Conestoga Valley School District
Lancaster, Pennsylvania
Lancaster County

Financial Statements
Year Ended June 30, 2017

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, 2017, 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, 2017, 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

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 other post-employment benefits schedule of funding progress and the schedules of the District's proportionate share of the net pension liability and pension plan contributions on pages 3 through 14 and 47 through 50 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 re 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2017, 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
November 8, 2017

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, 2017. 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 2016-2017, there were 395 employees in the District consisting of 318 teachers, 25 administrators, including general administration, principals and supervisors and 52 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

- 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 2016-2017 fiscal year of $29,679,830. During the 2016-2017 fiscal year, the District had an increase in total net position of $1,336,417. The net position of governmental activities increased by $1,198,480 and the net position of the business-type activities increased by $137,937.

- The General Fund reported a decrease of fund balance of $83,984, bringing the cumulative balance to $13,171,431 at the conclusion of the 2016-2017 fiscal year.

- At June 30, 2017, the General Fund fund balance includes $1,222,890 which is considered nonspendable, $4,090,809 committed to retirement rate stabilization, $1,000,000 committed to health savings accounts, $1,850,000 committed for property tax assessment appeals and unassigned amounts of $5,007,732 or 7.33% of the $68,352,368 2017-2018 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 $1,826,224 or 2.84% more than budgeted amounts and actual expenditures and other financing uses were $427,005 or 0.64% less than budgeted amounts resulting in a net positive variance of $2,253,229.

- 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 $95,843,000 as of June 30, 2017. The District's net pension liability increased by $3,409,000 or 3.69% during the fiscal year.

- At the end of the current fiscal year, the District had total general obligation debt of $16,785,293 consisting of $15,665,000 in bonds payable, $433,339 note payable and net deferred credits of $686,954. 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 $4,933,129 or 22.71% 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 46 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, a schedule of the District's progress in funding its obligation to provide other post-employment benefits and schedules of net pension liability and the District’s pension contributions, 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 47 through 52 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 2016-2017 fiscal year the District's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by $29,679,830. The following table presents condensed information for the *Statement of Net Position (Deficit)* of the District at June 30, 2017 and 2016.

	Governmental Activities		Business-Type Activities		Totals	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
ASSETS						
Current assets	$ 27,314,761	$ 26,876,502	$178,781	$ 42,457	$ 27,493,542	$ 26,918,959
Noncurrent assets	55,729,757	57,172,820	145,610	154,536	55,875,367	57,327,356
Total assets	83,044,518	84,049,322	324,391	196,993	83,368,909	84,246,315
DEFERRED OUTFLOWS						
Deferred charges – pensions	16,199,369	9,706,556	-	-	16,199,369	9,706,556
Deferred amounts on debt refunding	536,679	765,516	-	-	536,679	765,516
Total deferred outflows	16,736,048	10,472,072	-	-	16,736,048	10,472,072
LIABILITIES						
Current liabilities	8,934,732	8,754,196	56,327	66,866	8,991,059	8,821,062
Noncurrent liabilities	115,031,920	116,191,680	-	-	115,031,920	116,191,680
Total liabilities	123,966,652	124,945,876	56,327	66,866	124,022,979	125,012,742
DEFERRED INFLOWS						
Deferred credits – pensions	5,625,000	670,000	-	-	5,625,000	670,000
Grants received in advance	136,808	51,892	-	-	136,808	51,892
Total deferred inflows	5,761,808	721,892	-		5,761,808	721,892
NET POSITION (DEFICIT)						
Net investment in capital assets	39,178,850	36,017,469	145,610	154,536	39,324,460	36,172,005
Restricted	3,007,298	2,974,114	-	-	3,007,298	2,974,114
Unrestricted (deficit)	(72,134,042)	(70,137,957)	122,454	(24,409)	(72,011,588)	(70,162,366)
Total net position (deficit)	$(29,947,894)	$(31,146,374)	$268,064	$130,127	$(29,679,830)	$(31,016,247)

The District's total assets as of June 30, 2017 were $83,368,909 of which $21,441,444 or 25.72% consisted of cash and investments and $55,875,367 or 67.02% consisted of the District's net investment in capital assets. The District's total liabilities as of June 30, 2017 were $124,022,979 of which $16,785,293 or 13.53% consisted of general obligation debt used to acquire and construct capital assets and $95,843,000 or 77.28% consisted of the actuarially determined net pension liability.

The District had a deficit in unrestricted net position of $72,011,588 at June 30, 2017. The District’s unrestricted net position decreased by $1,849,222 during 2016-2017 primarily due to the change in the actuarially determined net pension liability.

A portion of the District's net position reflects its restricted net position which totaled $3,007,298 as of June 30, 2017. All of the District's restricted net position related to amounts restricted for capital expenditures and debt service.

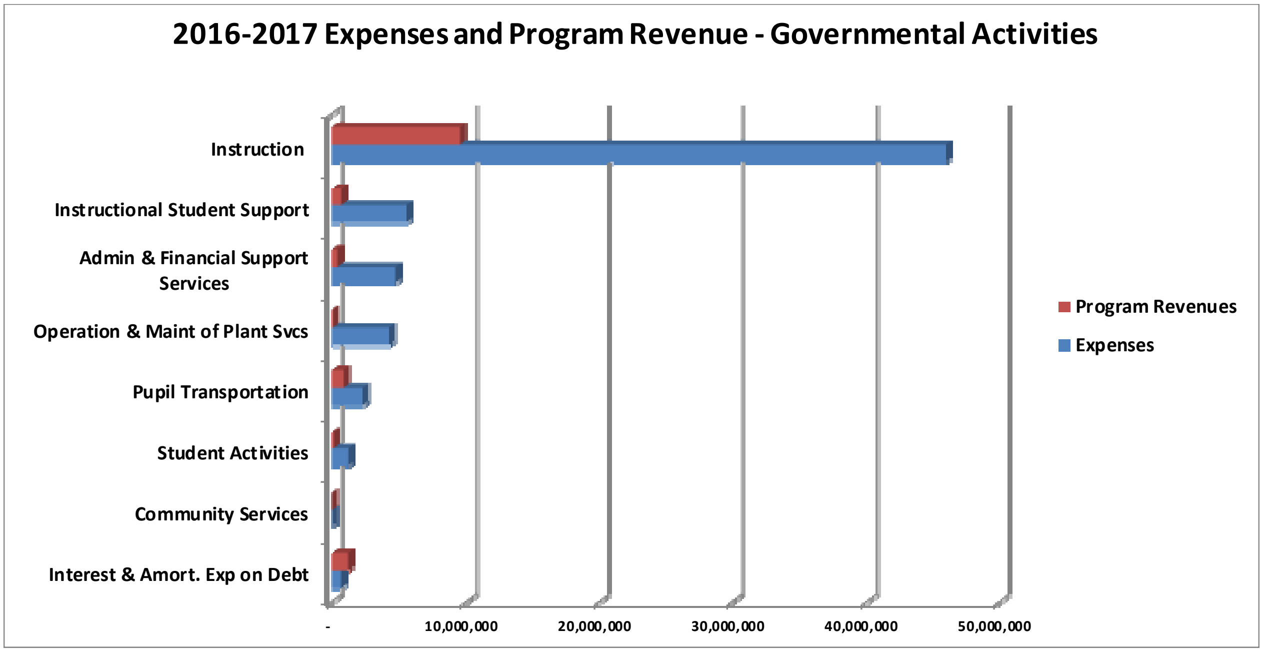
Another portion of the District's net position reflects its investment in capital assets net of accumulated depreciation less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are 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, 2017, the District's net investment in capital assets, increased by $3,152,455 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 long-term debt.

The following table presents condensed information for the *Statement of Activities* of the District for 2017 and 2016:

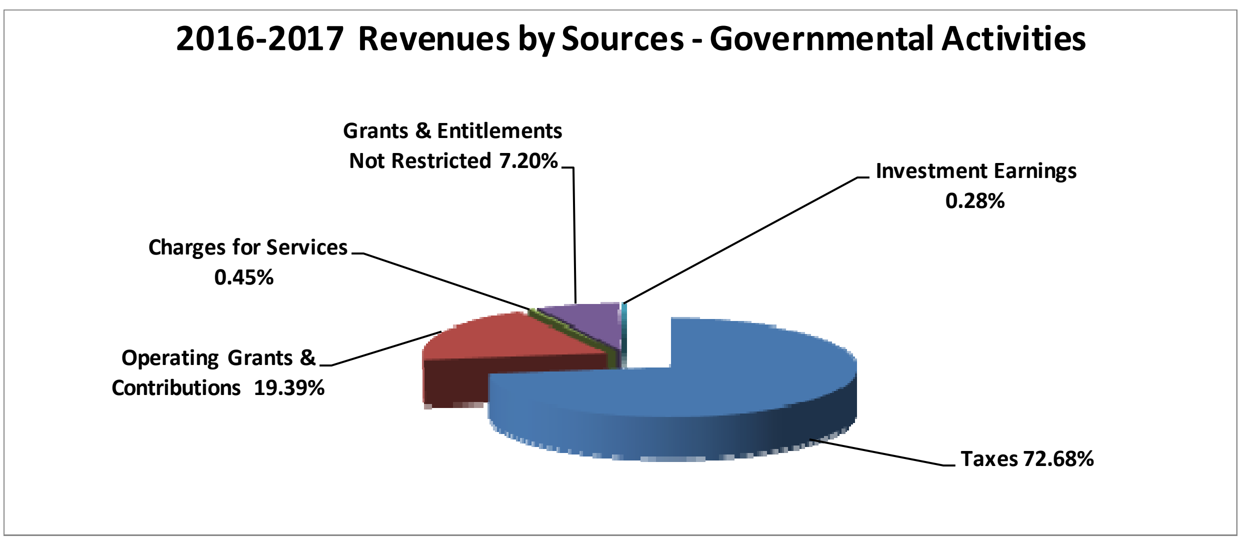
	Governmental Activities		Business-Type Activities		Totals	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
REVENUES						
Program revenues						
Charges for services	$ 298,504	$ 390,342	$ 689,281	$ 731,758	$ 987,785	$ 1,122,100
Operating grants and contributions	12,793,931	10,798,096	1,249,316	1,186,302	14,043,247	11,984,398
Capital grants and contributions	-	-	-	-	-	-
General revenues						
Property taxes levied for general purposes	42,226,172	39,824,885	-	-	42,226,172	39,824,885
Earned income taxes levied for general purposes	4,333,354	4,163,480	-	-	4,333,354	4,163,480
Other taxes	1,384,192	1,849,016	-	-	1,384,192	1,849,016
Grants and entitlements not restricted to specific programs	4,748,447	4,272,389	-	-	4,748,447	4,272,389
Investment earnings	184,945	94,583	1,961	167	186,906	94,750
Total revenues	65,969,545	61,392,791	1,940,558	1,918,227	67,910,103	63,311,018
EXPENSES						
Instruction	45,954,314	44,021,984	-	-	45,954,314	44,021,984
Instructional student support services	5,634,284	5,011,531	-	-	5,634,284	5,011,531
Administrative and financial support services	4,680,325	4,606,089	-	-	4,680,325	4,606,089
Operation and maintenance of plant services	4,224,275	4,202,347	-	-	4,224,275	4,202,347
Pupil transportation	2,295,965	2,167,512	-	-	2,295,965	2,167,512
Student activities	1,241,443	1,118,369	-	-	1,241,443	1,118,369
Community services	33,101	95,920	-	-	33,101	95,920
Interest and amortization expense related to non-current liabilities	694,858	896,245	-	-	694,858	896,245
Food service	-	-	1,815,121	1,829,175	1,815,121	1,829,175
Total expenses	64,758,565	62,119,997	1,815,121	1,829,175	66,573,686	63,949,172
Change in net position (deficit) before transfers	1,210,980	(727,206)	125,437	89,052	1,336,417	(638,154)
Transfers	(12,500)	-	12,500	-	-	-
CHANGE IN NET POSITION (DEFICIT)	$ 1,198,480	$ (727,206)	$ 137,937	$ 89,052	$ 1,336,417	$ (638,154)

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

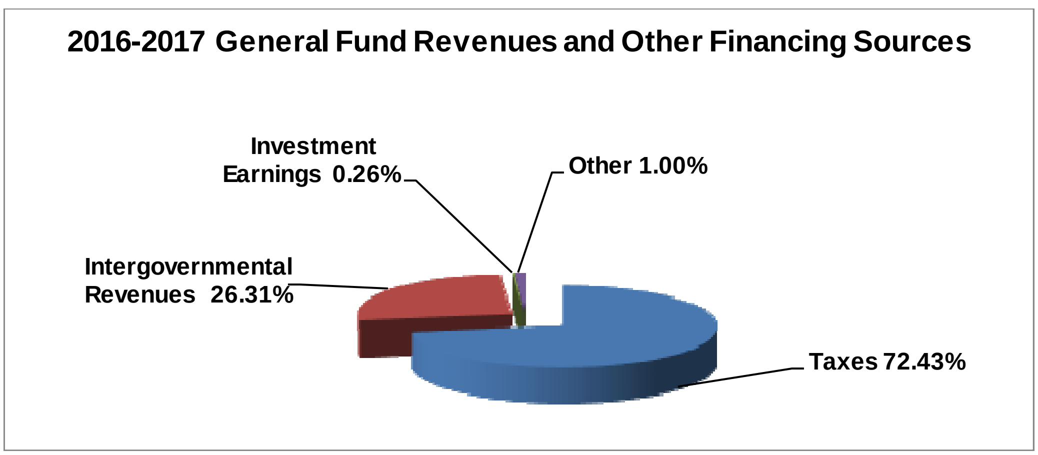
The governmental fund financial statements provide detailed information of the District's major funds. Some funds are required to be established by State statute while other funds are established by the District to manage monies restricted for a specific purpose. As of June 30, 2017, the District's governmental funds reported a combined fund balance of $16,315,566 which is an increase of $9,512 from the prior year. The following table summarizes the District's total governmental fund balances as of June 30, 2017 and 2016 and the total 2017 change in governmental fund balances.

	2017	2016	Change
General Fund	$13,171,431	$13,255,415	$(83,984)
Capital Projects Fund	2,813,325	2,720,141	93,184
Debt Service Fund	193,973	253,973	(60,000)
Nonmajor Governmental Funds	136,837	76,525	60,312
	$16,315,566	$16,306,054	$ 9,512

GENERAL FUND

The General Fund is the District's primary operating fund. At the conclusion of the 2016-2017 fiscal year, the General Fund fund balance was $13,171,431 representing a decrease of $83,984 in relation to the prior year. The decrease 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 2016-2017 fiscal year.

The District's reliance upon tax revenues is demonstrated by the graph below that indicates 72.43% of General Fund revenues are derived from local taxes.



General Fund Revenues

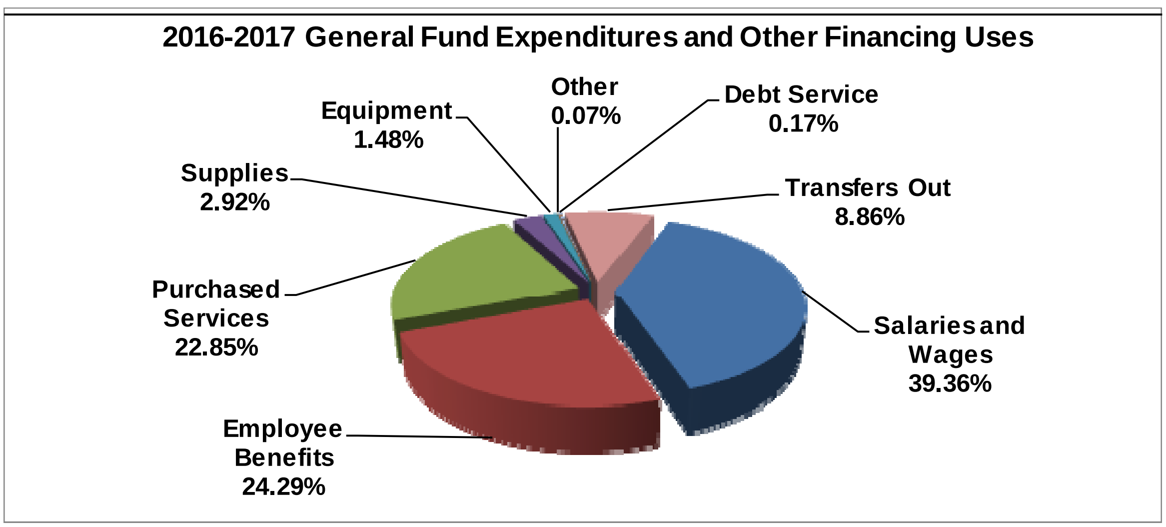
	2017	2016	$ Change	% Change
Tax revenues	$47,870,303	$45,890,612	$1,979,691	4.31
Intergovernmental revenues	17,386,772	15,070,811	2,315,961	15.37
Investment earnings	172,200	88,770	83,430	93.98
Other	658,383	584,616	73,767	12.62
	$66,087,658	$61,634,809	$4,452,849	7.22

Net tax revenues increased by $1,979,691 or 4.31% due to several factors. A millage increase of 4.72% in 2016-2017 and an increase in collections for earned income taxes which was offset by the elimination of per capita taxes and a decrease in collections for transfer and delinquent real estate taxes.

	2017	2016	$ Change	% Change
Real estate tax	$41,272,940	$39,129,140	$2,143,800	5.48
Interim tax	345,240	118,323	226,917	191.78
PURTA tax	49,759	50,584	(825)	(1.63)
Per capita tax	-	291,991	(291,991)	(100.00)
Local services tax	269,043	258,527	10,516	4.07
Earned income tax	4,333,354	4,163,480	169,874	4.08
Transfer tax	708,217	874,502	(166,285)	(19.01)
Amusement tax	348,927	348,925	2	0.00
Delinquent real estate tax	534,577	630,670	(96,093)	(15.24)
Delinquent per capita tax	8,246	24,470	(16,224)	(66.30)
	$47,870,303	$45,890,612	$1,979,691	4.31

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. In addition, the increase can be also attributed to the receipt of deferred one-time subsidies related to the state program (***"Plancon"***) to reimburse costs associated with construction projects through the Lancaster County Career and Technology Center (***"LCCTC"***).

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

	2017	2016	$ Change	% Change
Salaries and wages	$26,043,509	$25,271,700	$ 771,809	3.05
Employee benefits	16,074,543	14,155,419	1,919,124	13.56
Purchased services	15,122,582	13,954,347	1,168,235	8.37
Supplies	1,932,029	1,967,551	(35,522)	(1.81)
Equipment	978,784	1,226,919	(248,135)	(20.22)
Other	42,344	46,744	(4,400)	(9.41)
Debt service	112,091	139,812	(27,721)	(19.83)
Transfers out	5,865,760	5,434,062	431,698	7.94
	$66,171,642	$62,196,554	$3,975,088	6.39

Salaries and wages increased by $771,809 or 3.05% in 2016-2017 compared to 2015-2016 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 $1,919,124 or 13.56% primarily due to an increase in the required annual retirement contribution to 30.03% from 25.84% and an increase in healthcare costs.

Purchased services increased by $1,168,235 or 8.37% due to budgeted capital projects, increasing special education costs as a result of more students receiving related services and increasing tuition costs paid to other districts including the Lancaster County Career & Technology Center.

Transfers out increased due to additional amounts appropriated by the School Board to the Capital Reserve Fund for future capital expenditures.

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 2016-2017, the Capital Projects Fund reported an increase in fund balance of $93,184 due to transfers from the General Fund in excess of amounts expended for capital expenditures. The remaining fund balance of $2,813,325 as of June 30, 2017 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, 2017, the fund balance in the Debt Service Fund was $193,973 and represents an interfund receivable from the General Fund.

GENERAL FUND BUDGET INFORMATION

Actual revenues and other financing sources were $1,826,224 or 2.84% more than budgeted amounts and actual expenditures and other financing uses were $427,005 or 0.64% less than budgeted amounts resulting in a net positive variance of $2,253,229. Major budgetary highlights for 2016-2017 were as follows:

Local source revenues exceeded budgeted amounts by $751,968, resulting from higher than anticipated collections for property taxes, earned income taxes and realty transfer taxes. The taxable real estate assessment at July 1 was also higher than anticipated. Interest income was higher than budget as interest rates have begun to increase.

State source revenues exceeded budgeted amounts by $913,927 and was due to receipt of the deferred payments for reimbursement of costs associated with previous construction projects through the LCCTC. In addition, the District budgeted either modest to no increases in their Basic Education and Ready to Learn Grant subsidies. This was done in response to the 2016-2017 State budget impasse.

Federal source revenues exceeded budgeted amounts by $165,129 primarily due to a larger than anticipated appropriation for IDEA (Individuals with Disabilities Education Act) funding.

Special education expenditures were $ 236,560 more than the original budget. The variance is primarily due to an increase in the number of students receiving special education services. The District continues to contract with the Lancaster-Lebanon Intermediate Unit #13, with other school districts for special education services as well as providing those services in house.

The District provides a qualified high deductible healthcare plan with a health savings account in addition to a low and medium preferred provider plan. District healthcare costs were $516,360 higher than budget due to an increase in healthcare claims as well as reduced premium share costs for employees participating in the District's wellness program.

Total operation and maintenance of plant services expenditures were $560,580 less than original budget. The favorable variance can be attributed to competitive bidding on projects as well as cost saving purchasing initiatives.

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 2016-2017, the net position of the business-type activities and Food Service Fund increased by $137,937. As of June 30, 2017, the business-type activities and Food Service Fund had net position of $268,064.

CAPITAL ASSETS

The District's net investment in capital assets for its governmental and business-type activities as of June 30, 2017 amounted to $55,875,367 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 $1,447,460 or 2.52%. 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 $3,259,669 and capital expenditures were $1,812,209.

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

● Information technology equipment	$810,286
● Conestoga Valley High School roof	$507,152
● Leola Elementary School roof – construction in progress	$113,700

NONCURRENT LIABILITIES

At the end of the current fiscal year, the District had total general obligation debt of $16,785,293 consisting of $15,665,000 in bonds payable, $433,339 note payable and net deferred credits of $686,954. 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 $4,933,129 or 22.71% 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 $139,059,761 which exceeds the District's outstanding general obligation debt as of June 30, 2017.

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 $95,843,000 as of June 30, 2017. The District's net pension liability increased by $3,409,000 or 3.69% during the fiscal year.

Other noncurrent liabilities consist of the District's liabilities for capital leases, accrued retirement bonuses, compensated absences and its net obligation for post-employment benefits, which totaled $2,403,627 as of June 30, 2017. These liabilities increased by $368,898 or 18.13% during the fiscal year.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District adopted a balanced 2017-2018 budget totaling $68,352,368 which used $1,638,626 of committed General Fund fund balance as of June 30, 2017 to balance the 2017-2017 budget and the real estate tax millage was increased by approximately 2.50%.

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 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 2019-2020 and increases in that rate are not as significant.

With some moderate enrollment growth projected, the District's finances are in a position to approach this growth proactively. The CV Futures Task Force, a committee with parent, staff and student representation, worked together this year to offer big-picture recommendations on general directions to our School Board for our future facilities planning. This group has looked at past history in the district, enrollment projections, maintenance needs and architectural trends among other topics. Part of what would make future facility improvements possible is that the District's debt service will drop from around $5 million per year to just over $1 million in 2021, to virtually nothing in the years after. That could allow the District to finance a new building or renovate existing structures with minimal impact to the debt on the overall budget. Additionally, the District already owns more than 40 acres on the high school/middle school campus that are currently leased as farmland, but could be developed.

School districts in Lancaster County are currently undergoing the reassessment of property values. The purpose of reassessment is to equalize the property values with current real estate market values. The school districts must then readjust their millage rate so that the effect of the reassessment is revenue neutral. The school districts can then consider a millage rate increase on the readjusted rate in accordance with Act 1 of 2006 discussed below.

Real estate tax revenues will increase in 2017-2018 due to the increase in the property tax rate. Other local revenues are projected to be essentially level for 2017-2018 compared to 2016-2017. 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 2017-2018 fiscal year is 2.50% and the index for 2018-2019 will be 2.40%. 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 2016-2017 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 2018-2019 preliminary budget or for adoption of a resolution not to exceed the index will be January 16, 2018. The (index) cap applicable to the District was 2.40% for the 2016-2017 fiscal year, 2.50% for the 2017-2018 fiscal year and will be 2.40% for the 2018-2019 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 $16.1 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 Director of Administrative Services or the Assistant Director of Administrative Services, Conestoga Valley School District, 2110 Horseshoe Road, Lancaster, PA 17601.

CONESTOGA VALLEY SCHOOL DISTRICT

STATEMENT OF NET POSITION (DEFICIT)

June 30, 2017

	Governmental Activities	Business-type Activities	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
CURRENT ASSETS			
Cash	$ 6,447,663	$ 237,048	$ 6,684,711
Investments	14,756,733	-	14,756,733
Taxes receivable	1,473,934	-	1,473,934
Due from other governments	2,863,101	122,285	2,985,386
Internal balances	223,107	(223,107)	-
Other receivables	301,875	9,417	311,292
Prepaid expenses	1,248,348	-	1,248,348
Inventories	-	33,138	33,138
Total current assets	27,314,761	178,781	27,493,542
NONCURRENT ASSETS			
Capital assets, net	55,729,757	145,610	55,875,367
Total assets	83,044,518	324,391	83,368,909
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on proportionate share of pension	16,199,369	-	16,199,369
Deferred amounts on debt refunding	536,679	-	536,679
Total deferred outflows of resources	16,736,048	-	16,736,048
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)			
CURRENT LIABILITIES			
Accounts payable	2,528,077	719	2,528,796
Accrued salaries, payroll withholdings and benefits	6,080,095	15,794	6,095,889
Accrued interest payable	217,888	-	217,888
Unearned revenue	108,672	39,814	148,486
Total current liabilities	8,934,732	56,327	8,991,059
NONCURRENT LIABILITIES			
Due within one year	5,218,276	-	5,218,276
Due in more than one year	109,813,644	-	109,813,644
Total noncurrent liabilities	115,031,920	-	115,031,920
Total liabilities	123,966,652	56,327	124,022,979
DEFERRED INFLOWS OF RESOURCES			
Deferred credits on proportionate share of pension	5,625,000	-	5,625,000
Grants received in advance	136,808	-	136,808
Total deferred inflows of resources	5,761,808	-	5,761,808
NET POSITION (DEFICIT)			
Net investment in capital assets	39,178,850	145,610	39,324,460
Restricted	3,007,298	-	3,007,298
Unrestricted (deficit)	(72,134,042)	122,454	(72,011,588)
Total net position (deficit)	$ (29,947,894)	$ 268,064	$ (29,679,830)

See accompanying notes

CONESTOGA VALLEY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year ended June 30, 2017

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position (Deficit): Governmental Activities	Net (Expense) Revenue and Changes in Net Position (Deficit): Business-type Activities	Net (Expense) Revenue and Changes in Net Position (Deficit): Total
GOVERNMENTAL ACTIVITIES							
Instruction	$ 45,954,314	$ 87,446	$ 9,467,769	$ -	$ (36,399,099)	$ -	$ (36,399,099)
Instructional student support	5,634,284	-	721,728	-	(4,912,556)	-	(4,912,556)
Administrative and financial support services	4,680,325	-	425,181	-	(4,255,144)	-	(4,255,144)
Operation and maintenance of plant services	4,224,275	96,196	17,648	-	(4,110,431)	-	(4,110,431)
Pupil transportation	2,295,965	-	891,721	-	(1,404,244)	-	(1,404,244)
Student activities	1,241,443	114,862	55,772	-	(1,070,809)	-	(1,070,809)
Community services	33,101	-	-	-	(33,101)	-	(33,101)
Interest and amortization expense related to noncurrent liabilities	694,858	-	1,214,112	-	519,254	-	519,254
Total governmental activities	64,758,565	298,504	12,793,931	-	(51,666,130)	-	(51,666,130)
BUSINESS-TYPE ACTIVITIES							
Food service	1,815,121	689,281	1,249,316	-	-	123,476	123,476
Total primary government	$ 66,573,686	$ 987,785	$ 14,043,247	$ -	(51,666,130)	123,476	(51,542,654)
GENERAL REVENUES							
Property taxes levied for general purposes					42,226,172	-	42,226,172
Earned income taxes levied for general purposes					4,333,354	-	4,333,354
Other taxes					1,384,192	-	1,384,192
Grants and entitlements not restricted to specific programs					4,748,447	-	4,748,447
Investment earnings					184,945	1,961	186,906
TRANSFERS					(12,500)	12,500	-
Total general revenues and transfers					52,864,610	14,461	52,879,071
CHANGE IN NET POSITION (DEFICIT)					1,198,480	137,937	1,336,417
NET POSITION (DEFICIT)							
Beginning of year					(31,146,374)	130,127	(31,016,247)
End of year					$ (29,947,894)	$ 268,064	$ (29,679,830)

See accompanying notes

CONESTOGA VALLEY SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2017

	Major Funds				
	General Fund	Capital Projects Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
ASSETS					
Cash	$ 3,697,648	$ 1,312,996	$ -	$ 122,161	$ 5,132,805
Investments	13,256,404	1,500,329	-	-	14,756,733
Taxes receivable	1,473,934	-	-	-	1,473,934
Due from other funds	226,255	-	193,973	14,330	434,558
Due from other governments	2,863,101	-	-	-	2,863,101
Other receivables	209,168	-	-	346	209,514
Prepaid items	1,222,890	-	-	-	1,222,890
Total assets	$ 22,949,400	$ 2,813,325	$ 193,973	$ 136,837	$ 26,093,535
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
LIABILITIES					
Accounts payable	$ 2,004,353	$ -	$ -	$ -	$ 2,004,353
Due to other funds	1,092,254	-	-	-	1,092,254
Accrued salaries, payroll withholdings and benefits	6,080,095	-	-	-	6,080,095
Unearned revenue	108,672	-	-	-	108,672
Total liabilities	9,285,374	-	-	-	9,285,374
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues - property and per capita taxes	355,787	-	-	-	355,787
Grants received in advance	136,808	-	-	-	136,808
Total deferred inflows or resources	492,595	-	-	-	492,595
FUND BALANCES					
Nonspendable					
Prepaid expenses	1,222,890	-	-	-	1,222,890
Restricted for					
Capital projects	-	2,813,325	-	-	2,813,325
Debt service	-	-	193,973		193,973
Committed to					
Retirement rate stabilization	4,090,809	-	-	-	4,090,809
Health savings accounts	1,000,000	-	-	-	1,000,000
Property tax assessment appeals	1,850,000	-	-	-	1,850,000
Assigned for					
Athletic facilities improvement	-	-	-	102,024	102,024
Extra-curricular activities	-	-	-	34,813	34,813
Unassigned	5,007,732	-	-	-	5,007,732
Total fund balances	13,171,431	2,813,325	193,973	136,837	16,315,566
Total liabilities, deferred inflows of resources and fund balances	$ 22,949,400	$ 2,813,325	$ 193,973	$ 136,837	$ 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, 2017

TOTAL GOVERNMENTAL FUND BALANCES	$ 16,315,566
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.	55,729,757
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).	536,679
Deferred outflows of resources and deferred inflows of resources related to pensions are not reported as assets and liabilities in the governmental funds balance sheet.	10,574,369
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.	355,787
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).	1,789,756
Noncurrent liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds balance sheet.	(115,031,920)
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.	(217,888)
NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES	$ (29,947,894)

See accompanying notes

CONESTOGA VALLEY SCHOOL DISTRICT

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

Year ended June 30, 2017

	Major Funds				
	General Fund	**Capital Projects Fund**	**Debt Service Fund**	**Nonmajor Governmental Funds**	**Total**
REVENUES					
Local sources	$ 48,814,620	$ 12,308	$ -	$ 96,691	$ 48,923,619
State sources	14,125,633	-	-	-	14,125,633
Federal sources	3,144,205	-	-	-	3,144,205
Total revenues	66,084,458	12,308	-	96,691	66,193,457
EXPENDITURES					
Current					
Instruction	42,453,409	344,400	-	-	42,797,809
Support services	16,487,629	-	-	-	16,487,629
Operation of noninstructional services	1,252,735	-	-	33,179	1,285,914
Facilities acquisition, construction and improvement services	-	473,558		-	473,558
Debt service	109,279	-	5,358,826	-	5,468,105
Total expenditures	60,303,052	817,958	5,358,826	33,179	66,513,015
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	5,781,406	(805,650)	(5,358,826)	63,512	(319,558)
OTHER FINANCING SOURCES (USES)					
Refund of prior year receipts	(2,830)	-	-	-	(2,830)
Proceeds from extended term financings	-	344,400	-	-	344,400
Transfers in	3,200	554,434	5,298,826	-	5,856,460
Transfers out	(5,865,760)	-	-	(3,200)	(5,868,960)
Total other financing sources (uses)	(5,865,390)	898,834	5,298,826	(3,200)	329,070
NET CHANGE IN FUND BALANCES	(83,984)	93,184	(60,000)	60,312	9,512
FUND BALANCES					
Beginning of year	13,255,415	2,720,141	253,973	76,525	16,306,054
End of year	$ 13,171,431	$ 2,813,325	$ 193,973	$ 136,837	$ 16,315,566

See accompanying notes

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, 2017

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS		$ 9,512
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	$ 1,799,410	
Depreciation expense	(3,176,126)	
Loss on disposal of capital assets	(61,818)	(1,438,534)
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, 2016	(282,372)	
Deferred inflows of resources June 30, 2017	355,787	73,415
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.		18,113
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	4,676,666	
Proceeds from extended term financing	(344,400)	
Repayment of extended term financing	235,494	
Amortization of discounts, premiums and deferred amounts on refunding	27,626	4,595,386
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	71,767	
Change in net pension liability and related deferred inflows and outflows	(1,871,187)	
Current year change in accrued retirement bonuses	(92,610)	
Current year change in compensated absences	(30,584)	
Current year change in early retirement incentive	53,569	
Current year change in net post-employment benefit (OPEB) obligation	(190,367)	(2,059,412)
CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES		$ 1,198,480

See accompanying notes

CONESTOGA VALLEY SCHOOL DISTRICT

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

June 30, 2017

	Major Fund Food Service Fund	Internal Service Fund	Total
ASSETS			
CURRENT ASSETS			
Cash	$ 237,048	$ 1,314,858	$ 1,551,906
Due from other governments	122,285	-	122,285
Due from other funds	-	881,767	881,767
Other receivables	9,417	92,361	101,778
Prepaid expenses	-	25,458	25,458
Inventories	33,138	-	33,138
Total current assets	401,888	2,314,444	2,716,332
NONCURRENT ASSETS			
Capital assets, net	145,610	-	145,610
Total assets	547,498	2,314,444	2,861,942
LIABILITIES AND NET POSITION			
LIABILITIES			
Accounts payable	719	523,724	524,443
Due to other funds	223,107	964	224,071
Accrued salaries, payroll withholdings and benefits	15,794	-	15,794
Unearned revenue	39,814	-	39,814
Total liabilities	279,434	524,688	804,122
NET POSITION			
Net investment in capital assets	145,610	-	145,610
Unrestricted	122,454	1,789,756	1,912,210
Total net position	$ 268,064	$ 1,789,756	$ 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, 2017

	Major Fund Food Service Fund	Internal Service Fund	Total
OPERATING REVENUES			
Charges for services	$ 689,281	$ 5,061,538	$ 5,750,819
OPERATING EXPENSES			
Salaries	95,409	-	95,409
Employee benefits	50,705	4,612,951	4,663,656
Purchased services - food service management	715,944	-	715,944
Purchased professional and technical services	2,820	437,654	440,474
Purchased property services	33,036	-	33,036
Other purchased services	4,857	-	4,857
Supplies	888,268	-	888,268
Depreciation	21,725	-	21,725
Other	2,357	-	2,357
Total operating expenses	1,815,121	5,050,605	6,865,726
Operating income (loss)	(1,125,840)	10,933	(1,114,907)
NONOPERATING REVENUES			
Earnings on investments	1,961	7,180	9,141
State sources	78,108	-	78,108
Federal sources	1,171,208	-	1,171,208
Total nonoperating revenues	1,251,277	7,180	1,258,457
Net income before transfers	125,437	18,113	143,550
Transfers in	12,500	-	12,500
CHANGE IN NET POSITION	137,937	18,113	156,050
NET POSITION			
Beginning of year	130,127	1,771,643	1,901,770
End of year	$ 268,064	$ 1,789,756	$ 2,057,820

See accompanying notes

CONESTOGA VALLEY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year ended June 30, 2017

	Major Fund Food Service Fund	Internal Service Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from charges for services	$ 700,698	$ -	$ 700,698
Cash received from assessments made to other funds	-	4,510,725	4,510,725
Cash payments to employees for services	(141,378)	-	(141,378)
Cash payments for insurance claims	-	(4,578,522)	(4,578,522)
Cash payments to supplies for goods and services	(2,172,300)	-	(2,172,300)
Cash payments for other operating expenses	-	(437,654)	(437,654)
Net cash used for operating activities	(1,612,980)	(505,451)	(2,118,431)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
State sources	71,187	-	71,187
Federal sources	965,370	-	965,370
Transfers in	12,500	-	12,500
Net cash provided by noncapital financing activities	1,049,057	-	1,049,057
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(12,799)	-	(12,799)
CASH FLOWS FROM INVESTING ACTIVITIES			
Earnings on investments	1,961	7,180	9,141
Net sale (purchase) of investments	811,766	-	811,766
Net cash provided by investing activities	813,727	7,180	820,907
Net increase (decrease) in cash	237,005	(498,271)	(261,266)
CASH			
Beginning of year	43	1,813,129	1,813,172
Ending of year	$ 237,048	$ 1,314,858	$ 1,551,906
Reconciliation of operating loss to net cash provided by (used for) operating activities:			
Operating income (loss)	$ (1,125,840)	$ 10,933	$ (1,114,907)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities			
Depreciation	21,725	-	21,725
Donated commodities used	149,633	-	149,633
(Increase) decrease in			
Due from other funds	1,652	(664,020)	(662,368)
Other receivables	10,517	112,243	122,760
Prepaid expenses	-	(25,458)	(25,458)
Inventories	8,304	-	8,304
Increase (decrease) in			
Accounts payable	(14,523)	59,887	45,364
Due to other funds	(668,432)	964	(667,468)
Accrued salaries, payroll withholdings and benefits	4,736	-	4,736
Unearned revenue	(752)	-	(752)
Net cash used for operating activities	$ (1,612,980)	$ (505,451)	$ (2,118,431)
SUPPLEMENTAL DISCLOSURE			
Noncash noncapital financing activity			
USDA donated commodities	$ 149,633	$ -	$ 149,633

See accompanying notes

CONESTOGA VALLEY SCHOOL DISTRICT

STATEMENT OF NET POSITION - FIDUCIARY FUNDS

June 30, 2017

	Private-Purpose Trust	Agency
ASSETS		
Cash	$ 182,595	$ 175,289
LIABILITIES		
Due to student groups	-	$ 175,289
NET POSITION		
Net position held in trust for scholarships	$ 182,595	

See accompanying notes

CONESTOGA VALLEY SCHOOL DISTRICT

STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUND

Year ended June 30, 2017

	Private-Purpose Trust Fund
ADDITIONS	
Local contributions	$ 1,476
DEDUCTIONS	
Scholarships awarded and fees paid	10,600
CHANGE IN NET POSITION	(9,124)
NET POSITION	
Beginning of year	191,719
End of year	$ 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.

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 District bills and collects its own property taxes. The tax on real estate for public school purposes for fiscal 2016-2017 was 15.924 mills ($15.92 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, 2017.

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, 2016, 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, 2016, the District adopted the provisions of GASB Statement No. 73, *"Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68"*, GASB Statement No. 74 *"Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans",* GASB Statement No. 76, *"The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments",* GASB Statement No. 77, *"Tax Abatement Disclosures";* GASB Statement No. 78, *"Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans"* and GASB Statement No. 79*, "Certain External Investment Pools and Pool Participants".*

The objective of GASB Statement No. 76 is to identify—in the context of the current governmental financial reporting environment—the hierarchy of GAAP. The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

GASB Statement No. 77 is intended to improve financial reporting by requiring governments that enter into tax abatement agreements to disclose certain information about the agreements. The implementation of GASB Statement No. 77 had no impact on the financial statements of the District for the year ended June 30, 2017.

GASB Statement No. 78 amends the scope and applicability of GASB No. Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan meeting certain criteria. The implementation of GASB Statement No. 78 had no impact on the financial statements of the District for the year ended June 30, 2017.

The objective of GASB Statement No. 79 is to address for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. The implementation of GASB Statement No. 79 had no impact on the financial statements of the District for the year ended June 30, 2017.

GASB Statement No. 73 establishes requirement for defined benefit pensions that are not within the scope of GASB Statement No. 68, *"Accounting and Financial Reporting for Pensions",* as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of GASB Statement No. 68. It also amends certain provisions of GASB Statement No. 67, *"Financial Reporting for Pension Plans"*, and GASB Statement No. 68 for pension plans and pensions that are within their respective scopes.

GASB Statement No. 74 replaces GASB Statements No. 43, *"Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans"*, as amended, and GASB Statement No. 57, *"OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans"*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in GASB Statement No. 25, *"Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans"*, as amended, GASB Statement No. 43, and GASB Statement No. 50, *"Pension Disclosures"*.

New Accounting Pronouncements

GASB Statement No. 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"* will be effective for the District for the year ended June 30, 2018. 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. Statement 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 *"Blending Requirements for Certain Component Units-amendment of GASB Statement No. 14"* will be effective for the District for the year ended June 30, 2018. GASB Statement No. 80 amends 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 *"Irrevocable Split-Interest Agreements"* will be effective for the District for the year ended June 30, 2018. GASB Statement No. 81 requires 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 requires 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 requires that a government recognize revenue when the resources become applicable to the reporting period.

GASB Statement No. 82 *"Pension Issues-an amendment of GASB Statements No. 67, No. 68 and No. 73"* will be effective for the District for the year ended June 30, 2018. GASB Statement No. 82 addresses 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.

(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, 2017, the carrying amount of the District's deposits was $7,042,595 and the bank balance was $7,111,709. 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 $111,309 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, 2017, PSDLAF and PLGIT were rated as AAA by a nationally recognized statistical rating agency.

Investments

At June 30, 2017, the District had the following investments:

Certificates due within one year –	
Collateral held by pledging bank's agent in the District's name	$14,756,733

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, 2017.

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. The District had no investments subject to interest rate risk as of June 30, 2017.

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, 2017 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	-	113,700
Total capital assets not being depreciated	2,152,701	113,700	-	2,266,401
Capital assets being depreciated				
Site improvements	1,965,490	-	-	1,965,490
Buildings and improvements	94,020,809	507,152	-	94,527,961
Furniture and equipment	7,363,199	1,178,558	126,948	8,414,809
Total capital assets being depreciated	103,349,498	1,685,710	126,948	104,908,260
Less accumulated depreciation for				
Site improvements	(1,793,406)	(26,159)	-	(1,819,565)
Buildings and improvements	(42,557,856)	(2,152,428)	-	(44,710,284)
Furniture and equipment	(3,982,646)	(997,539)	(65,130)	(4,915,055)
Total accumulated depreciation	(48,333,908)	(3,176,126)	(65,130)	(51,444,904)
Total capital assets being depreciated, net	55,015,590	(1,490,416)	61,818	53,463,356
Governmental activities, net	$ 57,168,291	$(1,376,716)	$ 61,818	$ 55,729,757
Business-type activities				
Machinery and equipment	$ 1,067,252	$ 12,799	$ 3,292	$ 1,076,759
Less accumulated depreciation	(912,716)	(21,725)	(3,292)	(931,149)
Business-type activities, net	$ 154,536	$ (8,926)	$ -	$ 145,610

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

Governmental activities	
Instruction	$2,624,381
Instructional student support	57,617
Administrative and financial support services	76,694
Operation and maintenance of plant services	354,855
Pupil transportation	15,143
Student activities	47,436
Total depreciation expense – governmental activities	$3,176,126
Business-type activities	
Food service	$ 21,725

As of June 30, 2017, the District had outstanding construction projects to be completed. Construction commitments and the amounts completed as of June 30, 2017 are as follows:

	Project Amount	Completed Through June 30, 2017	Remaining Commitments
Leola Elementary School - roof	$285,000	$113,700	$171,300

(5) INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2017 is as follows:

Receivable To	Amount	Payable From	Amount
Debt Service Fund	$ 193,973	General Fund	$ 193,973
General Fund	223,107	Food Service Fund	223,107
Internal Service Fund	880,803	General Fund	880,803
Nonmajor Governmental Funds	14,330	General Fund	14,330
	$1,312,213		$1,312,213

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, 2017 is as follows:

Transfers In	Amount	Transfers Out	Amount
Capital Projects Fund	$ 554,434	General Fund	$ 554,434
Debt Service Fund	5,298,826	General Fund	5,298,826
Food Service Fund	12,500	General Fund	12,500
General Fund	3,200	Nonmajor Governmental Funds	3,200
	$5,868,960		$5,868,960

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) NONCURRENT LIABILITIES

The following summarizes the changes in noncurrent liabilities for the year ended June 30, 2017:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017	Amount Due Within One Year
Governmental activities					
General obligation debt					
Bonds payable	$ 20,275,000	$ -	$4,610,000	$ 15,665,000	$4,765,000
Notes payable	500,005	-	66,666	433,339	66,666
Bond premiums	943,417	-	256,463	686,954	256,463
Total general obligation debt	21,718,422	-	4,933,129	16,785,293	5,088,129
Other noncurrent liabilities					
Capital leases payable	193,387	344,400	235,494	302,293	130,147
Compensated absences	530,242	30,584	-	560,826	-
Accrued retirement bonus	370,440	92,610	-	463,050	-
Early retirement incentive	53,569	-	53,569	-	-
OPEB obligation	887,091	316,483	126,116	1,077,458	-
Net pension liability ***(See Note 7)***	92,434,000	3,409,000	-	95,843,000	-
Total other noncurrent liabilities	94,468,729	4,193,077	415,179	98,246,627	130,147
Total noncurrent liabilities	$116,187,151	$4,193,077	$5,348,308	$115,031,920	$5,218,276

Non-current liabilities are generally liquidated by the General Fund.

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, 2017 consisted of the following:

Description	Interest Rate(s)	Original Issue Amount	Final Maturity	Principal Outstanding
General obligation bonds				
Series of 2004	1.70%-5.25%	$18,150,000	03/15/2018	$ 570,000
Series of 2012	0.65%-4.00%	$25,960,000	01/15/2020	11,505,000
Series of 2014	0.40%-2.00%	$ 3,605,000	04/01/2021	3,590,000
Total general obligation bonds				15,665,000
General obligation note				
Series of 2008	3.77%-6.00%	$1,000,000	08/21/2023	433,339
Total general obligation debt				$16,098,339

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

Year ending June 30,	Principal Maturities	Interest Maturities	Total Maturities
2018	$ 4,831,666	$ 517,968	$ 5,349,634
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
2023-2024	100,009	5,975	105,984
	$16,098,339	$1,066,375	$17,164,714

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, 2017 are as follows:

Year ending June 30,	Principal	Interest	Total
2018	$130,147	$ 7,565	$137,712
2019	84,999	4,349	89,348
2020	87,147	2,202	89,349
	$302,293	$14,116	$316,409

Early Retirement Incentive

The District offered full-time employees the opportunity to participate in a one-time early retirement incentive program (***"ERIP"***). Full-time employees were eligible for the program if they elected to retire by June 30, 2012, were at least age 55, had a minimum of 25 years of service in the Pennsylvania School Employees Retirement System (***"PSERS"***) and incurred no additional eligible service under PSERS after retiring. The ERIP included the following benefits: paid monthly single coverage health insurance premiums for up to 60 consecutive months following the effective date of the retirement, or until the end of the month in which the retired employee becomes eligible for alternative healthcare coverage and a one-time retirement bonus of $10,000. During the year ended June 30, 2012, 11 employees elected to retire and a total of $110,000 was paid under the bonus portion of the ERIP. At June 30, 2017, the District's obligation for single coverage health insurance under the ERIP was satisfied.

Other Post-Employment Benefits

The District's other post-employment benefits 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 plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

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.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution of the employer (***"ARC"***), an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2017, 2016 and 2015 were as follows:

Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	$316,483	39.85%	$1,077,458
2016	$365,475	45.97%	$ 887,091
2015	$302,499	73.31%	$ 765,325

The following table shows the components of the District's OPEB cost for the year, the amount actually contributed by the District and changes in the District's net OPEB obligation:

Annual Required Contribution (ARC)	$ 331,024
Interest on Net OPEB Obligation	39,919
Adjustments to ARC	(54,460)
Annual OPEB cost (expense)	316,483
Contributions made	(126,116)
Increase in net OPEB obligation	190,367
Net OPEB obligation – beginning of year	887,091
Net OPEB obligation – end of year	$1,077,458

Funded Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation, the actuarial accrued liability for benefits was $2,649,258, all of which was unfunded. The covered payroll (annual payroll of active employees) was $24,178,245 and the ratio of the unfunded actuarial accrued liability (***"UAAL"***) to the covered payroll was 10.96%.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and benefit cost trends. Amounts determined regarding the funded status and the annual required contribution of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about whether the actuarial value of assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the most recent actuarial valuation, the normal cost method was used. The actuarial assumptions include a 4.50% discount rate and an annual healthcare cost trend rate of 6.50% in 2016, 6.00% in 2017 and 5.50% in 2018 through 2020, decreasing from 5.40% in 2021 to 3.80% in 2075. The UAAL is being amortized based on the level dollar, 30-year open period.

(7) PENSION PLAN

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

Plan Description

PSERS is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the system 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 2.0% 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 the system 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 the system on or after July 22, 1983 and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.

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

Members who joined the system after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.50% (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, 2017 was 29.20% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were $7,397,369 for the year ended June 30, 2017.

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

At June 30, 2017, the District reported a liability of $95,843,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by rolling forward the system's total pension liability as of June 30, 2015 to June 30, 2016. 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, 2016, the District's proportion was 0.1934 percent, which was a decrease of 0.0200 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of $1,871,187. At June 30, 2017, 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
Difference between projected and actual experience	$ -	$ 798,000
Changes in assumptions	3,460,000	-
Net difference between projected and actual investment earnings	5,342,000	-
Changes in proportions	-	4,827,000
Contributions subsequent to the measurement date	7,397,369	-
	$16,199,369	$5,625,000

$7,397,369 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, 2017. 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	$ 806,000
2019	806,000
2020	1,295,000
2021	270,000
	$3,177,000

Actuarial Assumptions

The total pension liability as of June 30, 2016 was determined by rolling forward the system's total pension liability as the June 30, 2015 actuarial valuation to June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

Changes in assumptions used in measurement of the total pension liability beginning June 30, 2016:

- The investment rate of return was adjusted from 7.50% to 7.25%

- The inflation assumption was decreased from 3.00% to 2.75%

- Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an 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 modified from the RP-2000 combined healthy annuitant tables (male and female) with age set back 3 years for both males and females to the RP-2014 mortality tables for males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 mortality improvement scale. For disabled annuitants the RP-2000 combined disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 mortality tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 mortality improvement scale.

The actuarial assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the five-year period ending June 30, 2015. The recommended assumptions changes based on this experience study were adopted by the Board at its June 10, 2016 Board meeting, and were effective with the June 30, 2016 actuarial valuation.

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global public equity	22.5 %	5.3%
Fixed income	28.5 %	2.1%
Commodities	8.0 %	2.5%
Absolute return	10.0 %	3.3%
Risk parity	10.0 %	3.9%
Infrastructure/MLPs	5.0 %	4.8%
Real estate	12.0 %	4.0%
Alternative investments	15.0 %	6.6%
Cash	3.0 %	0.2%
Financing (LIBOR)	(14.0)%	0.5%
	100.0 %	

The above was the PSERS' Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2016.

Discount Rate

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

Sensitivity of the 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	$117,242,000	$95,843,000	$77,862,000

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.

(8) 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 2016-2017 was $1,174,121.

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 2016-2017 was $109,279.

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,	
2018	$ 116,769
2019	116,734
2020	116,857
2021	116,868
2022	116,727
2023-2027	584,222
2028-2032	583,350
2033-2037	583,320
	$2,334,847

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 2016-2017, the District contracted with the LLIU for special education services which totaled $2,464,125.

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 2016-2017, 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"***) for the collection of earned income taxes. 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 Bureau's operating expenditures are deducted from each members earned income tax distributions. During 2016-2017, the District's portion of operating expenditures for the Bureau totaled $78,838.

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 2016-2017, the District's portion of operating expenditures for the Academy totaled $42,713.

(9) 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.

(10) 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 a third party who approves and process all claims. The District was limited in liability to $150,000 per individual and $5,026,125 in total for self-insurance medical claims for the year ended June 30, 2017.

The District has recorded a liability in the Internal Service Fund for claims incurred through June 30, 2017 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, 2017:

Insurance claims liability – beginning of year	$ 463,836
Current year insurance claims and changes in estimates	5,050,605
Insurance claims paid	(4,990,717)
Insurance claims liability – end of year	$ 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, 2017, 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, 2017, 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.

(11) SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 8, 2017, the date on which the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2017 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, 2017

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Local sources	$ 48,062,652	$ 48,062,652	$ 48,814,620	$ 751,968
State sources	13,211,706	13,211,706	14,125,633	913,927
Federal sources	2,979,076	2,979,076	3,144,205	165,129
Total revenues	64,253,434	64,253,434	66,084,458	1,831,024
EXPENDITURES				
Instruction				
Regular programs	32,533,549	32,317,392	32,270,568	46,824
Special programs	8,101,736	8,411,656	8,338,296	73,360
Vocational programs	1,099,307	1,252,807	1,249,587	3,220
Other instructional programs	191,924	175,776	150,970	24,806
Nonpublic school programs	16,455	16,455	14,336	2,119
Pre-kindergarten	348,091	434,091	429,652	4,439
Total instruction	42,291,062	42,608,177	42,453,409	154,768
Support services				
Pupil support services	2,260,826	2,339,505	2,283,932	55,573
Instructional staff services	2,346,300	2,576,842	2,540,525	36,317
Administrative services	2,795,227	2,849,735	2,801,533	48,202
Pupil health	557,622	572,208	568,114	4,094
Business services	594,566	571,406	558,381	13,025
Operation and maintenance of plant services	4,670,589	4,133,483	4,110,009	23,474
Student transportation services	2,304,441	2,431,143	2,422,401	8,742
Support services - central	1,166,191	1,208,184	1,159,985	48,199
Other support services	46,000	46,000	42,749	3,251
Total support services	16,741,762	16,728,506	16,487,629	240,877
Operation of noninstructional services				
Student activities	1,126,833	1,084,973	1,219,280	(134,307)
Community services	29,776	39,776	33,455	6,321
Total operation of noninstructional services	1,156,609	1,124,749	1,252,735	(127,986)
Debt service	161,387	114,388	109,279	5,109
Total expenditures	60,350,820	60,575,820	60,303,052	272,768
Excess (deficiencies) of revenues over (under) expenditures	3,902,614	3,677,614	5,781,406	2,103,792
OTHER FINANCING SOURCES (USES)				
Refund of prior year receipts	-	-	(2,830)	(2,830)
Transfers in	8,000	8,000	3,200	(4,800)
Transfers out	(6,022,827)	(6,022,827)	(5,865,760)	157,067
Budgetary reserve	(225,000)	-	-	-
Total other financing sources (uses)	(6,239,827)	(6,014,827)	(5,865,390)	149,437
NET CHANGE IN FUND BALANCE	$ (2,337,213)	$ (2,337,213)	(83,984)	$ 2,253,229
FUND BALANCE				
Beginning of year			13,255,415	
End of year			$ 13,171,431	

CONESTOGA VALLEY SCHOOL DISTRICT

OTHER POST-EMPLOYMENT BENEFITS SCHEDULE OF FUNDING PROGRESS

Year ended June 30

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/2016	$ -	$2,649,258	$2,649,258	0.00%	$24,178,245	10.96%
07/01/2014	$ -	$2,946,357	$2,946,357	0.00%	$23,643,418	12.46%
07/01/2012	$ -	$2,352,795	$2,352,795	0.00%	$23,226,433	10.13%
07/01/2010	$ -	$2,298,730	$2,298,730	0.00%	$22,690,915	10.13%

CONESTOGA VALLEY SCHOOL DISTRICT

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

Year ended June 30

	2016	2015	2014
District's proportion of the net pension liability (asset)	0.1934%	0.2134%	0.2137%
District's proportionate share of the net pension liability (asset)	$95,843,000	$92,434,000	$84,583,000
District's covered-employee payroll	$25,045,713	$27,455,288	$25,751,265
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	383%	337%	310%
Plan fiduciary net position as a percentage of the total pension liability	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

Year ended June 30

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

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

CONESTOGA VALLEY SCHOOL DISTRICT

COMBINING BALANCE SHEET - NONMAJOR GOVERNMETNAL FUNDS

June 30, 2017

	Athletic Facilities Improvement	Extra-Curricular Fund	Total
ASSETS			
Cash	$ 87,425	$ 34,736	$ 122,161
Due from other funds	14,330	-	14,330
Other receivables	269	77	346
Total assets	$ 102,024	$ 34,813	$ 136,837
LIABILITIES AND FUND BALANCES			
LIABILITIES	$ -	$ -	$ -
FUND BALANCES			
Assigned for			
Athletic facilities improvement	102,024	-	102,024
Extra-curricular activities	-	34,813	34,813
Total fund balances	102,024	34,813	136,837
Total liabilities and fund balances	$ 102,024	$ 34,813	$ 136,837

CONESTOGA VALLEY SCHOOL DISTRICT

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

Year ended June 30, 2017

	Athletic Facilities Improvement	Extra-Curricular Fund	Total
REVENUES			
Local sources	$ 64,827	$ 31,864	$ 96,691
EXPENDITURES			
Current			
Operation of noninstructional services	33,179	-	33,179
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	31,648	31,864	63,512
OTHER FINANCING SOURCES (USES)			
Transfers out	(3,200)	-	(3,200)
NET CHANGE IN FUND BALANCES	28,448	31,864	60,312
FUND BALANCES			
Beginning of year	73,576	2,949	76,525
End of year	$ 102,024	$ 34,813	$ 136,837

SINGLE AUDIT

CONESTOGA VALLEY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2017

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, 2016	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue June 30, 2017	Passed Through to Subrecipients
U.S. Department of Education											
Passed-Through the Pennsylvania Department of Education											
Title I - Improving Basic Programs	I	84.010	013-170096	07/01/16-09/30/17	$ 1,233,839	$ 912,619	$ -	$ 962,575	$ 962,575	$ 49,956	$ -
Title I - Improving Basic Programs	I	84.010	013-160096	08/17/15-09/30/17	1,130,779	400,740	241,734	104,606	104,606	(54,400)	
Title I - Improving Basic Programs	I	84.010	013-150096	07/01/14-09/30/16	1,078,474	-	(38,114)	38,114	38,114	-	
Title I - Improving Basic Programs	I	84.010	077-160096	09/12/16-09/30/17	27,530	25,412	-	20,958	20,958	(4,454)	-
Total CFDA #84.010						1,338,771	203,620	1,126,253	1,126,253	(8,898)	-
Title II - Improving Teacher Quality	I	84.367	020-170096	07/01/16-09/30/17	169,309	135,819	-	169,309	169,309	33,490	-
Title II - Improving Teacher Quality	I	84.367	020-160096	08/17/15-09/30/16	173,747	24,712	24,712	-	-	-	-
Total CFDA #84.367						160,531	24,712	169,309	169,309	33,490	-
Title III - Language Instruction LEP/ Immigrant Students	I	84.365	010-170096	07/01/16-09/30/17	47,874	38,299	-	37,779	37,779	(520)	-
Title III - Language Instruction LEP/ Immigrant Students	I	84.365	010-160096	08/17/15-09/30/16	46,135	13,181	(4,009)	17,190	17,190	-	-
Title III - Language Instruction LEP/ Immigrant Students	I	84.365	010-150096	07/01/14-09/30/16	83,199	10,843	10,843	-	-	-	-
Total CFDA #84.365						62,323	6,834	54,969	54,969	(520)	-
Striving Readers Comprehensive Literacy Grant Program	I	84.371c	143-160096	10/01/16-09/30/17	640,500	640,500	-	563,066	563,066	(77,434)	-
Striving Readers Comprehensive Literacy Grant Program	I	84.371c	143-150096	10/01/15-09/30/16	1,056,308	357,177	(9,770)	366,947	366,947	-	-
Total CFDA #84.371c						997,677	(9,770)	930,013	930,013	(77,434)	-
Passed Through the Lancaster-Lebanon I.U.											
I.D.E.A. - Part B, Section 611	I	84.027	062-17-0-013	07/01/16-09/30/17	733,453	183,570	-	733,453	733,453	549,883	-
I.D.E.A. - Part B, Section 611	I	84.027	062-16-0-013	07/01/15-09/30/16	667,771	506,952	506,952	-	-	-	-
Total CFDA #84.027						690,522	506,952	733,453	733,453	549,883	-

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, 2016	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue June 30, 2017	Passed Through to Subrecipients
I.D.E.A. - Part B, Section 619	I	84.173	062-17-0-013	07/01/16-09/30/17	4,559	-	-	4,559	4,559	4,559	-
I.D.E.A. - Part B, Section 619	I	84.173	062-16-0-013	07/01/15-09/30/16	3,977	3,977	3,977	-	-	-	-
Total CFDA #84.173						3,977	3,977	4,559	4,559	4,559	-
Total U.S. Department of Education						3,253,801	736,325	3,018,556	3,018,556	501,080	-
U.S. Department of Health and Human Services											
Passed Through the Pennsylvania Department of Public Welfare											
Medical Assistance Program	I	93.778	N/A	07/01/16-06/30/17	N/A	3,699	-	5,327	5,327	1,628	-
Medical Assistance Program	I	93.778	N/A	07/01/15-06/30/16	N/A	2,759	2,759	-	-	-	-
Total CFDA #93.778						6,458	2,759	5,327	5,327	1,628	-
Federal Emergency Management Agency											
Passed Through the Pennsylvania Emergency Management Agency											
Disaster Grants - Public Assistance	I	97.036	FEMA-4267-DR-PA-071-02B60-00	03/23/16-09/23/16	N/A	19,625	-	19,625	19,625	-	-
U.S. Department of Agriculture											
Passed-Through the Pennsylvania Department of Education											
Breakfast Program	I	10.553	N/A	07/01/16-06/30/17	N/A	182,906	-	207,007	207,007	24,101	-
National School Lunch Program	I	10.555	N/A	07/01/16-06/30/17	N/A	725,157	-	814,568	814,568	89,411	-
National School Lunch Program	I	10.555	N/A	07/01/15-06/30/16	N/A	57,307	57,307	-	-	-	-
Passed-Through the Pennsylvania Department of Agriculture											
National School Lunch Program	I	10.555	N/A	07/01/16-06/30/17	N/A	146,524	(23,477)	149,633	149,633	(20,368)	-
Total CFDA #10.555						928,988	33,830	964,201	964,201	69,043	-
Total U.S. Department of Agriculture						1,111,894	33,830	1,171,208	1,171,208	93,144	-
Total Federal Awards						$ 4,391,778	$ 772,914	$ 4,214,716	$ 4,214,716	$ 595,852	$ -
Special Education Cluster (IDEA) (CFDA's #84.027 and #84.173)						$ 694,499	$ 510,929	$ 738,012	$ 738,012	$ 554,442	$ -
Child Nutrition Cluster (CFDA's #10.553 and #10.555)						$ 1,111,894	$ 33,830	$ 1,171,208	$ 1,171,208	$ 93,144	$ -

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, 2016	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue June 30, 2017	Passed Through to Subrecipients

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 2016-2017 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, 2017 was $100,697.

(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, 2017.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2017

There were no audit findings for the year ended June 30, 2016.

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, 2017, 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 November 8, 2017.

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
November 8, 2017

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, 2017. 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, 2017.

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
November 8, 2017

CONESTOGA VALLEY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2017

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:

   Title I – Improving Basic Programs – CFDA Number 84.010

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