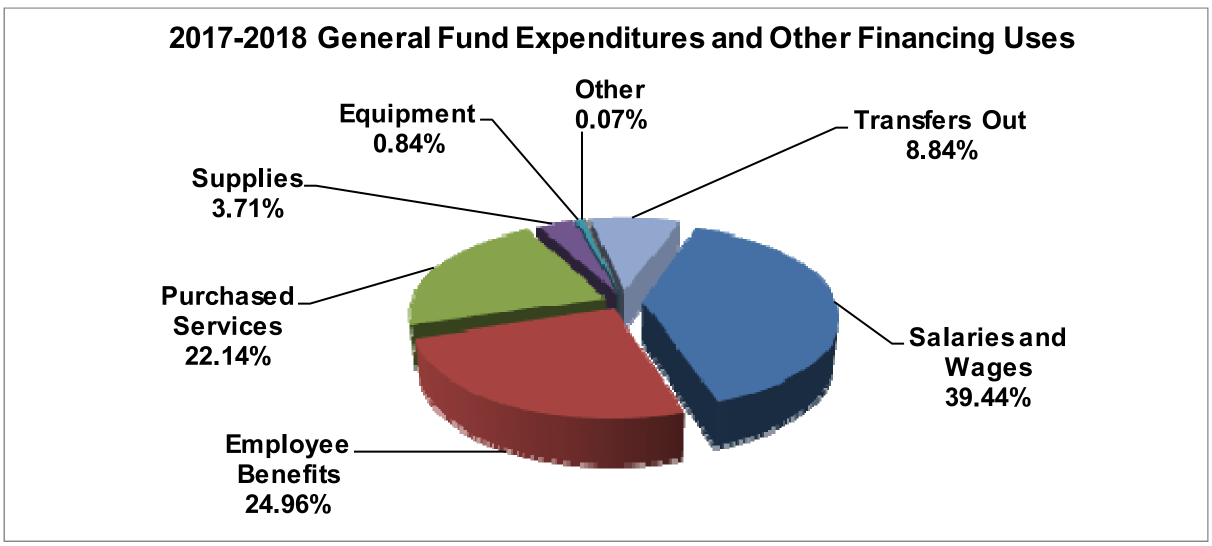
	2018	2017	$ Change	% Change
Tax revenues	$49,316,933	$47,870,303	$1,446,630	3.02
Intergovernmental revenues	17,675,681	17,386,772	288,909	1.66
Investment earnings	373,843	172,200	201,643	117.10
Other	787,321	658,383	128,938	19.58
	$68,153,778	$66,087,658	$2,066,120	3.13

Net tax revenues increased by $1,446,630 or 3.02% due to several factors. A millage increase of 2.50% in 2017-2018 and an increase in collections for current and delinquent real estate and transfer taxes accounted for a majority of the change.

	2018	2017	$ Change	% Change
Real estate tax	$42,346,972	$41,272,940	$1,074,032	2.60
Interim tax	322,778	345,240	(22,462)	(6.51)
PURTA tax	47,211	49,759	(2,548)	(5.12)
Local services tax	284,375	269,043	15,332	5.70
Earned income tax	4,385,419	4,333,354	52,065	1.20
Transfer tax	904,387	708,217	196,170	27.70
Amusement tax	348,867	348,927	(60)	(0.02)
Delinquent real estate tax	674,668	534,577	140,091	26.21
Delinquent per capita tax	2,256	8,246	(5,990)	(72.64)
	$49,316,933	$47,870,303	$1,446,630	3.02

Intergovernmental revenues increased primarily due to additional funding received for the state retirement subsidy which increased commensurate with the employer annual contribution percentage and an increase in the state appropriation for the basic education subsidy.

As the graph below illustrates, the largest portion of General Fund expenditures are for salaries and benefits. The District is an educational service entity and as such is labor intensive.



General Fund Expenditures and Other Financing Uses

	2018	2017	$ Change	% Change
Salaries and wages	$26,686,368	$26,043,509	$ 642,859	2.47
Employee benefits	16,886,713	16,074,543	812,170	5.05
Purchased services	14,979,747	15,122,582	(142,835)	(0.94)
Supplies	2,507,119	1,932,029	575,090	29.77
Equipment	568,274	978,784	(410,510)	(41.94)
Other	44,617	42,344	2,273	5.37
Debt service	-	112,091	(112,091)	(100.00)
Transfers out	5,979,785	5,865,760	114,025	1.94
	$67,652,623	$66,171,642	$1,480,981	2.24

Salaries and wages increased by $642,859 or 2.47% in 2017-2018 compared to 2016-2017 as a result of scheduled salary increases within the District’s negotiated collective bargaining agreement as well as increases for other staff.

Employee benefits increased by $812,170 or 5.05% primarily due to an increase in the required annual retirement contribution to 32.57% from 30.03% which represents an 8.46% increase from the prior year.

Purchased services decreased by $142,835 or 0.94% due to a revision in the chart of accounts mandated by the state classifying utilities as supplies instead of purchased services as reported in prior years. Electricity expenditures totaled approximately $500,000 which was offset by increases in special education services, charter schools and tuition paid to other educational agencies in 2017-2018 compared to 2016-2017.

Supplies increased by $575,090 or 29.77% due to a revision in the chart of accounts mandated by the state classifying utilities as supplies instead of purchased services as reported in prior years. Electricity expenditures totaled approximately $500,000 and accounted for a majority of the change from the prior year.

Equipment decreased by $410,510 or 41.94% due to a decrease in information technology equipment purchased in 2017-2018 compared to 2016-2017.

Transfers out in 2017-2018 and 2016-2017 represent transfers to the Capital Projects Fund and Debt Service Fund to subsidize capital expenditures and debt service maturities as they become due. During 2017-2018, transfers out increased due to an increase in transfers to the Capital Projects Fund when compared to 2016-2017.

CAPITAL PROJECTS FUND

The Capital Projects Fund accounts for construction and renovation activity associated with the District's buildings and major equipment purchases. The Capital Projects Fund receives the majority of its revenues from the issuance of general obligation debt and transfers from the General Fund. During 2017-2018, the Capital Projects Fund reported an increase in fund balance of $601,811 due to transfers from the General Fund in excess of amounts expended for capital expenditures. The remaining fund balance of $3,415,136 as of June 30, 2018 is restricted for future capital expenditures.

DEBT SERVICE FUND

The Debt Service Fund accounts for the interest and principal payments due on the District's outstanding general obligation debt. Transfers are made during the year from the General Fund to finance debt service payments as they become due. As of June 30, 2018, the fund balance in the Debt Service Fund was $133,973 and represents an interfund receivable from the General Fund.

GENERAL FUND BUDGET INFORMATION

Actual revenues and other financing sources were $1,440,036 or 2.16% more than budgeted amounts and actual expenditures and other financing uses were $699,744 or 1.02% less than budgeted amounts resulting in a net positive variance of $2,139,780. Major budgetary highlights for 2017-2018 were as follows:

Local source revenues exceeded budgeted amounts by $1,211,121 resulting from higher than anticipated collections for property taxes, earned income taxes and realty transfer taxes. Interest income was higher than budget as interest rates have begun to increase. Refund of prior years’ expenditures for workers compensation costs were higher than anticipated.

Federal source revenues exceeded budgeted amounts by $277,263 primarily due to larger than anticipated appropriations for IDEA (Individuals with Disabilities Education Act) and Title I and II funding.

Total operation and maintenance of plant services expenditures were $599,716 less than original budget. The favorable variance can be attributed to competitive bidding on projects as well as cost saving purchasing initiatives.

Total pupil transportation expenditures were $359,000 more than original budget. In prior years, the cost of bus aides were contracted through SOS of Lancaster. Those positions are now contracted through Brightbill Transportation, Inc. and, therefore, are included in the cost of the contracted transportation. In addition, the District contracted directly with Faithful Transportation, Inc. to provide additional transportation services.

The revenues and expenditures related to the Athletic Fund are recorded separately from the General Fund for internal reporting purposes. For financial statement purposes, the two funds are combined. The athletic expenditures are reported within the student activities function under operation of non-instructional services and the transfer from the General Fund to the Athletic Fund is netted out of the transfers out under other financing sources.

BUSINESS-TYPE ACTIVITIES AND FOOD SERVICE FUND

During 2017-2018, the net position of the business-type activities and Food Service Fund increased by $181,596. As of June 30, 2018, the business-type activities and Food Service Fund had net position of $449,660.

CAPITAL ASSETS

The District's net investment in capital assets for its governmental and business-type activities as of June 30, 2018 amounted to $54,096,745 net of accumulated depreciation. This investment in capital assets includes land, site improvements, buildings and improvements and furniture and equipment. The total decrease in the District's net investment in capital assets for the current fiscal year was $1,778,622 or 3.18%. The decrease was the result of current year depreciation expense and loss on disposals in excess of current capital additions.

Current year depreciation expense and loss on disposals were $3,328,245 and capital expenditures were $1,549,624.

Major capital additions for the current fiscal year included the following:

● Information technology equipment – capital lease	$536,155
● Leola Elementary School roof	$285,000

NONCURRENT LIABILITIES

At the end of the current fiscal year, the District had total general obligation debt of $11,713,597 consisting of $10,900,000 in bonds payable, $366,673 note payable and net deferred credits of $446,924. The entire amount is backed by the full faith and credit of the District. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior obligation debt. The District's general obligation debt decreased by $5,071,696 or 30.22% during the fiscal year.

State statutes limit the amount of general obligation debt the District may issue up to 225% of its borrowing base capacity which is calculated as the annual arithmetic average of the total revenues for the preceding three fiscal years. The current debt limitation for the District is $147,662,521 which exceeds the District's outstanding general obligation debt as of June 30, 2018.

The District reports its allocated portion of its defined benefit unfunded benefit obligation related to its participation in the Pennsylvania State Employee Retirement System (***"PSERS"***). The District's allocated portion of the net pension liability is an actuarially determined estimate of the unfunded cost of the pension plan obligation which totaled $95,418,398 as of June 30, 2018. The District's net pension liability decreased by $424,602 or 0.44% during the fiscal year.

The District reports a liability for its other post-employment benefits (***"OPEB"***) related to its single employer OPEB plan and its participation in the PSERS health insurance premium assistance program. The District’s OPEB liability is an actuarially determined estimate of the unfunded cost of the OPEB obligation which totaled $7,347,908 as of June 30, 2018. The District’s OPEB liability increased by $112,214 or 1.55% during the fiscal year.

Other noncurrent liabilities consist of the District's liabilities for capital leases, accrued retirement bonuses and compensated absences which totaled $1,566,679 as of June 30, 2018. These liabilities increased by $240,510 or 18.14% during the fiscal year.

The District has entered into two cash settled forward interest rate swaps designed to manage interest rate risk and cost and are intended to hedge interest rates on the future issuance of general obligation bonds.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District adopted a balanced 2018-2019 budget totaling $70,705,219 which used $611,490 of committed General Fund fund balance as of June 30, 2018 to balance the 2018-2019 budget and the real estate tax millage was increased by approximately 3.55%.

The School Board and Conestoga Valley Education Association negotiated a four year contract that began in 2015-2016 and extends through 2018-2019. The contract provides for salary increases of 2.95% for the first two years and 2.9% for the last two years. The contract also includes changes to the existing health insurance plan by offering a qualified high deductible plan with a health savings account in addition to a low and medium preferred provider plan. The changes have helped restrain healthcare cost increases. This contract will be renegotiated next year. The District also renewed its contract with SOS of Lancaster for another three years through years through 2020-2021 to provide food service, custodial, maintenance and instructional aide positions. As such, the District will continue to recognize annual savings in PSERS retirement and healthcare costs from these positions.

The District considers its financial condition to be sound and believes its local community support to be very positive. Future financial condition may be challenged by significant increases in the cost of District contributions to its employees' state retirement plan (contributions are paid by the District on behalf of its participating employees) although the employer contribution rate levels off in 2020-2021 and increases in that rate are not as significant.

The School Board authorized the District to move forward with the planning and financing of a new middle school encompassing grades 6 through 8, and completing needed renovations to the remaining buildings. This would allow the current Smoketown Elementary population to move to the existing Gerald G. Huesken Middle School building, as well as alleviate crowding in the remaining elementary schools. Since no designs have yet been constructed, and the District is still in the preliminary stages of the project, there is only an estimated cost for this move which is approximately $100 million. As the District moves further along with the projects, a more concrete dollar amount will then be determined. The plan is for the projects to be financed by issuing general obligation bonds; $10,000,000 in November, 2018, $40,000,000 in August, 2019, $40,000,000 in August, 2020 and the last $10,000,000 in June, 2021. In order to protect against interest rates from being higher in 2019 and 2020 than the current rates at this time, the District has put a cash settle hedge in place for the two $40,000,000 bond issues. As current debt is paid off, the structure and timing of the new bond issues will have minimal impact on the existing level of annual debt service payments. However, the District will need to continue to make room in upcoming budgets to phase in the additional debt service that is needed to fund these borrowings. The District has committed a portion of its General Fund balance for future debt service should there be a year where it is not able to be included in the General Fund budget.

Lancaster County underwent a real estate re-assessment where all property values in the county are revalued to current fair market values. The last re-assessment was performed in 2005. The school districts must then re-balance their millage rates to a revenue neutral millage rate before calculating any millage rate increase under Act 1. Because the reassessment was performed during the 2018-2019 budget preparation process, school districts are permitted to use the prior year's Act 1 index when calculating the permitted millage rate increase. As such, the District used the 2017-2018 index of 2.50% instead of the 2018-2019 index of 2.40%. The rebalanced millage rate is 12.9347. Using the 2.50% index, the millage rate increased by .3234 mills to 13.258. The District applied for and is using the special education exception. The use of this exception increases the millage rate by 0.1356 to 13.394, a 3.55% increase over the 2017-2018 millage rate.

Real estate tax revenues will increase in 2018-2019 due to the increase in the property tax rate. Other local revenues are projected to be essentially level for 2018-2019 compared to 2017-2018. With the exception of the increase in the state retirement and basic education subsidy, support from the Commonwealth of Pennsylvania is budgeted at levels consistent with the previous year. A new basic education subsidy formula was enacted beginning with the 2016-2017 fiscal year. The purpose of this new formula is to distribute this subsidy in an equitable manner according to various student and district factors such as student enrollment, district poverty levels and provides for a local wealth adjustment and a local tax effort and capacity adjustment. Under Act 1 of 2006, the District is subject to a "cap" or index on the amount of the real estate property tax rate it can assess on its properties. That index for the 2018-2019 fiscal year is 2.40% and the index for 2019-2020 will be 2.30%. The District may be eligible to apply for exceptions that would allow it to assess a real estate tax rate increase above this amount; however, these exceptions have been significantly reduced through legislation adopted during the 2011-2012 Commonwealth budget process.

The 2017-2018 fiscal year budget was prepared in accordance with the mandates of Act 1 of 2006 (***"Act 1"***). Act 1 is likely to continue to have an effect upon the financial activity of the District in future years. The Act places an (index) cap on the percent increase that the District may raise its real estate tax millage rate without requiring approval from voters in a back-end referendum. Certain exceptions may be approved by the Pennsylvania Department of Education for retirement or special education costs that would permit the District to exceed this index without requiring voter approval. The available exceptions have been reduced from ten exceptions that had been available to the District in previous years under Act 1 of 2006. In the event that the rate of increase would exceed this Act 1 index rate, including any permissible exceptions, the District would be required to place a referendum question on the primary election ballot asking the taxpayers to approve the higher millage rate increase. In order to facilitate this referendum process, the Act changes the budget timetable for school districts. Preliminary budget approval by the School Board is required 90 days prior to the primary election, and this proposed preliminary budget must be available for public inspection 20 days prior to approval by the School Board. School districts also have the option to adopt a resolution that the final budget will not exceed the (index) percent in the real estate tax rate to be assessed on properties located in the school district. This resolution must be passed by the board of school directors no less than 110 days prior to the primary election. The final date for availability for public inspection for the 2019-2020 preliminary budget or for adoption of a resolution not to exceed the index will be January 22, 2019. The (index) cap applicable to the District was 2.50% for the 2017-2018 fiscal year, 2.40% for the 2018-2019 fiscal year and will be 2.30% for the 2019-2020 budget year.

The District maintains an Aa2 rating from Moody’s, one of America’s top bond credit rating agencies. Citing "healthy financial reserves", "track record of conservative budgeting", "large and economically diverse tax base" and "low debt burden", Moody's assigned the District its third-highest rating, meaning it considers the District’s $10.9 million in outstanding debt high quality and very low credit risk to investors. As challenges, the agency listed rising contractual salary and benefit costs, by which it means the state’s burgeoning pension mandates, and only "average" demographics and wealth indices.

In conclusion, the District has committed itself to financial and educational excellence for the future. The District’s systems of budgeting and internal controls are well regarded and consistently followed. Continued diligence in all financial matters will be a key component of continued financial performance well into the future.

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Finance and Operations Officer or the Director of Finance, Conestoga Valley School District, 2110 Horseshoe Road, Lancaster, PA 17601.

CONESTOGA VALLEY SCHOOL DISTRICT

STATEMENT OF NET POSITION (DEFICIT)

June 30, 2018 with summarized comparative totals for 2017

	Governmental Activities	Business-type Activities	Totals 2018	Totals 2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
CURRENT ASSETS				
Cash	$ 7,126,004	$ 410,606	$ 7,536,610	$ 6,684,711
Investments	16,208,949	-	16,208,949	14,756,733
Taxes receivable	1,707,577	-	1,707,577	1,473,934
Due from other governments	2,785,482	142,661	2,928,143	2,985,386
Internal balances	231,094	(231,094)	-	-
Other receivables	454,004	21,650	475,654	311,292
Prepaid expenses	411,423	-	411,423	1,248,348
Inventories	-	43,158	43,158	33,138
Total current assets	28,924,533	386,981	29,311,514	27,493,542
NONCURRENT ASSETS				
Capital assets, net	53,949,629	147,116	54,096,745	55,875,367
Total assets	82,874,162	534,097	83,408,259	83,368,909
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charges on proportionate share of pension - PSERS	15,322,488	-	15,322,488	16,199,369
Deferred charges OPEB - single employer	304,245	-	304,245	-
Deferred charges on proportionate share of OPEB - PSERS	222,161	-	222,161	210,268
Accumulated decrease in fair value of hedging derivatives	2,006,606	-	2,006,606	-
Deferred amounts on debt refunding	308,142	-	308,142	536,679
Total deferred outflows of resources	18,163,642	-	18,163,642	16,946,316
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)				
CURRENT LIABILITIES				
Accounts payable	2,572,623	18,345	2,590,968	2,528,796
Accrued salaries, payroll withholdings and benefits	6,441,294	16,262	6,457,556	6,095,889
Accrued interest payable	134,419	-	134,419	217,888
Unearned revenue	134,674	49,830	184,504	148,486
Total current liabilities	9,283,010	84,437	9,367,447	8,991,059
NONCURRENT LIABILITIES				
Due within one year	5,524,029	-	5,524,029	5,218,276
Due in more than one year	112,529,159	-	112,529,159	115,971,880
Total noncurrent liabilities	118,053,188	-	118,053,188	121,190,156
Total liabilities	127,336,198	84,437	127,420,635	130,181,215
DEFERRED INFLOWS OF RESOURCES				
Deferred credits on proportionate share of pension - PSERS	5,930,000	-	5,930,000	5,625,000
Deferred credits on proportionate share of OPEB - PSERS	187,171	-	187,171	-
Grants received in advance	19,001	-	19,001	136,808
Total deferred inflows of resources	6,136,172	-	6,136,172	5,761,808
NET POSITION (DEFICIT)				
Net investment in capital assets	41,876,228	147,116	42,023,344	39,324,460
Restricted	3,648,154	-	3,648,154	3,007,298
Unrestricted (deficit)	(77,958,948)	302,544	(77,656,404)	(77,959,556)
Total net position (deficit)	$ (32,434,566)	$ 449,660	$ (31,984,906)	$ (35,627,798)

See accompanying notes

CONESTOGA VALLEY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year ended June 30, 2018 with summarized comparative totals for 2017

		Program Revenues			Net (Expense) Revenue and Changes in Net Position (Deficit)			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals 2018	Totals 2017
GOVERNMENTAL ACTIVITIES								
Instruction	$ 45,680,697	$ 130,554	$ 9,698,202	$ -	$ (35,851,941)	$ -	$ (35,851,941)	$ (36,399,099)
Instructional student support	5,685,843	-	681,530	-	(5,004,313)	-	(5,004,313)	(4,912,556)
Administrative and financial support services	4,850,839	-	453,520	-	(4,397,319)	-	(4,397,319)	(4,255,144)
Operation and maintenance of plant services	4,123,673	67,512	19,617	-	(4,036,544)	-	(4,036,544)	(4,110,431)
Pupil transportation	2,489,895	-	936,626	-	(1,553,269)	-	(1,553,269)	(1,404,244)
Student activities	1,373,870	136,941	188,206	-	(1,048,723)	-	(1,048,723)	(1,070,809)
Community services	11,356	-	-	-	(11,356)	-	(11,356)	(33,101)
Interest and amortization expense related to noncurrent liabilities	426,029	-	915,194	-	489,165	-	489,165	519,254
Total governmental activities	64,642,202	335,007	12,892,895	-	(51,414,300)	-	(51,414,300)	(51,666,130)
BUSINESS-TYPE ACTIVITIES								
Food service	1,801,112	699,024	1,268,990	-	-	166,902	166,902	123,476
Total primary government	$ 66,443,314	$ 1,034,031	$ 14,161,885	$ -	(51,414,300)	166,902	(51,247,398)	(51,542,654)
GENERAL REVENUES								
Property taxes levied for general purposes					43,531,100	-	43,531,100	42,226,172
Earned income taxes levied for general purposes					4,385,419	-	4,385,419	4,333,354
Other taxes					1,587,096	-	1,587,096	1,384,192
Grants and entitlements not restricted to specific programs					4,972,603	-	4,972,603	4,748,447
Investment earnings					409,578	4,494	414,072	186,906
TRANSFERS					(10,200)	10,200	-	-
Total general revenues and transfers					54,875,596	14,694	54,890,290	52,879,071
CHANGE IN NET POSITION (DEFICIT)					3,461,296	181,596	3,642,892	1,336,417
NET POSITION (DEFICIT)								
Beginning of year					(35,895,862)	268,064	(35,627,798)	(36,964,215)
End of year					$ (32,434,566)	$ 449,660	$ (31,984,906)	$ (35,627,798)

See accompanying notes

CONESTOGA VALLEY SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2018 with summarized comparative totals for 2017

	Major Funds					
	General Fund	Capital Projects Fund	Debt Service Fund	Nonmajor Governmental Funds	Totals 2018	Totals 2017
ASSETS						
Cash	$ 3,710,223	$ 1,513,339	$ -	$ 136,575	$ 5,360,137	$ 5,132,805
Investments	14,708,107	1,500,842	-	-	16,208,949	14,756,733
Taxes receivable	1,707,577	-	-	-	1,707,577	1,473,934
Due from other funds	277,405	500,000	133,973	10,320	921,698	434,558
Due from other governments	2,785,482	-	-	-	2,785,482	2,863,101
Other receivables	414,570	-	-	37,799	452,369	209,514
Prepaid items	383,445	-	-	-	383,445	1,222,890
Total assets	$ 23,986,809	$ 3,514,181	$ 133,973	$ 184,694	$ 27,819,657	$ 26,093,535
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
LIABILITIES						
Accounts payable	$ 2,012,808	$ 52,734	$ -	$ 14,565	$ 2,080,107	$ 2,004,353
Due to other funds	1,163,978	46,311	-	-	1,210,289	1,092,254
Accrued salaries, payroll withholdings and benefits	6,441,294	-	-	-	6,441,294	6,080,095
Unearned revenue	134,674	-	-	-	134,674	108,672
Total liabilities	9,752,754	99,045	-	14,565	9,866,364	9,285,374
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenues - property and per capita taxes	542,468	-	-	-	542,468	355,787
Grants received in advance	19,001	-	-	-	19,001	136,808
Total deferred inflows or resources	561,469	-	-	-	561,469	492,595
FUND BALANCES						
Nonspendable						
Prepaid expenses	383,445	-	-	-	383,445	1,222,890
Restricted for						
Capital projects	-	3,415,136	-	-	3,415,136	2,813,325
Debt service	-	-	133,973	-	133,973	193,973
Committed to						
Retirement rate stabilization	3,590,809	-	-	-	3,590,809	4,090,809
Health savings accounts	400,000	-	-	-	400,000	1,000,000
Future debt service obligations	1,836,000	-	-	-	1,836,000	-
Property tax assessment appeals	1,850,000	-	-	-	1,850,000	1,850,000
Assigned for						
Athletic facilities improvement	-	-	-	107,543	107,543	102,024
Extra-curricular activities	-	-	-	62,586	62,586	34,813
Unassigned	5,612,332	-	-	-	5,612,332	5,007,732
Total fund balances	13,672,586	3,415,136	133,973	170,129	17,391,824	16,315,566
Total liabilities, deferred inflows of resources fund balances	$ 23,986,809	$ 3,514,181	$ 133,973	$ 184,694	$ 27,819,657	$ 26,093,535

See accompanying notes

CONESTOGA VALLEY SCHOOL DISTRICT

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION (DEFICIT)

June 30, 2018

TOTAL GOVERNMENTAL FUND BALANCES	$ 17,391,824
Amounts reported for governmental activities in the statement of net position (deficit) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.	53,949,629
Deferred outflows of resources for deferred amounts on debt refunding are currently expended in the governmental funds, whereas they are capitalized and amortized over the life of the respective debt in the government-wide statement of net position (deficit).	308,142
Deferred outflows of resources and deferred inflows of resources related to pensions and other post-employment benefits are not reported as assets and liabilities in the governmental funds balance sheet.	9,731,723
Deferred outflows created from derivative hedging transactions are not reported as assets and liabilities in the governmental funds balance sheet.	2,006,606
Some of the District's property and per capita taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflows of resources on the governmental funds balance sheet.	542,468
The Internal Service Fund is used by management to charge the cost of health insurance claims to the General Fund. The assets and liabilities of the District's Internal Service Fund are included in the governmental activities on the government-wide statement of net position (deficit).	1,822,649
Noncurrent liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds balance sheet.	(118,053,188)
Accrued interest payable on long-term liabilities is included in the statement of net position (deficit), but is excluded from the governmental funds balance sheet until due and payable.	(134,419)
NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES	$ (32,434,566)

See accompanying notes

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

Year ended June 30, 2018 with summarized comparative totals for 2017

	Major Funds				Totals	
	General Fund	Capital Projects Fund	Debt Service Fund	Nonmajor Governmental Funds	2018	2017
REVENUES						
Local sources	$ 50,627,988	$ 595,140	$ -	$ 100,540	$ 51,323,668	$ 48,923,619
State sources	14,594,679	-	-	-	14,594,679	14,125,633
Federal sources	2,904,504	-	-	-	2,904,504	3,144,205
Total revenues	68,127,171	595,140	-	100,540	68,822,851	66,193,457
EXPENDITURES						
Current						
Instruction	42,966,980	536,155	-	-	43,503,135	42,797,809
Support services	17,371,308	561,810	-	-	17,933,118	16,487,629
Operation of noninstructional services	1,334,550	-	-	67,248	1,401,798	1,285,914
Facilities acquisition, construction and improvement services	-	108,447	-	-	108,447	473,558
Debt service	-	-	5,352,657	-	5,352,657	5,468,105
Total expenditures	61,672,838	1,206,412	5,352,657	67,248	68,299,155	66,513,015
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	6,454,333	(611,272)	(5,352,657)	33,292	523,696	(319,558)
OTHER FINANCING SOURCES (USES)						
Refund of prior year receipts	-	-	-	-	-	(2,830)
Sale of/compensation for capital assets	26,607	-	-	-	26,607	-
Proceeds from extended term financing	-	536,155	-	-	536,155	344,400
Transfers in	-	676,928	5,292,657	-	5,969,585	5,856,460
Transfers out	(5,979,785)	-	-	-	(5,979,785)	(5,868,960)
Total other financing sources (uses)	(5,953,178)	1,213,083	5,292,657	-	552,562	329,070
NET CHANGE IN FUND BALANCES	501,155	601,811	(60,000)	33,292	1,076,258	9,512
FUND BALANCES						
Beginning of year	13,171,431	2,813,325	193,973	136,837	16,315,566	16,306,054
End of year	$ 13,672,586	$ 3,415,136	$ 133,973	$ 170,129	$ 17,391,824	$ 16,315,566

See accompanying notes

CONESTOGA VALLEY SCHOOL DISTRICT

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF ACTIVITIES

Year ended June 30, 2018

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS		$ 1,076,258
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 and reported as depreciation expense. This is the amount by which depreciation expense and loss on disposal of capital assets exceeded capital outlays in the current period.		
Capital outlay expenditures	$ 1,525,652	
Depreciation expense	(3,196,016)	
Loss on disposal of capital assets	(109,763)	(1,780,127)
Because some property and per capita taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred inflows of resources increased by this amount in the current period.		
Deferred inflows of resources June 30, 2017	(355,787)	
Deferred inflows of resources June 30, 2018	542,468	186,681
The Internal Service Fund is used by management to charge the cost of health insurance claims to the General Fund. The change in net position of the Internal Service Fund is reported with the governmental activities.		32,893
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on the change in net position of governmental activities. Also, governmental funds report the effect of premiums, discounts and similar items when long-term debt is 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 debt and related items.		
Repayment of bonds and notes payable	4,831,666	
Proceeds from extended term financing	(536,155)	
Repayment of extended term financing	269,547	
Amortization of discounts, premiums and deferred amounts on refunding	11,493	4,576,551
Some expenses reported in the statement of activities do not require the use of current financial resources, and, therefore are not reported as expenditures on governmental funds.		
Current year change in accrued interest payable	83,469	
Current year change in compensated absences	(35,642)	
Current year change in accrued retirement bonus	61,740	
Current year change in net pension liability - PSERS and deferred outflows and inflows	(757,280)	
Current year change in OPEB liability - single employer and deferred outflows and inflows	(37,504)	
Current year change in net OPEB liability - PSERS and deferred outflows and inflows	54,257	(630,960)
CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES		$ 3,461,296

See accompanying notes

CONESTOGA VALLEY SCHOOL DISTRICT

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

June 30, 2018 with summarized comparative totals for 2017

	Major Fund Food Service Fund	Internal Service Fund	Totals 2018	Totals 2017
ASSETS				
CURRENT ASSETS				
Cash	$ 410,606	$ 1,765,867	$ 2,176,473	$ 1,551,906
Due from other governments	142,661	-	142,661	122,285
Due from other funds	-	519,685	519,685	881,767
Other receivables	21,650	1,635	23,285	101,778
Prepaid expenses	-	27,978	27,978	25,458
Inventories	43,158	-	43,158	33,138
Total current assets	618,075	2,315,165	2,933,240	2,716,332
NONCURRENT ASSETS				
Capital assets, net	147,116	-	147,116	145,610
Total assets	765,191	2,315,165	3,080,356	2,861,942
LIABILITIES AND NET POSITION				
LIABILITIES				
Accounts payable	18,345	492,516	510,861	524,443
Due to other funds	231,094	-	231,094	224,071
Accrued salaries, payroll withholdings and benefits	16,262	-	16,262	15,794
Unearned revenue	49,830	-	49,830	39,814
Total liabilities	315,531	492,516	808,047	804,122
NET POSITION				
Net investment in capital assets	147,116	-	147,116	145,610
Unrestricted	302,544	1,822,649	2,125,193	1,912,210
Total net position	$ 449,660	$ 1,822,649	$ 2,272,309	$ 2,057,820

See accompanying notes

CONESTOGA VALLEY SCHOOL DISTRICT

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

Year ended June 30, 2018 with summarized comparative totals for 2017

	Major Fund Food Service Fund	Internal Service Fund	Totals 2018	Totals 2017
OPERATING REVENUES				
Charges for services	$ 699,024	$ 5,032,950	$ 5,731,974	$ 5,750,819
OPERATING EXPENSES				
Salaries	106,422	-	106,422	95,409
Employee benefits	57,955	4,622,412	4,680,367	4,663,656
Purchased services - food service management	701,468	-	701,468	715,944
Purchased professional and technical services	5,415	397,417	402,832	440,474
Purchased property services	16,209	-	16,209	33,036
Other purchased services	6,619	-	6,619	4,857
Supplies	883,362	-	883,362	888,268
Depreciation	22,322	-	22,322	21,725
Other	1,196	-	1,196	2,357
Total operating expenses	1,800,968	5,019,829	6,820,797	6,865,726
Operating income (loss)	(1,101,944)	13,121	(1,088,823)	(1,114,907)
NONOPERATING REVENUES (EXPENSES)				
Earnings on investments	4,494	19,772	24,266	9,141
State sources	82,811	-	82,811	78,108
Federal sources	1,186,179	-	1,186,179	1,171,208
Loss on disposal of capital assets	(144)	-	(144)	-
Total nonoperating revenues (expenses)	1,273,340	19,772	1,293,112	1,258,457
Change in net position before transfers	171,396	32,893	204,289	143,550
Transfers in	10,200	-	10,200	12,500
CHANGE IN NET POSITION	181,596	32,893	214,489	156,050
NET POSITION				
Beginning of year	268,064	1,789,756	2,057,820	1,901,770
End of year	$ 449,660	$ 1,822,649	$ 2,272,309	$ 2,057,820

See accompanying notes

CONESTOGA VALLEY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year ended June 30, 2018 with summarized comparative totals for 2017

	Major Fund Food Service Fund	Internal Service Fund	Totals 2018	Totals 2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from charges for services	$ 696,807	$ -	$ 696,807	$ 700,698
Cash received from assessments made to other funds	-	5,484,794	5,484,794	4,510,725
Cash payments to employees for services	(163,909)	-	(163,909)	(141,378)
Cash payments for insurance claims	-	(4,656,140)	(4,656,140)	(4,578,522)
Cash payments to supplies for goods and services	(1,454,804)	-	(1,454,804)	(2,172,300)
Cash payments for other operating expenses	-	(397,417)	(397,417)	(437,654)
Net cash provided by (used for) operating activities	(921,906)	431,237	(490,669)	(2,118,431)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State sources	83,559	-	83,559	71,187
Federal sources	1,021,183	-	1,021,183	965,370
Transfers in	10,200	-	10,200	12,500
Net cash provided by noncapital financing activities	1,114,942	-	1,114,942	1,049,057
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(23,972)	-	(23,972)	(12,799)
CASH FLOWS FROM INVESTING ACTIVITIES				
Earnings on investments	4,494	19,772	24,266	9,141
Net sale (purchase) of investments	-	-	-	811,766
Net cash provided by investing activities	4,494	19,772	24,266	820,907
Net increase (decrease) in cash	173,558	451,009	624,567	(261,266)
CASH				
Beginning of year	237,048	1,314,858	1,551,906	1,813,172
End of year	$ 410,606	$ 1,765,867	$ 2,176,473	$ 1,551,906
Reconciliation of operating loss to net cash provided by (used for) operating activities:				
Operating income (loss)	$ (1,101,944)	$ 13,121	$ (1,088,823)	$ (1,114,907)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities				
Depreciation	22,322	-	22,322	21,725
Donated commodities used	143,872	-	143,872	149,633
(Increase) decrease in				
Due from other funds	-	362,082	362,082	(662,368)
Other receivables	(12,233)	90,726	78,493	122,760
Prepaid expenses	-	(2,520)	(2,520)	(25,458)
Inventories	(10,020)	-	(10,020)	8,304
Increase (decrease) in				
Accounts payable	17,626	(31,208)	(13,582)	45,364
Due to other funds	7,987	(964)	7,023	(667,468)
Accrued salaries, payroll withholdings and benefits	468	-	468	4,736
Unearned revenue	10,016	-	10,016	(752)
Net cash provided by (used for) operating activities	$ (921,906)	$ 431,237	$ (490,669)	$ (2,118,431)
SUPPLEMENTAL DISCLOSURE				
Noncash noncapital financing activity				
USDA donated commodities	$ 147,985	$ -	$ 147,985	$ 149,633

See accompanying notes

CONESTOGA VALLEY SCHOOL DISTRICT

STATEMENT OF NET POSITION - FIDUCIARY FUNDS

June 30, 2018

	Private-Purpose Trust	Agency
ASSETS		
Cash	$ 185,750	$ 174,075
LIABILITIES		
Due to student groups	-	$ 174,075
NET POSITION		
Net position held in trust for scholarships	$ 185,750	

See accompanying notes

CONESTOGA VALLEY SCHOOL DISTRICT

STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUND

Year ended June 30, 2018 with summarized comparative totals for 2017

	Private-Purpose Trust Fund	
	2018	**2017**
ADDITIONS		
Local contributions	$ 14,755	$ 1,476
DEDUCTIONS		
Scholarships awarded and fees paid	11,600	10,600
CHANGE IN NET POSITION	3,155	(9,124)
NET POSITION		
Beginning of year	182,595	191,719
End of year	$ 185,750	$ 182,595

See accompanying notes

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Conestoga Valley School District (the ***"District"***) operates four elementary schools, one middle school and a high school and an online virtual academy to provide education and related services to the residents in the Townships of East Lampeter, Upper Leacock and West Earl. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania as a school district of the third class. The District operates under a locally elected nine-member board form of government (the ***"School Board"***).

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

Reporting Entity

GASB has established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. In evaluating the District as a reporting entity, management has addressed all potential component units which may or may not fall within the District's accountability. The criteria used to evaluate component units for possible inclusion as part of the District's reporting entity are financial accountability and the nature and significance of the relationship. The District is considered to be an independent reporting entity and has no component units.

Basis of Presentation

Government-Wide Financial Statements

The statement of net position (deficit) and the statement of activities display information about the District as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities. These statements include the financial activities of the primary government except for fiduciary funds.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flow. 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 as further defined below. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements of governmental funds.

The government-wide statement of net position (deficit) presents the financial position of the District which is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources and is classified in one of three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing or improving those assets. The net position of the District is reported as restricted when constraints placed on net position use is either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Unrestricted net position is the net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

The statement of net position (deficit) includes separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time.

The government-wide statement of activities presents a comparison between expenses and program revenues for each function of the business-type activities of the District and for each governmental function. Expenses are those that are specifically associated with a service or program and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the District.

Except for interfund activity and balances between the funds that underlie governmental activities and the funds that underlie business-type activities, which are reported as transfers and internal balances, the effect of interfund activity has been removed from these statements.

Fund Financial Statements

During the school year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Fiduciary fund financial statements are presented by fund type.

Governmental Funds

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. The District reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Projects Fund accounts for financial resources restricted, committed or assigned to be used for capital expenditures or for the acquisition, construction of capital facilities, improvements and/or equipment.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of long-term principal, interest and other related costs.

In addition, the District reports the following nonmajor governmental funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. These funds include the District’s Athletic Facilities Improvement Fund and Extra-Curricular Fund.

Revenue Recognition

In applying the "susceptible to accrual concept" under the modified accrual basis, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Deferred inflows of resources are reported in connection with receivables for tax revenues that are not considered to be available to liquidate liabilities of the current period. Revenue from federal, state and other grants designated for payment of specific District expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as unearned revenues until earned. Other receipts are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, special termination benefits, other post-employment benefits and claims and judgments are recorded only when payment is due. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Proprietary Funds

Like the government-wide financial statements, proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Allocations of certain costs, such as depreciation, are recorded in proprietary funds. The District reports the following proprietary funds:

The Food Service Fund accounts for the revenues and costs of providing meals to students during the school year.

The Internal Service Fund is used to account for the District's self-funded health insurance and unemployment programs.

These funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the District's proprietary funds are charges for services. Operating expenses for the District's proprietary funds include payroll, employee benefits, supplies and administrative costs. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary Funds

Fiduciary funds account for the assets held by the District as a trustee or agent for individuals, private organizations and/or governmental units and are, therefore, not available to support the District's own programs. The District accounts for these assets in a private-purpose trust and agency fund. The private-purpose trust fund accounts for activities in various scholarship accounts, whose sole purpose is to provide annual scholarships to particular students as described by donor stipulations. The agency fund accounts for funds held on behalf of the students in the District. The measurement focus and basis of accounting for the private-purpose trust is the same as for proprietary funds, while the agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

Investments are stated at fair value based upon quoted market prices, except for certificates of deposit which are recorded at cost, which approximates fair value.

Fair Value Measurements of Assets and Liabilities

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the District. Unobservable inputs reflect the District's assumptions about the inputs market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the District has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these assets and liabilities does not require a significant degree of judgment.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable, that is, inputs that reflect the District's own assumptions.

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/due from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes

Taxes are levied on July 1 and are payable in the following periods:

July 1 – August 31	-	Discount period, 2% of gross levy
September 1 – October 31	-	Face period
November 1 to collection	-	Penalty period, 10% of gross levy
January 1	-	Lien date

The County Board of Assessments determines assessed valuations of property and the Lancaster County Tax Collection Bureau bills and collects its own property taxes. The tax on real estate for public school purposes for fiscal 2017-2018 was 16.322 mills ($16.32 for $1,000 of assessed valuation). The District experiences very small losses from uncollectible property taxes. Property taxes constitute a lien against real property and usually can be collected in full when title transfers. Only balances that remain after tax sales are written off each year. Accordingly, an allowance for doubtful accounts has not been established by the District for property taxes receivable.

Taxpayers within the District have the option of paying in three installments. These installments have the following due dates:

Installment One	-	August 31
Installment Two	-	October 31
Installment Three	-	December 31

The discount (two percent) is not applicable to installment payments; however, the penalty (10 percent) will be added if second and third installments are paid subsequent to the due dates.

Unearned Revenues

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Prepaid Items and Inventories

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide and fund financial statements.

All inventories are valued at the lower of cost (first-in, first-out method) or market.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than $4,000 and estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed, inclusive of ancillary costs.

Property, plant and equipment (net of salvage value) of the District is depreciated using the straight-line method over the following estimated useful lives: site improvements – 15 years; buildings and improvements – 20-50 years; furniture and equipment – 3-10 years.

Impairment of Long-Lived Assets

The District evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. If a capital asset is considered to be impaired, the amount of impairment is measured by the method that most reflects the decline in service utility of the capital asset at the lower of carrying value or fair value for impaired capital assets that will no longer be used by the District. No impairment losses were recognized in the year ended June 30, 2018.

Compensated Absences

District policies permit employees to accumulate earned but unused vacation, personal and sick days. The liability for these compensated absences is recorded as a noncurrent liability in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only to the extent they have matured, for example, as a result of employee resignations and retirements.

Accrued Retirement Bonus

Upon voluntary retirement, employees with qualifying years of service according to their respective employment contract are eligible to receive a lump sum retirement bonus.

Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bonds payable are reported net of the applicable bond premium or discount. Bond premiums and discounts are deferred and amortized over the life of the bonds. Deferred amounts on refunding are recorded as a deferred outflow of resources and amortized over the life of the old debt or the life of the new debt, whichever is shorter. All amounts are amortized using the straight-line method.

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

Fund Equity

As prescribed by GASB, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the fund can be spent. The District reports the following fund balance classifications:

Non-spendable

Non-spendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form – such as inventory or prepaid insurance or (b) legally or contractually required to be maintained intact – such as a trust that must be retained in perpetuity.

Restricted

Restricted fund balances are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Committed

Committed fund balances are amounts that can only be used for specific purposes determined by a formal action of the District's highest level of decision-making authority, the School Board. Committed amounts cannot be used for any other purpose unless the School Board removes those constraints by taking the same type of formal action (e.g., resolution).

Assigned

Assigned fund balances are amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Assigned amounts are reviewed and approved by the Board.

Assigned fund balance includes (a) all remaining amounts that are reported in governmental funds (other than the General Fund) that are not classified as non-spendable, restricted or committed, and (b) amounts in the General Fund that are intended to be used for a specific purpose. Specific amounts that are not restricted or committed in a special revenue fund or the capital projects fund are assigned for purposes in accordance with the nature of their fund type.

Unassigned

Unassigned fund balance is the residual classification for the General Fund. This classification represents General Fund balance that has not been assigned to other funds, and that has not been restricted, committed or assigned to specific purposes within the General Fund.

When both restricted and unrestricted resources are available for use, it is the District's policy to use externally restricted resources first, then unrestricted resources–committed, assigned or unassigned–in order as needed.

The School Board has set a General Fund maximum unassigned fund balance of 8% of the following year's expenditure budget in accordance with guidelines prescribed by the Pennsylvania Department of Education.

Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation. However, presentation of prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the District's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Use of Estimates

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

Implementation of New Accounting Pronouncements

Effective July 1, 2017, the District adopted the provisions of GASB Statement No. 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"*, GASB Statement No. 80 *"Blending Requirements for Certain Component Units-amendment of GASB Statement No. 14",* GASB Statement No. 81, *"Irrevocable Split-Interest Agreements",* GASB Statement No. 82, *"Pension Issues-an amendment of GASB Statements No. 67, No. 68 and No. 73";* GASB Statement No. 85, *"Omnibus 2017"* and GASB Statement No. 86*, "Certain Debt Extinguishment Issues".*

GASB Statement No. 75 replaces the requirements of GASB Statement No. 45 and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. GASB Statement No. 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (***"RSI"***) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

GASB Statement No. 80 amended the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39, *"Determining Whether Certain Organizations Are Component Units"*.

GASB Statement No. 81 required that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, GASB Statement No. 81 required that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. GASB Statement No. 81 required that a government recognize revenue when the resources become applicable to the reporting period. The implementation of GASB Statement No. 81 had no impact on the financial statements of the District for the year ended June 30, 2018.

GASB Statement No. 82 addressed issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an actuarial standard of practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

GASB Statement No. 85 established accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

GASB Statement No. 86 established standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources—that is, resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the purpose of extinguishing debt. GASB Statement No. 86 also amended accounting and financial reporting requirements for prepaid insurance associated with debt that is extinguished, whether through a legal extinguishment or through an insubstance defeasance, regardless of how the cash and other monetary assets were acquired. Finally, GASB Statement No. 86 established an additional disclosure requirement related to debt that is defeased in substance, regardless of how the cash and other monetary assets were acquired. The implementation of GASB Statement No. 86 had no impact on the financial statements of the District for the year ended June 30, 2018.

New Accounting Pronouncements

GASB Statement No. 83, *"Certain Asset Retirement Obligations"* will be effective for the District for the year ended June 30, 2019. GASB Statement No. 83 addresses accounting and financial reporting for certain asset retirement obligations (***"AROs"***). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in GASB Statement No. 83.

GASB Statement No. 84, *"Fiduciary Activities"* will be effective for the District for the year ended June 30, 2019. The objective GASB Statement No. 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

GASB Statement No. 87, *"Leases"* will be effective for the District for the year ended June 30, 2021. The objective of GASB Statement No. 87 is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. GASB Statement No. 87 increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB Statement No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about leasing activities.

(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

An annual budget is adopted prior to the beginning of each year for the General Fund on a modified accrual basis of accounting. The General Fund is the only fund for which a budget is legally required, although project-length financial plans are adopted for the Capital Projects fund.

The District is required to publish notice by advertisement at least once in a newspaper of general circulation in the municipalities in which it is located, and within 20 days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative offices of the District. Notice that public hearings will be held on the proposed operating budget must be included in the advertisement; such hearings are required to be scheduled at least 10 days prior to when final action on adoption is taken by the School Board.

After the legal adoption of the budget, the School Board is required to file a copy of the budget with the Pennsylvania Department of Education by July 31. Additional copies of the budget also are required to be filed with the Housing Education Committee and the Senate Education Committee by September 15.

Legal budgetary control is maintained at the sub-function/major object level. The School Board may make transfers of funds appropriated in any particular item of expenditure by legislative action in accordance with Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without approval from the School Board. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments.

(3) DEPOSITS AND INVESTMENTS

State statutes authorize the District to invest in U.S. Treasury bills, U.S. agencies, time or share accounts of institutions insured by the Federal Deposit Insurance Corporation or in certificates of deposit when they are secured by proper bond or collateral, repurchase agreements, local government investment pools or mutual funds.

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At June 30, 2018, the carrying amount of the District's deposits was $7,896,435 and the bank balance was $7,971,564. The District is required by state statute to deposit funds in depositories that are either banks, banking institutions or trust companies located in Commonwealth of Pennsylvania. To the extent that such deposits exceed federal insurance, the depositories must pledge as collateral obligations of the United States, Commonwealth of Pennsylvania or any political subdivision. Under Act 72 of 1971, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit. Of the bank balance, $250,000 was covered by federal depository insurance and $466,858 was collateralized by the District's depositories in accordance with Act 72. The remaining cash deposits of the District are in the Pennsylvania School District Liquid Asset Fund (***"PSDLAF"***) and the Pennsylvania Local Government Investment Trust (***"PLGIT"***). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF and PSDLAF act like money market mutual funds in that their objective is to maintain a stable net asset value of $1 per share, are rated by a nationally recognized statistical rating organization and are subject to an independent annual audit. As of June 30, 2018, PSDLAF and PLGIT were rated as AAA by a nationally recognized statistical rating agency.

Investments

At June 30, 2018, the District had the following investments:

Certificates due within one year –	
Collateral held by pledging bank's agent in the District's name	$16,208,949

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investments or collateral security that are in the possession of an outside party. The District had no investments subject to custodial credit risk as of June 30, 2018.

Interest Rate Risk

The District's investment policy limits investment maturities in accordance with state statutes as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The District's investment policy limits its investments that are not backed by the "full faith and credit" of the federal and state government to those with the highest credit rating available for such investments issued by a recognized statistical rating organization.

(4) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	$ 2,152,701	$ -	$ -	$ 2,152,701
Construction in progress	113,700	98,245	113,700	98,245
Total capital assets not being depreciated	2,266,401	98,245	113,700	2,250,946
Capital assets being depreciated				
Site improvements	1,965,490	331,126	-	2,296,616
Buildings and improvements	94,527,961	314,114	-	94,842,075
Furniture and equipment	8,414,809	895,866	1,014,097	8,296,578
Total capital assets being depreciated	104,908,260	1,541,106	1,014,097	105,435,269
Less accumulated depreciation for				
Site improvements	(1,819,565)	(32,767)	-	(1,852,332)
Buildings and improvements	(44,710,284)	(2,146,498)	-	(46,856,782)
Furniture and equipment	(4,915,055)	(1,016,751)	(904,334)	(5,027,472)
Total accumulated depreciation	(51,444,904)	(3,196,016)	(904,334)	(53,736,586)
Total capital assets being depreciated, net	53,463,356	(1,645,910)	109,763	51,698,683
Governmental activities, net	$ 55,729,757	$(1,556,665)	$ 223,463	$ 53,949,629
Business-type activities				
Machinery and equipment	$ 1,076,759	$ 23,972	$ 479	$ 1,100,252
Less accumulated depreciation	(931,149)	(22,322)	(335)	(953,136)
Business-type activities, net	$ 145,610	$ 1,650	$ 144	$ 147,116

Depreciation expense was charged to functions/programs of the District as follows:

Governmental activities	
Instruction	$2,603,946
Instructional student support	62,027
Administrative and financial support services	78,563
Operation and maintenance of plant services	382,142
Pupil transportation	15,143
Student activities	54,195
Total depreciation expense – governmental activities	$3,196,016
Business-type activities	
Food service	$ 22,322

As of June 30, 2018, the District had an outstanding commitment for architect costs for future capital projects to be completed. The amount remaining on the outstanding contract is approximately $2,086,595.

(5) INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2018 is as follows:

Receivable To	Amount	Payable From	Amount
Debt Service Fund	$ 133,973	General Fund	$ 133,973
General Fund	231,094	Food Service Fund	231,094
Internal Service Fund	519,685	General Fund	519,685
General Fund	46,311	Capital Projects Fund	46,311
Capital Projects Fund	500,000	General Fund	500,000
Nonmajor Governmental Funds	10,320	General Fund	10,320
	$1,441,383		$1,441,383

Interfund balances between funds represent temporary loans recorded at year-end as the result of a final allocation of expenses.

A summary of interfund transfers for the year ended June 30, 2018 is as follows:

Transfers In	Amount	Transfers Out	Amount
Capital Projects Fund	$ 676,928	General Fund	$ 676,928
Debt Service Fund	5,292,657	General Fund	5,292,657
Food Service Fund	10,200	General Fund	10,200
	$5,979,785		$5,979,785

Transfers from the General Fund represent transfers to subsidize costs associated with the acquisition of capital assets, debt service requirements and food service operations.

(6) CHANGE IN NONCURRENT LIABILITIES

The following summarizes the changes in noncurrent liabilities for the year ended June 30, 2018:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018	Amount Due Within One Year
Governmental activities					
General obligation debt					
Bonds payable	$ 15,665,000	$ -	$ 4,765,000	$ 10,900,000	$ 5,020,000
Notes payable	433,339	-	66,666	366,673	66,666
Bond premiums	686,954	-	240,030	446,924	223,593
Total general obligation debt	16,785,293	-	5,071,696	11,713,597	5,310,259
Other noncurrent liabilities					
Capital leases payable	302,293	536,155	269,547	568,901	213,770
Compensated absences	560,826	35,642	-	596,468	-
Accrued retirement bonuses	463,050	-	61,740	401,310	-
OPEB obligation	3,069,879	482,635	140,886	3,411,628	-
OPEB obligation - PSERS	4,165,815	-	229,535	3,936,280	-
Net pension liability – PSERS	95,843,000	-	424,602	95,418,398	-
Derivative instrument liability					
Interest rate swap	-	2,006,606	-	2,006,606	-
Total other noncurrent liabilities	104,404,863	3,061,038	1,126,310	106,339,591	213,770
Total noncurrent liabilities	$ 121,190,156	$ 3,061,038	$ 6,198,006	$ 118,053,188	$ 5,524,029

Noncurrent liabilities of governmental activities are generally liquidated by the General Fund.

(7) GENERAL OBLIGATION DEBT

General obligation debt is a direct obligation of the District for which full faith and credit are pledged and is payable from unrestricted local sources. The District has not pledged any assets as collateral for general obligation debt. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior general obligation debt.

General obligation debt outstanding as of June 30, 2018 consisted of the following:

Description	Interest Rate(s)	Original Issue Amount	Final Maturity	Principal Outstanding
General obligation bonds				
Series of 2012	0.65% - 4.00%	$25,960,000	01/15/2020	$ 7,315,000
Series of 2014	0.40% - 2.00%	$ 3,605,000	04/01/2021	3,585,000
Total general obligation bonds				10,900,000
General obligation note				
Series of 2008	3.77% - 6.00%	$ 1,000,000	08/21/2023	366,673
Total general obligation debt				$11,266,673

Annual debt service requirements to maturity on these obligations are as follows:

Year ending June 30,			
2019	$ 5,086,666	$333,747	$ 5,420,413
2020	4,766,666	154,652	4,921,318
2021	1,246,666	38,991	1,285,657
2022	66,666	15,042	81,708
2023	66,666	4,993	71,659
2024	33,343	982	34,325
	$11,266,673	$548,407	$11,815,080

(8) CAPITAL LEASES

The District has entered into long-term lease agreements for computer equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception dates. The future minimum lease payments under the capital leases and the net present value of the future minimum lease payments as of June 30, 2018 are as follows:

Year ending June 30,	Principal	Interest	Total
2019	$213,770	$14,979	$228,749
2020	219,368	9,381	228,749
2021	135,763	3,637	139,400
	$568,901	$27,997	$596,898

(9) PENSION PLAN

Plan Description

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

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year credited service; (b) age 60 with 30 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 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 2.00% or 2.50%, 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 2.00% or 2.50%, 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

Member Contributions

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

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

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

Members who joined PSERS after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.50% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect T-F membership, contribute at 10.30% (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 Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%.

Employer Contributions

The 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 plan from the District were $8,336,488 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 District reported a liability of $95,418,398 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 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 District's proportion was 0.1932 percent, which was a decrease of 0.0002 percent from its proportion measured as of June 30, 2016. As of June 30, 2018, the net pension liability is related to the governmental funds and is recorded in the governmental activities in the government-wide statement of net position.

For the year ended June 30, 2018, the District recognized pension expense of $757,280. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual experience	$ 995,000	$ 577,000
Changes in assumptions	2,592,000	-
Difference between expected and actual investment earnings	2,211,000	-
Changes in proportions	1,188,000	5,353,000
Contributions subsequent to the measurement date	8,336,488	-
	$15,322,488	$5,930,000

$8,336,488 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	$ 478,000
2019	966,000
2020	(60,000)
2021	(328,000)
	$1,056,000

Actuarial Assumptions

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

- Actuarial cost method - entry age normal - level % of pay
- Investment return – 7.25%, includes inflation at 2.75%
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were based on the RP-2014 mortality tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 mortality improvement scale.

The long-term expected rate of return on 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 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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The 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	20.00 %	5.10%
Fixed income	36.00 %	2.60%
Commodities	8.00 %	3.00%
Absolute return	10.00 %	3.40%
Risk parity	10.00 %	3.80%
Infrastructure/MLPs	8.00 %	4.80%
Real estate	10.00 %	3.60%
Alternative investments	15.00 %	6.20%
Cash	3.00 %	0.60%
Financing (LIBOR)	(20.00)%	1.10%
	100.0 %	

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 the plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following represents 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-percentage point lower (6.25%) or 1-percentage point higher (8.25%) that the current rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
District's proportionate share of the net pension liability	$117,451,749	$95,418,398	$ 76,816,015

Pension Plan Fiduciary Net Position

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

(10) OTHER POST-EMPLOYMENT BENEFITS

Single-Employer Defined Benefit OPEB Plan

The District's other post-employment benefits (***"OPEB"***) include a single-employer defined benefit plan that provides medical and dental insurance to all retirees and their dependents. The School Board has the authority to establish and amend benefit provisions. The OPEB Plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

OPEB Plan Membership

Membership in the OPEB plan consisted of the following at July 1, 2016:

Active employees	366
Retirees and beneficiaries currently receiving benefits	-
Terminated OPEB plan members entitled to but not yet receiving benefits	29
Total	395

Funding Policy

The District's contributions are funded on a pay-as-you-go basis. The contribution requirements of retirees are established and may be amended by the School Board.

OPEB Liability

The District's OPEB liability has been measured as of June 30, 2018. The total OPEB liability was determined by an actuarial valuation as of July 1, 2016, and by rolling forward the liabilities from the July 1, 2016 actuarial valuation through the measurement date. No significant events or changes in assumptions occurred between the valuation date and the fiscal year end. The OPEB liability is $3,411,628, all of which is unfunded. As of June 30, 2018, the OPEB liability is related to the governmental funds and is recorded in the governmental activities in the government-wide statement of net position.

The District's change in its OPEB liability for the year ended June 30, 2018 was as follows:

Balances as of July 1, 2017	$3,069,879
Changes for the year:	
Service cost	224,316
Interest on total OPEB liability	80,125
Changes in assumptions	178,194
Benefit payments	(140,886)
Net changes	341,749
Balances as of June 30, 2018	$3,411,628

OPEB Expense and Deferred Outflows Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of $37,504. At June 30, 2018, the District had deferred outflows of resources related to the OPEB plan from the following sources:

	Deferred Outflows of Resources
Changes in assumptions	$164,487
Contributions subsequent to the measurement date	139,758
	$304,245

$139,758 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	
2019	$ 13,707
2020	13,707
2022	13,707
2022	13,707
2023	13,707
Thereafter	95,952
	$164,487

Sensitivity of the OPEB Liability to Change in Healthcare Cost Trend Rates

The following presents the OPEB liability for June 30,2018, calculated using current healthcare cost trends as well as what the OPEB liability would be if it health cost trends were 1-percentage point lower or 1-percentage point higher than the current rate:

	1% Decrease	Trend Rate	1% Increase
OPEB liability	$2,990,922	$3,411,628	$3,911,696

Sensitivity of the OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the District calculated using the discount rate of 3.13%, as well as what the OPEB liability would be if it were calculated using the discount rate that is one percentage point lower (2.13%) or 1 percentage point higher (4.13%) than the current rate:

	1% Decrease 2.13%	Current Discount Rate 3.13%	1% Increase 4.13%
OPEB Liability	$3,670,280	$3,411,628	$3,167,058

Actuarial Methods and Significant Assumptions

The OPEB Liability as of June 30, 2018, was determined by rolling forward the OPEB Liability as of July 1, 2016 to June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - entry age normal

- Discount rate - 3.13% - Standard and Poors 20 year municipal bond rate. The discount rate changed from 2.49% to 3.13%.
- Salary growth - effective average of 6.25%, comprised of inflation of 2.50%, 1.00% for real wage growth and 0.00% to 2.75% for merit or seniority increases.
- Assumed healthcare cost trends – 6.00% in 2017 and 5.50% in 2018 through 2023.
- Mortality rates were based on the RP-2014 mortality tables for males and females, adjusted to reflect experience and projected using a modified version of the MP-2015 mortality improvement scale.

Cost Sharing Multiple-Employer Defined Benefit OPEB Plan

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

Retirees of PSERS can participate in the health insurance 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 PSERS’ health options program 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

Employer Contributions

The District’s contractually required contribution rate for the fiscal year ended June 30, 2018 was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were $217,999 for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of $3,936,280 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 PSERS’ total OPEB liability as of June 30, 2016 to June 30, 2017. The 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 District’s proportion was 0.1932 percent, which was a decrease of 0.0002 from its proportion measured as of June 30, 2016. As of June 30, 2018, the net OPEB liability is related to the governmental funds and is recorded in the governmental activities in the government-wide statement of net position.

For the year ended June 30, 2018, the District recognized negative OPEB expense of $54,257. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ -	$183,171
Net difference between projected and actual investment earnings	4,162	-
Changes in proportions	-	4,000
Contributions subsequent to the measurement date	217,999	-
	$222,161	$187,171

$217,999 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	
2018	$ (30,000)
2019	(30,000)
2020	(30,000)
2021	(30,000)
2022	(31,000)
Thereafter	(32,009)
	$(183,009)

Actuarial Assumptions

The OPEB liability as of June 30, 2017, was determined by rolling forward the PSERS' 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 % of pay
- Investment return - 3.13% - Standard & Poors 20 year municipal bond rate
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Premium assistance reimbursement is capped at $1,200 per year.
- Assumed healthcare cost trends were applied to retirees with less than $1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 mortality tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 mortality improvement scale.

Participation rate:

- Eligible retirees will elect to participate pre age 65 at 50%
- Eligible retirees will elect to participate post age 65 at 70%

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 and disabled annuitants. (A unisex table based on the RP-2000 combined healthy annuitant tables with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

Investments consist primarily of short term assets designed to protect the principal of the OPEB 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 Board. Under the program, as defined in the retirement code employer contribution rates for health insurance premium assistance are established to provide reserves in the health insurance account that are sufficient for the payment of health insurance 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 OPEB liability was 3.13%. Under the OPEB plan's funding policy, contributions are structured for short term funding of health insurance premium assistance. The funding policy sets contribution rates necessary to assure solvency of health insurance premium assistance through the third fiscal year after the actuarial valuation date. The health insurance premium assistance account is funded to establish reserves that are sufficient for the payment of health insurance 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 OPEB plan is considered a "pay-as-you-go" plan. A discount rate of 3.13% which represents the Standard & Poors 20 year municipal bond rate at June 30, 2017, was applied to all projected benefit payments to measure the total OPEB liability.

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

Healthcare cost trends were applied to retirees receiving less than $1,200 in annual health insurance premium assistance. As of June 30, 2017, retirees health insurance premium assistance benefits are not subject to future healthcare cost increases. The healthcare insurance premium assistance reimbursement for qualifying retirees is capped at a maximum of $1,200. The actual number of retirees receiving less than the $1,200 per year cap is a small percentage of the total population and has a minimal impact on healthcare cost trends as depicted below.

The following presents the net OPEB liability for June 30, 2017, calculated using current healthcare cost trends as well as what net OPEB liability would be if it health cost trends were 1-percentage point lower or 1-percentage point higher than the current rate:

	1% Decrease	Trend Rate	1% Increase
District's proportionate share of the OPEB liability	$3,935,252	$3,936,280	$3,937,105

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

The following presents the net OPEB liability, calculated using the discount rate of 3.13%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.13%) or 1-percentage-point higher (4.13%) than the current rate:

	1% Decrease 2.13%	Current Discount Rate 3.13%	1% Increase 4.13%
District's proportionate share of the OPEB liability	$4,474,504	$3,936,280	$3,489,175

OPEB Plan Fiduciary Net Position

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

(11) DERIVATIVE FINANCIAL INSTRUMENTS

Interest Rate Swap Agreements

On June 19, 2017, the District incurred up to $115,000,000 of general obligation bonds (the ***"bonds"***) by approving a forward bond sale resolution (the ***"bond resolution"***), establishing the maximum aggregate and annual principal payments and interest rates. The bond resolution authorizes the future issuance of the bonds, in one or more series, to finance the District's various future capital projects. The District is currently planning on issuing approximately $40,000,000 in August of 2019 (the ***"2019 bonds"***) and $40,000,000 in August of 2020 (the ***"2020 bonds"***).

On April 25, 2018, the District executed two cash settled forward interest rate swaps designed to manage interest rate risk and cost and are intended to hedge interest rates on the future issuance of the 2019 bonds and 2020 bonds. The first swap (the ***"2019 swap"***) is intended to hedge interest rates on the 2019 bonds. The second swap (the ***"2020 swap"***) is intended to hedge interest rates on the 2020 bonds. Collectively, the 2019 swap and the 2020 swap will be referred to as the "swaps". The swaps have a combined notional amount of $80,000,000. The District executed the swaps with the Royal Bank of Canada (the "counterparty").

The swaps each have a mandatory early termination on their respective effective dates and therefore there will be no exchange of periodic scheduled payments between the District and counterparty. The only payment to be made will be a termination payment either made by the District or the counterparty on the date of termination. The hedging concept of the swaps is that if future swap rates are higher than the executed swap rate, the District would receive a termination payment from the counterparty and use that receipt to reduce the amount of the bonds needed to be issued, thereby helping to offset the higher bond rates. If future swap rates are lower than the executed swap rate, the District would make a termination payment to the counterparty from District cash of non-Pennsylvania Debt Act financing that was previously intended for the project and then issues bonds in a lower interest rate environment.

Hedging derivatives instruments are used to reduce financial risks, such as offsetting increases in interest rate costs of the hedged item. These derivative instruments are evaluated to determine if they are effective in significantly reducing the identified financial risk at year end. If the derivative is determined to be an effective hedge, its fair value is an asset or liability with a corresponding offset to deferred outflows or inflows of resources on the statement of net position. Deferred outflows or inflows of resources constitute changes in fair values of effectively-hedged derivative instruments. If the derivative instruments are determined to be ineffective, they are considered investment derivatives in which their fair values are recognized against investment income in the statement of activities.

At June 30, 2018, the District had the following derivative financial instruments outstanding:

The 2019 swap has a beginning notional amount of $40,000,000 and is structured to correspond with the amortization of the 2019 bonds. The 2019 swap has a mandatory termination on its effective date, the same date that payments would otherwise commence, which is August 1, 2019. The terms of the 2019 swap are such that the District is the payer of a fixed rate of 2.577% and the counterparty is payer of variable rates equal to 80% of 3-month LIBOR. At June 30, 2018, the 2019 swap had a negative fair value of $1,017,562.

The 2020 swap has a beginning notional amount of $40,000,000 and is structured to correspond with the amortization of the 2020 bonds. The 2020 swap has a mandatory termination on its effective date, the same date that payments would otherwise commence, which is August 1, 2020. The terms of the 2020 swap are such that the District is the payer of a fixed rate of 2.587% and the counterparty is payer of variable rates equal to 80% of 3-month LIBOR. At June 30, 2018, the 2019 swap had a negative fair value of $989,044.

The District utilized a regression method analysis to evaluate the hedge effectiveness for their swap portfolio. This method evaluates effectiveness by measuring the statistical relationship between the fair value or cash flows of the swaps and the item it is hedged against.

The fair value of the swaps were derived from proprietary models based upon well recognized financial principles and reasonable estimates about relevant future market conditions. The swaps were valued based upon Level 2 inputs.

Credit Risk

As of June 30, 2018, the District was not exposed to credit risk because the swaps had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the District would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated A1 by Moody’s, AA by Fitch Ratings and AA- by Standard & Poor's as of June 30, 2018.

Interest Rate Risk

The District is exposed to interest rate risk on its swaps. On the District's swaps, as the London Inter-Bank Offered Rate (LIBOR) decreases, the District's termination payment on the swap increases.

Basis Risk

The District is exposed to basis risk in that the long-term bond rates that the District would issue on the bonds could increase relative to LIBOR swap rates causing a termination payment be owed by the District.

Termination Risk

The District or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination the swap has a negative fair value, the District would be liable to the counterparty for a payment equal to the swap’s fair value.

(12) JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATION

Joint Ventures

Lancaster County Career and Technology Center

The District and the other 15 Lancaster County school districts participate in the Lancaster County Career and Technology Center (***"LCCTC"***). The LCCTC provides vocational-technical training and education to students of the participating school districts. The LCCTC is controlled by a joint board comprised of representative school board members of the participating school districts. District oversight of the LCCTC operations is the responsibility of the joint board. The District's share of operating costs for the LCCTC fluctuates based on the District's percentage of enrollment. The District's share of operating costs for 2017-2018 was $1,146,181.

Lancaster County Career and Technology Center Authority

The District and the other 15 Lancaster County school districts also participate in a joint venture for the operation of the Lancaster County Career and Technology Center Authority (the ***"Authority"***). The Authority oversees acquiring, holding, constructing, improving and maintaining the LCCTC school buildings and facilities. The Authority is controlled by a joint board comprised of representative school board members of the participating school districts in the Authority. As further described below, the participating school districts have entered into a long-term lease agreement with the Authority to provide rental payments sufficient to retire the Authority's outstanding debt obligations. The District's share of rent expense for 2017-2018 was $114,975.

On September 20, 2011, the Authority authorized the issuance of Guaranteed Lease Revenue Bonds, Series of 2011 (the ***"2011 Revenue Bonds"***), in the maximum aggregate principal amount of $43,000,000 to provide funds for the renovations and additions to the Brownstown, Mount Joy and Willow Street campuses of the LCCTC and pay for the costs of issuance. The District and the 15 Lancaster County school districts have entered into a long-term lease agreement with the Authority stipulating that each school district will pay its proportionate share of the lease rentals in order to retire the 2011 Revenue Bonds based on real estate market values as set forth in the LCCTC organization agreement. The 2011 Revenue Bonds were issued in three different series over three years. The amount of each series was not to exceed $10,000,000 without the participating school districts' approval. The 2011 Revenue Bonds were intended to be repaid over a period not to exceed thirty years, with gross annual debt service not to exceed $1,985,000 and net annual debt service (after reimbursement by the Commonwealth of Pennsylvania) of $1,330,000. On June 29, 2012, the Authority issued the first of three series in the total amount of $9,995,000. On September 20, 2013, the Authority issued the second of three series in the total amount of $9,995,000 which was refinanced in February 2017 and on July 9, 2014, the Authority issued the final of the three series in the total amount of $3,900,000. The District's lease rental obligations for minimum rental payments related to the issued debt are as follows:

Year ending June 30,	
2019	$ 114,081
2020	114,068
2021	113,972
2022	113,821
2023	113,982
2024-2028	570,202
2029-2033	569,819
2034-2037	455,674
	$2,165,619

Both the LCCTC and the Authority prepare financial statements that are available to the public from their administrative office located at 1730 Hans Herr Drive, P.O. Box 527, Willow Street, PA 17584.

Jointly Governed Organizations

Lancaster-Lebanon Intermediate Unit

The District and the other Lancaster and Lebanon County school districts are participating members of the Lancaster-Lebanon Intermediate Unit (the ***"LLIU"***). The LLIU is a regional educational service agency, established by the Commonwealth of Pennsylvania, which is governed by a joint committee consisting of School Board members from each participating school district. The School Board of each participating school district must approve the annual program budget for the LLIU but the participating school districts have no ongoing fiduciary interest or responsibility to the LLIU. The LLIU is a self-sustaining organization that provides a broad array of services to the participating school districts which include: curriculum development and instructional improvement; educational planning services; instructional material; continuing professional development; pupil personnel services; management services and federal liaison services. During 2017-2018, the District contracted with the LLIU for special education services which totaled $1,647,427.

Lancaster-Lebanon Joint Authority

The District and the other Lancaster and Lebanon County school district are also participating members of the Lancaster-Lebanon Joint Authority (the ***"Authority"***). The Authority oversees acquiring, holding, constructing, improving and maintaining the buildings and facilities maintained for the participating school districts and the LLIU, which is governed by a joint committee consisting of School Board members from each participating school district. During 2017-2018, the District did not have any financial transactions with the Authority.

Lancaster County Tax Collection Bureau

The District and the other 15 Lancaster County school districts along with Octorara Area School District of Chester County and the municipalities represented by those school districts are participating members of the Lancaster County Tax Collection Bureau (the ***"Bureau"***). Each participating school district appoints one member to serve on the joint operating committee and 16 members are appointed by the participating municipalities. The Bureau is a self-sustaining organization in which the participating members have no ongoing fiduciary interest or responsibility. The District contracts with the Bureau for the collection of property and earned incomes taxes. During 2017-2018, the District contracted with the Bureau for tax collection services which totaled $86,051.

Lancaster County Academy

The Lancaster County Academy (the ***"Academy"***) is an alternative public school organized by the District and 9 other Lancaster County school districts to provide services in the County. Each of the participating school districts appoints one member to serve on the joint operating committee. The District is considered to have an ongoing financial responsibility to fund the operations of the Academy. During 2017-2018, the District's portion of operating expenditures for the Academy totaled $45,100.

(13) CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

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

Litigation

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

(14) RISK MANAGEMENT

Health Insurance

The District participates in a consortium with the LLIU to provide a self-insurance program for health insurance and related expenses for eligible employees, spouses and dependents. Accordingly, benefit payments plus an administrative charge are made to a third party who approves and process all claims. The District was limited in liability to $175,000 per individual and $5,565,994 in total for self-insurance medical claims for the year ended June 30, 2018.

The District has recorded a liability in the Internal Service Fund for claims incurred through June 30, 2018 which has been historically satisfied within 60 days after June 30. The following table presents the components of the self-insurance medical claims liability and the related changes in the claims liability for the year ended June 30, 2018 and 2017:

	2018	2017
Insurance claims liability – beginning of year	$ 523,724	$ 463,836
Current year insurance claims and changes in estimates	5,032,950	5,050,605
Insurance claims paid	(5,064,158)	(4,990,717)
Insurance claims liability – end of year	$ 492,516	$ 523,724

Property and Liability

The District and 12 participating member school districts, the LLIU, the Lancaster County Academy, and the LCCTC participate in the Lancaster-Lebanon Public Schools Insurance Pool (the ***"Pool"***), which is a public entity risk pool currently operating as a common risk management and insurance program. The District and the other participating members pay an annual premium to the Pool for the purpose of seeking prevention or lessening of casualty losses to participating members from injuries to persons or property which might result in claims being made against participating members and to the pools insurance risks, reserves, claims and losses and providing self-insurance and reinsurance thereof. It is the intent of the participating members of the Pool, that the Pool will utilize funds contributed by the participating members to provide self-insurance and reimbursement to the members for certain losses, to defend and protect each participating member of the Pool against certain liabilities and losses, and to purchase excess and aggregate stop-loss insurance for claims greater than $100,000 per occurrence. As of June 30, 2018, the District is not aware of any additional assessments relating to the Pool.

Workers' Compensation

The District and 17 participating member school districts the LLIU, and the Lancaster County Academy participate in the Lancaster-Lebanon Public Schools Workers' Compensation Fund (the ***"Fund"***), which is a cooperative voluntary trust arrangement. The District and the other participating members pay an annual premium to the Fund for the purpose of seeking prevention or lessening of claims due to injuries of employees of the participating 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 participating members of the Fund that the Fund will utilize funds contributed by the participating 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 District is not aware of any additional assessments relating to this Fund.

Unemployment

The District administers a self-insurance program for unemployment compensation rather than contribute to the state fund. Transactions for this program are reflected in the General Fund.

Other Risks

The District is exposed to other risks of loss, including errors and omissions. The District has purchased a commercial insurance policy to safeguard its assets from risk of loss due to errors and omissions. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

(15) PRIOR PERIOD ADJUSTMENT

As a result of the implementation of GASB Statement No. 75, the District made a prior period adjustment to record its OPEB liability and deferred outflows of resources related to employer OPEB contributions. This prior period adjustment and its effect on net position at July 1, 2016 are summarized in the following table:

	Governmental Activities	Business-Type Activities	Totals
Net position (deficit) at June 30, 2016, as previously stated	$(31,146,374)	$130,127	$(31,016,247)
Prior period adjustment to			
To adjust single employer OPEB liability to reflect unfunded actuarial liability	(1,992,421)	-	(1,992,421)
To record PSERS net OPEB liability	(4,165,815)	-	(4,165,815)
To record deferred outflows of resources related to PSERS net OPEB liability	210,268	-	210,268
Net position (deficit) at June 30, 2016, as restated	$(37,094,342)	$130,127	$(36,964,215)

(16) SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 31, 2018, the date on which the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2018 that required recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CONESTOGA VALLEY SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year ended June 30, 2018

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Local sources	$ 49,416,867	$ 49,416,867	$ 50,627,988	$ 1,211,121
State sources	14,669,634	14,669,634	14,594,679	(74,955)
Federal sources	2,627,241	2,627,241	2,904,504	277,263
Total revenues	66,713,742	66,713,742	68,127,171	1,413,429
EXPENDITURES				
Instruction				
Regular programs	32,647,912	32,326,471	32,279,284	47,187
Special programs	8,659,961	8,717,665	8,640,754	76,911
Vocational programs	1,303,750	1,415,750	1,401,647	14,103
Other instructional programs	219,738	218,738	182,735	36,003
Nonpublic school programs	18,968	37,968	37,614	354
Pre-kindergarten	513,297	429,297	424,946	4,351
Total instruction	43,363,626	43,145,889	42,966,980	178,909
Support services				
Pupil support services	2,331,585	2,324,547	2,276,591	47,956
Instructional staff services	2,577,276	2,647,813	2,613,758	34,055
Administrative services	2,833,474	2,888,378	2,840,362	48,016
Pupil health	611,990	624,715	614,764	9,951
Business services	601,460	546,460	539,123	7,337
Operation and maintenance of plant services	5,082,921	4,483,205	4,435,263	47,942
Student transportation services	2,322,596	2,681,596	2,676,446	5,150
Support services - central	1,418,354	1,423,479	1,332,439	91,040
Other support services	45,000	43,000	42,562	438
Total support services	17,824,656	17,663,193	17,371,308	291,885
Operation of noninstructional services				
Student activities	1,074,740	1,179,940	1,323,194	(143,254)
Community services	14,692	24,192	11,356	12,836
Total operation of noninstructional services	1,089,432	1,204,132	1,334,550	(130,418)
Debt service	212,947	2,422	-	2,422
Total expenditures	62,490,661	62,015,636	61,672,838	342,798
Excess (deficiencies) of revenues over (under) expenditures	4,223,081	4,698,106	6,454,333	1,756,227
OTHER FINANCING SOURCES (USES)				
Sale of/compensation for capital assets	-	-	26,607	26,607
Transfers out	(5,636,706)	(6,136,731)	(5,979,785)	156,946
Budgetary reserve	(225,000)	(200,000)	-	200,000
Total other financing sources (uses)	(5,861,706)	(6,336,731)	(5,953,178)	383,553
NET CHANGE IN FUND BALANCE	$ (1,638,625)	$ (1,638,625)	501,155	$ 2,139,780
FUND BALANCE				
Beginning of year			13,171,431	
End of year			$ 13,672,586	

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

Year ended June 30

	2017	**2016**	**2015**	**2014**
District's proportion of the net pension liability	0.1932%	0.1934%	0.2134%	0.2137%
District's proportionate share of the net pension liability	$ 95,418,398	$ 95,843,000	$ 92,434,000	$ 84,583,000
District's covered-employee payroll	$ 25,722,617	$ 25,045,713	$ 27,455,288	$ 25,751,265
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	371%	383%	337%	328%
Plan fiduciary net position as a percentage of the total net pension liability	52%	50%	54%	57%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

CONESTOGA VALLEY SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PENSION PLAN CONTRIBUTIONS - PSERS

Year ended June 30

	2017	2016	2015	2014
Contractually required contribution	$ 7,389,722	$ 6,153,000	$ 5,510,000	$ 4,257,000
Contributions in relation to the contractually required contribution	$ 7,389,722	$ 6,153,000	$ 5,510,000	$ 4,257,000
Contribution deficiency (excess)	-	-	-	-
District's covered-employee payroll	$ 25,722,617	$ 25,045,713	$ 27,455,288	$ 25,751,265
Contributions as a percentage of covered-employee payroll	29%	25%	20%	16%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

CONESTOGA VALLEY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN OPEB LIABILITY - SINGLE EMPLOYER PLAN

Year ended June 30

	2017
TOTAL OPEB LIABILITY	
Service cost	$ 224,316
Interest on total OPEB liability	80,125
Changes of assumptions	178,194
Benefit payments	(140,886)
Net change in total OPEB liability	341,749
Total OPEB liability, beginning	3,069,879
Total OPEB liability, ending	$ 3,411,628
Fiduciary net position as a % of total OPEB liability	0.00%
Covered payroll	$ 24,178,245
Net OPEB liability as a % of covered payroll	14%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

CONESTOGA VALLEY SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE OPEB LIABILITY -PSERS

Year ended June 30

	2017
District's proportion of the net OPEB liability	0.1932%
District's proportionate share of the net OPEB liability	$ 3,936,280
District's covered-employee payroll	$ 25,722,617
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	15%
Plan fiduciary net position as a percentage of the total net OPEB liability	6%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

CONESTOGA VALLEY SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S OPEB PLAN CONTRIBUTIONS - PSERS

Year ended June 30

	2017
Contractually required contribution	$ 168,206
Contributions in relation to the contractually required contribution	$ 168,206
Contribution deficiency (excess)	-
District's covered-employee payroll	$ 25,722,617
Contributions as a percentage of covered-employee payroll	1%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

CONESTOGA VALLEY SCHOOL DISTRICT

COMBINING BALANCE SHEET - CAPITAL PROJECTS FUND

June 30, 2018

	Capital Reserve Fund	Capital Projects Fund	Total
ASSETS			
Cash	$ 1,513,339	$ -	$ 1,513,339
Investments	1,500,842	-	1,500,842
Due from other funds	500,000	-	500,000
Total assets	$ 3,514,181	$ -	$ 3,514,181
LIABILITIES AND FUND BALANCES (DEFICIT)			
LIABILITIES			
Accounts payable	$ -	$ 52,734	$ 52,734
Due to other funds	-	46,311	46,311
Total liabilities	-	99,045	99,045
FUND BALANCES (DEFICIT)			
Restricted for			
Capital projects	3,514,181	(99,045)	3,415,136
Total fund balances (deficit)	3,514,181	(99,045)	3,415,136
Total liabilities and fund balances (deficit)	$ 3,514,181	$ -	$ 3,514,181

CONESTOGA VALLEY SCHOOL DISTRICT

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

Year ended June 30, 2018

	Capital Reserve Fund	Capital Projects Fund	Total
REVENUES			
Local sources	$ 34,130	$ 561,010	$ 595,140
EXPENDITURES			
Current			
Instruction	-	536,155	536,155
Support services	-	561,810	561,810
Facilities acquisition, construction and improvement services	10,202	98,245	108,447
Total expenditures	10,202	1,196,210	1,206,412
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	23,928	(635,200)	(611,272)
OTHER FINANCING SOURCES (USES)			
Proceeds from extended term financing	-	536,155	536,155
Transfers in	676,928	-	676,928
Total other financing sources (uses)	676,928	536,155	1,213,083
NET CHANGE IN FUND BALANCES	700,856	(99,045)	601,811
FUND BALANCES			
Beginning of year	2,813,325	-	2,813,325
End of year	$ 3,514,181	$ (99,045)	$ 3,415,136

CONESTOGA VALLEY SCHOOL DISTRICT

COMBINING BALANCE SHEET - NONMAJOR GOVERNMETNAL FUNDS

June 30, 2018

	Athletic Facilities Improvement	Extra-Curricular Fund	Total
ASSETS			
Cash	$ 75,443	$ 61,132	$ 136,575
Due from other funds	10,320	-	10,320
Other receivables	36,345	1,454	37,799
Total assets	$122,108	$ 62,586	$ 184,694
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	$ 14,565	$ -	$ 14,565
FUND BALANCES			
Assigned for			
Athletic facilities improvement	107,543	-	107,543
Extra-curricular activities	-	62,586	62,586
Total fund balances	107,543	62,586	170,129
Total liabilities and fund balances	$122,108	$ 62,586	$ 184,694

CONESTOGA VALLEY SCHOOL DISTRICT

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

Year ended June 30, 2018

	Athletic Facilities Improvement	Extra-Curricular Fund	Total
REVENUES			
Local sources	$ 72,767	$ 27,773	$ 100,540
EXPENDITURES			
Current			
Operation of noninstructional services	67,248	-	67,248
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND NET CHANGE IN FUND BALANCES	5,519	27,773	33,292
FUND BALANCES			
Beginning of year	102,024	34,813	136,837
End of year	$ 107,543	$ 62,586	$ 170,129

SINGLE AUDIT

CONESTOGA VALLEY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Project Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Dates	Grant Amount	Total Received for Year	Accrued (Deferred) Revenue July 1, 2017	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue June 30, 2018	Passed Through to Subrecipients
U.S. Department of Education											
Passed-Through the Pennsylvania Department of Education											
Title I - Improving Basic Programs	I	84.010	013-180096	08/15/17-09/30/18	$1,481,450	$ 1,164,141	$ -	$ 1,365,600	$1,365,600	$201,459	$ -
Title I - Improving Basic Programs	I	84.010	013-170096	07/01/16-09/30/18	1,233,839	321,220	49,956	252,263	252,263	(19,001)	-
Title I - Improving Basic Programs	I	84.010	013-160096	08/17/15-09/30/17	1,130,779	-	(54,400)	54,400	54,400	-	-
Title I - Improving Basic Programs	I	84.010	077-160096	09/12/17-09/30/17	27,530	2,118	(4,454)	6,572	6,572	-	-
Total CFDA #84.010						1,487,479	(8,898)	1,678,835	1,678,835	182,458	-
Title II - Improving Teacher Quality	I	84.367	020-180096	08/15/17-09/30/18	240,896	171,778	-	213,364	213,364	41,586	-
Title II - Improving Teacher Quality	I	84.367	020-170096	07/01/16-09/30/17	169,309	33,490	33,490	-	-	-	-
Total CFDA #84.367						205,268	33,490	213,364	213,364	41,586	-
Title III - Language Instruction LEP/ Immigrant Students	I	84.365	010-180096	08/15/17-09/30/18	43,860	43,860	-	43,860	43,860	-	-
Title III - Language Instruction LEP/ Immigrant Students	I	84.365	010-170096	07/01/16 -09/30/17	47,874	9,575	(520)	10,095	10,095	-	-
Total CFDA #84.365						53,435	(520)	53,955	53,955	-	-
Title IV - Student Support and Academic Enrichment	I	84.424	144-180096	08/15/17-09/30/18	33,276	23,769	-	31,842	31,842	8,073	-
Striving Readers Comprehensive Literacy Grant Program	I	84.371c	143-150096	10/01/16-09/30/17	640,500	(62)	(77,434)	77,372	77,372	-	-
Passed Through the Lancaster-Lebanon I.U.											
I.D.E.A. - Part B, Section 611	I	84.027	062-18-0-013	07/01/17-09/30/18	770,238	201,292	-	770,238	770,238	568,946	-
I.D.E.A. - Part B, Section 611	I	84.027	062-17-0-013	07/01/16-09/30/17	733,453	549,883	549,883	-	-	-	-
Total CFDA #84.027						751,175	549,883	770,238	770,238	568,946	-
I.D.E.A. - Part B, Section 619	I	84.173	131-17-0-013	07/01/17-06/30/18	4,872	-	-	4,872	4,872	4,872	-
I.D.E.A. - Part B, Section 619	I	84.173	131-16-0-013	07/01/16-06/30/17	4,559	4,559	4,559	-	-	-	-
Total CFDA #84.173						4,559	4,559	4,872	4,872	4,872	-
Total U.S. Department of Education						2,525,623	501,080	2,830,478	2,830,478	805,935	-

Continued on next page

Federal Grantor/Pass-Through Grantor/Project Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Dates	Grant Amount	Total Received for Year	Accrued (Deferred) Revenue July 1, 2017	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue June 30, 2018	Passed Through to Subrecipients
U.S. Department of Health and Human Services											
Passed Through the Pennsylvania Department of Public Welfare											
Medical Assistance Program	I	93.778	N/A	07/01/17-06/30/18	N/A	2,103	-	2,103	2,103	-	-
Medical Assistance Program	I	93.778	N/A	07/01/16-06/30/17	N/A	1,628	1,628	-	-	-	-
Total CFDA #93.778						3,731	1,628	2,103	2,103	-	-
U.S. Department of Agriculture											
Passed-Through the Pennsylvania Department of Education											
Breakfast Program	I	10.553	N/A	07/01/17-06/30/18	N/A	186,452	-	215,797	215,797	29,345	-
Breakfast Program	I	10.553	N/A	07/01/16-06/30/17	N/A	24,101	24,101	-	-	-	-
Total CFDA #10.553						210,553	24,101	215,797	215,797	29,345	-
National School Lunch Program	I	10.555	N/A	07/01/17-06/30/18	N/A	721,219	-	826,509	826,509	105,290	-
National School Lunch Program	I	10.555	N/A	07/01/16-06/30/17	N/A	89,411	89,411	-	-	-	-
Passed-Through the Pennsylvania Department of Agriculture											
National School Lunch Program	I	10.555	N/A	07/01/17-06/30/18	N/A	a) 147,985	b) (20,368)	c) 143,873	143,873	d) (24,480)	-
Total CFDA #10.555						958,615	69,043	970,382	970,382	80,810	-
Total U.S. Department of Agriculture						1,169,168	93,144	1,186,179	1,186,179	110,155	-
Total Federal Awards						$ 3,698,522	$ 595,852	$ 4,018,760	$ 4,018,760	$ 916,090	$ -
Special Education Cluster (IDEA) (CFDA's #84.027 and #84.173)						$ 755,734	$ 554,442	$ 775,110	$ 775,110	$ 573,818	$ -
Child Nutrition Cluster (CFDA's #10.553 and #10.555)						$ 1,169,168	$ 93,144	$ 1,186,179	$ 1,186,179	$ 110,155	$ -

Footnotes

a) Total amount of commodities received
b) Beginning inventory July 1
c) Total amount of commodities used
d) Ending invetory June 30

Source Codes

D - Direct Funding
I - Indirect Funding
S - State Funding
CFDA - Catalog of Federal Domestic Assistance

(1) FEDERAL EXPENDITURES

The Schedule of Expenditures of Federal Awards reflects federal expenditures for all individual grants which were active during the fiscal year.

(2) BASIS OF ACCOUNTING

The District uses the modified accrual method of recording transactions except as noted for the accounting of donated commodities in Note 3. Revenues are recorded when measurable and available. Expenditures are recorded when incurred.

(3) NONMONETARY FEDERAL AWARDS – DONATED FOOD

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals and prisons) and to the needy. Expenditures reported in the Schedule of Expenditures of Federal Awards and Certain State Grants under CFDA #10.555 USDA Commodities represent federal surplus food consumed by the District during the 2017-2018 fiscal year.

(4) ACCESS PROGRAM

The District participates in the ACCESS Program which 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 source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding recognized for the year ended June 30, 2018 was $71,923.

(5) INDIRECT COSTS

The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance. No indirect costs were charged to the District's Federal awards for the year ended June 30, 2018.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2018

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

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

Board of School Directors
Conestoga Valley School District
Lancaster, 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 Conestoga Valley School District, Lancaster, Pennsylvania, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Conestoga Valley School District's basic financial statements, and have issued our report thereon dated October 31, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Conestoga 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 Conestoga Valley School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Conestoga Valley School District's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Conestoga 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*.

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.

BBD, LLP

Philadelphia, Pennsylvania
October 31, 2018

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

Board of School Directors
Conestoga Valley School District
Lancaster, Pennsylvania

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Conestoga Valley School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) 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 Conestoga 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 Conestoga Valley School District's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

BBD, LLP

Philadelphia, Pennsylvania
October 31, 2018

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Conestoga Valley School District were prepared in accordance with GAAP.

2. No significant deficiencies or material weaknesses relating to the audit of the financial statements of Conestoga Valley School District are reported in the independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.

3. No instances of noncompliance material to the financial statements of Conestoga Valley School District, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.

4. No significant deficiencies or material weaknesses in internal control over the major federal award programs are reported in the independent auditor's report on compliance for each major program and on internal control over compliance required by the Uniform Guidance.

5. The auditor's report on compliance for the major federal award programs for Conestoga Valley School District expresses an unmodified opinion on all major federal programs.

6. There are no audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a).

7. The program tested as a major program was:

   Special Education Cluster:

   I.D.E.A. - Part B, Section 611 – CFDA No. 84.027
   I.D.E.A. - Part B, Section 619 – CFDA No. 84.173

   Title II – Improving Teacher Quality – CFDA No. 84.367

8. The threshold used for distinguishing between Type A and B programs was $750,000.

9. Conestoga Valley School District did qualify as a low-risk auditee.

FINDINGS—FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

SUPPLEMENTAL INFORMATION

CONESTOGA VALLEY SCHOOL DISTRICT

REAL ESTATE TAX LEVIES AND COLLECTIONS

Last ten fiscal years ending June 30

School Year	Assessed Value	Base Millage	Gross Tax Levy	Act 1 Property Tax Reduction Allocation	Gross Adjusted Tax Levy	Current Collections Amount	Current Year Collections As a Percentage of Adjusted Tax Levy	Delinquent Tax Collections	Total Collections Amount	Total Collection As a Percentage
2008-2009	$ 2,572,159,900	12.8490	$ 33,049,683	$ 694,320	$ 32,355,363	$ 31,269,544	96.64%	$ 574,030	$ 31,843,574	98.42%
2009-2010	2,623,305,300	13.2660	34,800,768	703,762	34,097,006	32,900,876	96.49%	587,352	33,488,228	98.21%
2010-2011	2,670,010,700	13.7730	36,774,057	702,827	36,071,230	34,790,408	96.45%	764,502	35,554,910	98.57%
2011-2012	2,695,981,800	14.0480	37,873,152	701,556	37,171,596	35,955,120	96.73%	729,237	36,684,357	98.69%
2012-2013	2,686,564,500	14.2865	38,381,604	701,124	37,680,480	36,456,439	96.75%	704,980	37,161,419	98.62%
2013-2014	2,692,060,600	14.5280	39,110,256	697,346	38,412,910	37,244,744	96.96%	697,562	37,942,306	98.77%
2014-2015	2,681,997,700	14.8330	39,782,072	699,065	39,083,007	37,842,885	96.83%	717,398	38,560,283	98.66%
2015-2016	2,688,355,900	15.2064	40,880,215	700,553	40,179,662	39,129,793	97.39%	630,670	39,760,463	98.96%
2016-2017	2,706,397,200	15.9240	43,096,669	701,315	42,395,354	41,272,962	97.35%	534,577	41,807,539	98.61%
2017-2018	2,718,332,800	16.3220	44,368,628	707,426	43,661,202	42,346,972	96.99%	674,669	43,021,641	98.54%

CONESTOGA VALLEY SCHOOL DISTRICT

REAL ESTATE TAX RATES (Mills)

Last ten and current fiscal years ending June 30

Municipality	2008-2009 School District	2008 Municipal	2008 County
East Lampeter Township	12.8490	1.140	3.416
Upper Leacock Township	12.8490	1.300	3.416
West Earl Township	12.8490	1.390	3.416

Municipality	2009-2010 School District	2009 Municipal	2009 County
East Lampeter Township	13.2660	1.140	3.416
Upper Leacock Township	13.2660	1.300	3.416
West Earl Township	13.2660	1.390	3.416

Municipality	2010-2011 School District	2010 Municipal	2010 County
East Lampeter Township	13.7730	1.462	3.416
Upper Leacock Township	13.7730	1.300	3.416
West Earl Township	13.7730	1.390	3.416

Municipality	2011-2012 School District	2011 Municipal	2011 County
East Lampeter Township	14.0480	1.462	3.416
Upper Leacock Township	14.0480	1.300	3.416
West Earl Township	14.0480	1.390	3.416

Municipality	2012-2013 School District	2012 Municipal	2012 County
East Lampeter Township	14.2865	1.600	3.416
Upper Leacock Township	14.2865	1.500	3.416
West Earl Township	14.2865	1.590	3.416

Municipality	2013-2014 School District	2013 Municipal	2013 County
East Lampeter Township	14.528	1.600	3.735
Upper Leacock Township	14.528	1.700	3.735
West Earl Township	14.528	1.590	3.735

REAL ESTATE TAX RATES (Mills) (Continued)

Last ten and current fiscal years ending June 30

Municipality	2014-2015 School District	2014 Municipal	2014 County
East Lampeter Township	14.833	1.600	3.735
Upper Leacock Township	14.833	1.700	3.735
West Earl Township	14.833	1.590	3.735

Municipality	2015-2016 School District	2015 Municipal	2015 County
East Lampeter Township	15.2064	1.600	3.735
Upper Leacock Township	15.2064	1.700	3.735
West Earl Township	15.2064	1.590	3.735

Municipality	2016-2017 School District	2016 Municipal	2016 County
East Lampeter Township	15.9240	1.730	3.735
Upper Leacock Township	15.9240	1.700	3.735
West Earl Township	15.9240	1.590	3.735

Municipality	2017-2018 School District	2017 Municipal	2017 County
East Lampeter Township	16.3220	1.990	3.735
Upper Leacock Township	16.3220	2.000	3.735
West Earl Township	16.3220	1.590	3.735

Municipality	2018-2019 School District	2018 Municipal	2018 County
East Lampeter Township	13.3940	1.750	2.910
Upper Leacock Township	13.3940	1.695	2.910
West Earl Township	13.3940	1.267	2.910

CONESTOGA VALLEY SCHOOL DISTRICT

NON-REAL ESTATE TAX RATES

Last ten fiscal years ending June 30

2009	Realty Transfer Tax		Earned Income Tax		Local Services		Amusement Tax	
Municipality	Municipal	School	Municipal	School	Minicipal	School	Minicipal	School
East Lampeter Township	0.5%	0.5%	0.5%	0.5%	$ 42	$ 10	5.0%	2.5%
Upper Leacock Township	0.5%	0.5%	0.5%	0.5%	$ 30	$ 10		2.0%
West Earl Township	0.5%	0.5%	0.5%	0.5%	$ 42	$ 10		2.0%

2010	Realty Transfer Tax		Earned Income Tax		Local Services		Amusement Tax	
Municipality	Municipal	School	Municipal	School	Minicipal	School	Minicipal	School
East Lampeter Township	0.5%	0.5%	0.5%	0.5%	$ 42	$ 10	5.0%	2.5%
Upper Leacock Township	0.5%	0.5%	0.5%	0.5%	$ 30	$ 10		2.0%
West Earl Township	0.5%	0.5%	0.5%	0.5%	$ 42	$ 10		2.0%

2011	Realty Transfer Tax		Earned Income Tax		Local Services		Amusement Tax	
Municipality	Municipal	School	Municipal	School	Minicipal	School	Minicipal	School
East Lampeter Township	0.5%	0.5%	0.5%	0.5%	$ 42	$ 10	5.0%	2.0%
Upper Leacock Township	0.5%	0.5%	0.5%	0.5%	$ 42	$ 10		2.0%
West Earl Township	0.5%	0.5%	0.5%	0.5%	$ 42	$ 10		2.0%

2012	Realty Transfer Tax		Earned Income Tax		Local Services		Amusement Tax	
Municipality	Municipal	School	Municipal	School	Minicipal	School	Minicipal	School
East Lampeter Township	0.5%	0.5%	0.5%	0.5%	$ 42	$ 10	5.0%	2.0%
Upper Leacock Township	0.5%	0.5%	0.5%	0.5%	$ 42	$ 10		2.0%
West Earl Township	0.5%	0.5%	0.5%	0.5%	$ 42	$ 10		2.0%

2013	Realty Transfer Tax		Earned Income Tax		Local Services		Amusement Tax	
Municipality	Municipal	School	Municipal	School	Minicipal	School	Minicipal	School
East Lampeter Township	0.5%	0.5%	0.5%	0.5%	$ 42	$ 10	5.0%	2.0%
Upper Leacock Township	0.5%	0.5%	0.5%	0.5%	$ 42	$ 10		2.0%
West Earl Township	0.5%	0.5%	0.5%	0.5%	$ 42	$ 10		2.0%

2014	Realty Transfer Tax		Earned Income Tax		Local Services		Amusement Tax	
Municipality	Municipal	School	Municipal	School	Minicipal	School	Minicipal	School
East Lampeter Township	0.5%	0.5%	0.5%	0.5%	$ 42	$ 10	5.0%	2.0%
Upper Leacock Township	0.5%	0.5%	0.5%	0.5%	$ 42	$ 10		2.0%
West Earl Township	0.5%	0.5%	0.5%	0.5%	$ 42	$ 10		2.0%

CONESTOGA VALLEY SCHOOL DISTRICT

NON-REAL ESTATE TAX RATES (Continued)

Last ten fiscal years ending June 30

2015	Realty Transfer Tax		Earned Income Tax		Local Services		Amusement Tax	
Municipality	Municipal	School	Municipal	School	Minicipal	School	Minicipal	School
East Lampeter Township	0.5%	0.5%	0.5%	0.5%	$ 42	$ 10	5.0%	2.0%
Upper Leacock Township	0.5%	0.5%	0.5%	0.5%	$ 42	$ 10		2.0%
West Earl Township	0.5%	0.5%	0.5%	0.5%	$ 42	$ 10		2.0%

2016	Realty Transfer Tax		Earned Income Tax		Local Services		Amusement Tax	
Municipality	Municipal	School	Municipal	School	Minicipal	School	Minicipal	School
East Lampeter Township	0.5%	0.5%	0.5%	0.5%	$ 42	$ 10	5.0%	2.0%
Upper Leacock Township	0.5%	0.5%	0.5%	0.5%	$ 42	$ 10		2.0%
West Earl Township	0.5%	0.5%	0.5%	0.5%	$ 42	$ 10		2.0%

2017	Realty Transfer Tax		Earned Income Tax		Local Services		Amusement Tax	
Municipality	Municipal	School	Municipal	School	Minicipal	School	Minicipal	School
East Lampeter Township	0.5%	0.5%	0.5%	0.5%	$ 42	$ 10	5.0%	2.0%
Upper Leacock Township	0.5%	0.5%	0.5%	0.5%	$ 42	$ 10		2.0%
West Earl Township	0.5%	0.5%	0.5%	0.5%	$ 42	$ 10		2.0%

2018	Realty Transfer Tax		Earned Income Tax		Local Services		Amusement Tax	
Municipality	Municipal	School	Municipal	School	Minicipal	School	Minicipal	School
East Lampeter Township	0.5%	0.5%	0.5%	0.5%	$ 42	$ 10	5.0%	2.0%
Upper Leacock Township	0.5%	0.5%	0.5%	0.5%	$ 42	$ 10		2.0%
West Earl Township	0.5%	0.5%	0.5%	0.5%	$ 42	$ 10		2.0%

CONESTOGA VALLEY SCHOOL DISTRICT

PRINCIPAL TAXPAYERS

Taxpayer	Assessed Valuation
High Properties	$ 305,226,600
Dart Container Corp. of PA	63,198,700
Rockvale Group **(1)**	63,754,900
TKG Mill Creek Shopping Center	31,833,800
Tanger Properties Limited PRTN	38,802,000
NH Real Estate	20,626,100
East Lampeter Assoc.	15,336,400
Cedar Acres East	15,035,400
Calumet Enterprises LLC	15,586,700
Wal-Mart, Inc. **(2)**	14,710,100
	$ 584,110,700
Total Taxable Assessed Value	$ 3,467,500,300
10 Largest as a Percentage of Total Assessment	16.80%

Above assessment values are based upon July 1, 2018 values.

(1) On August 24, 2018, Rockvale appealed the assessed value of their eight properties with the Lancaster County Assessment Office. The original 2018 assessed value was $63,754,900. In a notice from the Lancaster County Board of Assessment appeals dated September 24, 2018, the assessed value was reduced to $30,087,500 effective for 2019. Conestoga Valley School District is appealing the Assessment Board's reduction of the assessed value.

(2) On July 25, 2018, Wal-Mart appealed the assessed value of their property with the Lancaster County Assessment Office. The 2018 assessed value is $14,710,100. In a notice from the Lancaster County Board of Assessment appeals dated September 13, 2018, the assessed value was reduced to $11,885,000 effective for 2019.

PROPERTY ASSESSMENT DATA

Last ten fiscal years ending June 30

Calendar Year	Assessed Value	Market Value	Ratio
2008	$ 2,549,453,500	$ 3,449,869,418	73.90%
2009	2,595,957,800	3,452,071,543	75.20%
2010	2,650,711,700	3,464,982,614	76.50%
2011	2,691,980,100	3,416,218,401	78.80%
2012	2,690,056,700	3,337,539,330	80.60%
2013	2,680,410,700	3,388,635,525	79.10%
2014	2,676,741,600	3,453,860,129	77.50%
2015	2,680,065,800	3,549,756,026	75.50%
2016	2,694,851,500	3,656,514,925	73.70%
2017	2,717,612,600	3,927,185,838	69.20%
2018	3,467,500,300	3,467,500,300	100.00%

* Lancaster County underwent a countywide reassessment in 2018.

CONESTOGA VALLEY SCHOOL DISTRICT

ENROLLMENT DATA

Last ten fiscal years ending June 30

School Year	Elementary	Secondary	Total
2008-2009	2,075	1,964	4,039
2009-2010	2,118	1,981	4,099
2010-2011	2,124	2,011	4,135
2011-2012	2,174	2,009	4,183
2012-2013	2,225	2,056	4,281
2013-2014	2,217	2,000	4,217
2014-2015	2,175	2,064	4,239
2015-2016	2,228	1,990	4,218
2016-2017	2,151	2,025	4,176
2017-2018	2,291	1,900	4,191
2018-2019	2,208	2,014	4,222
2019-2020*	2,250	1,960	4,210

* Projected