



POTTSTOWN SCHOOL DISTRICT

FINANCIAL AND COMPLIANCE REPORT

Year Ended June 30, 2017

TABLE OF CONTENTS

	Pages
INDEPENDENT AUDITOR'S REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 17
 BASIC FINANCIAL STATEMENTS	
 Government-Wide Financial Statements	
Statement of Net Position.....	18
Statement of Activities.....	19
 Fund Financial Statements	
Balance Sheet - Governmental Funds.....	20
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position.....	21
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	22
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities	23
Statement of Net Position - Proprietary Funds.....	24
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds.....	25
Statement of Cash Flows - Proprietary Funds.....	26 - 27
Statement of Net Position - Fiduciary Funds	28
Statement of Changes in Net Position - Fiduciary Funds	29
 Notes to Basic Financial Statements.....	 30 - 67
 REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule for the General Fund	68
Schedule of the District's Proportionate Share of the Net Pension Liability and Related Ratios - Pension Plan	69
Schedule of District's Contributions - Pension Plan.....	70
Schedule of Funding Progress - Other Postemployment Benefits Plan.....	71
Note to Required Supplementary Information.....	72

SUPPLEMENTARY INFORMATION

Nonmajor Governmental Funds

Combining Balance Sheet - Nonmajor Governmental Funds	73
Combining Statement of Revenues, Expenditures, and Changes in Fund Fund Balances - Nonmajor Governmental Funds	74

Single Audit

Schedule of Expenditures of Federal Awards	75
Notes to Schedule of Expenditures of Federal Awards.....	76

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 <i>GOVERNMENT AUDITING STANDARDS</i>.....	77 - 78
---	----------------

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	79 - 81
---	----------------

SCHEDULE OF FINDINGS AND QUESTIONED COSTS	82 - 87
--	----------------

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS	88 - 91
---	----------------

CORRECTIVE ACTION PLAN.....	92 - 94
------------------------------------	----------------

INDEPENDENT ACCOUNTANT’S REPORT ON APPLYING AGREED-UPON PROCEDURES.....	95 - 96
--	----------------

PA PRE-K COUNTS SUPPLEMENTAL AUDIT SCHEDULE FOR THE FISCAL YEAR ENDED JUNE 30, 2017	97
--	-----------



Herbein + Company, Inc.
2763 Century Boulevard
Reading, PA 19610
P: 610.378.1175
F: 610.378.0999
www.herbein.com

INDEPENDENT AUDITOR'S REPORT

**To the Board of School Directors
Pottstown School District
Pottstown, Pennsylvania**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Pottstown School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison schedule for the general fund, and pension and other postemployment benefit information on pages 69 through 71 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

The combining nonmajor governmental funds financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor governmental 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 February 12, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Herbein + Company, Inc.

**Reading, Pennsylvania
February 12, 2018**



POTTSTOWN SCHOOL DISTRICT

ADMINISTRATION BUILDING • 230 Beech Street • Pottstown PA 19464 • (610)323-8200 • FAX (610)326-6540

www.pottstownschooldistrict.com

Building a Better Tomorrow

POTTSTOWN SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

June 30, 2017

The following is a discussion and analysis of the Pottstown School District's annual financial performance during the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

DISTRICT HIGHLIGHTS

The Pottstown School District is a school district of the third class, coterminous with the Borough of Pottstown. The District covers an area of 5.1 square miles in a section of Montgomery County. The governing body of the School District is a Board of School Directors comprised of nine members. Members are elected to four-year terms, which expire on a staggered basis. The daily operations and management of the School District are carried out by the administrative staff of the School District headed by the Superintendent of Schools, who is appointed by the Board.

The Pottstown School District consisted of four (4) elementary schools, a middle school, a high school, a closed elementary building, an Administration Building, an Administration Annex Building and two (2) maintenance buildings. Renovations to Barth Elementary School were substantially completed during the 2012-13 school year. Edgewood Elementary School was closed at the end of the 2012-13 school year, but housed the Rupert Elementary School students and staff during 2013-14 and up to November 10 of 2014 when additions and renovations were completed at the Rupert Elementary School building. Work on additions and renovations to Franklin and Lincoln Elementary Schools also took place during the 2013-14 year and were completed in time for the opening of the 2014-15 school year. The District's enrollment, including out placed students was 3,240 students. The District employed approximately 224 professionals, 237 support staff, and 24 full time administrators. The District's commitment to provide an excellent education for each student can be seen in the quality of programs and opportunities the District maintains and supports.

FINANCIAL HIGHLIGHTS

The School District's budget is prepared according to Pennsylvania law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The School District uses site-based budgeting, and the budgeting system is designed to tightly control total site budgets but provide flexibility for site management.

- The net position for business-type activities or Food Service increased by \$116,271. In 2016-17 the District's Food Service participated, for the third year, in the Community Eligibility Provision which provides free breakfast and lunch to all students and provides a higher subsidy. The cafeteria operates independently from the General Fund.
- Total Governmental Fund expenditures exceeded revenues by \$1,307,720. This resulted from unexpected special education costs and an accrued grant revenue write off. The net deficiency for the fiscal year 2016-17 is \$292,539.

Fund Level

- Total General Fund expenditures and other financing uses exceeded revenues and other financing budgeted by \$252,815, bringing the General Fund fund balance to \$8,286,198. Revenues were \$2,651,636 greater than anticipated due to the uncertainty of available state revenues. Expenditures were \$2,773,933 greater than anticipated due to higher special education costs and transportation costs.
- Total General Fund revenues were \$2,651,636 greater than anticipated. Local revenue exceeded the budget by \$758,456. Local Taxes were over collected by approximately \$464,000. State funding was \$2,262,580 more than budgeted due to increased PSERS contributions, the Ready to Learn Grant and additional funding from the rental and sinking fund of \$1,660,300 due to Plan Con Payments received. Budgeted Federal exceeded actual Federal revenue by \$369,400 as a result of less funding received for the Title I and Medical Access Programs.
- Total General Fund expenditures were more than budgeted by \$2,773,933. This was significantly offset by the additional revenues received above what was budgeted. Total Instructional Expenditures were over budget by \$321,378 primarily because of increased special education costs. Total Support Services expenditures were over budget by \$2,122,611. This was primarily a result of Instructional Services Other Instructional Programs inflated budget amount of \$2,254,096 in purchased property services, there were no actual expenditures. The Student transportation actual budget for services was \$25,844 and reported actual expenditures were \$1,828,562. The budget amounts were entered inadvertently into the PDE System, and should have been reversed. The refund of prior year revenues actual expenses were \$464,036 which included a write off of revenue recorded in the prior year and assessment appeal refunds.

- Reserves for future increases in employer contributions to the Public School Employees Retirement System (PSERS) were decreased \$400,000 to \$3,799,409. Reserves have been established for future transportation needs of \$200,000, the Residency Incentive of \$100,000 and an assigned fund balance of \$650,000 for contingencies along with non-spendable funds of \$150,912. Non-spendable funds consist of prepaid expenses and inventories. Restricted funds consist of Save the Lights donations to be used for stadium lighting. The remaining fund balance of \$3,228,677 is unassigned.
- The net position of the Internal Service Fund for medical costs associated with self funding increased \$189,184 to \$3,879,042.
- The trends of prior years indicated that during the fiscal year 2016-2017 the Pottstown School District would experience another year of significant increases in the costs for special education instruction along with benefits for our employees. Further, with the down turn in the economy, anticipated increases in the employer contribution to PSERS will continue to cause an additional drain on the financial resources of all schools in Pennsylvania.
- At the close of the fiscal year, the General Fund ending fund balance decreased by \$252,815 to \$8,286,198 of which \$3,228,677 is unassigned. The remaining General Fund balance is comprised of funds committed for PSERS of \$3,799,409, transportation of \$200,000, residency of \$100,000; nonspendable fund balance of \$150,912; restricted fund balance of \$157,200; and an assigned fund balance of \$650,000 which is used as contingency in the annual budget. The Capital Projects ending fund balance decreased \$45,381 to a balance of \$1,447,444 as a result of a yearend transfer from the general fund. This is also observed in the Total Governmental fund balance decrease of \$292,530 to \$9,839,126 from \$10,131,665.
- A Proprietary Internal Service Fund was established with the Southeastern Pennsylvania Schools Trust (SEPaST) for self funded medical costs and has a net position of \$3,879,042. This represents an increase of \$189,184. These funds were a combination of the funds reserved in prior years for medical costs and better experience over the last two years than anticipated in actual medical costs.

OVERVIEW OF THE FINANCIAL STATEMENTS

The accompanying financial statements have been prepared in accordance with GASB Statement No. 34 and present both government-wide and fund level financial statements using both the accrual and modified accrual basis of accounting, respectively.

This annual report consists of three parts: (1) management's discussion and analysis, (2) the basic financial statements and (3) required supplementary information. The basic financial statements include two types of financial statements that present different views of the District.

- The first type includes two district-wide or government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The other type and remaining statements are the fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
 - *Governmental Funds* statements indicate how basic services, such as regular and special education, were financed in the short term as well as indicate future spending plans.
 - *Proprietary Funds* statements offer short-term and long-term financial information about the activities the District operates like a business, such as food services.
 - *Fiduciary Funds* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, such as Student Activity Funds and Scholarship Funds.

The financial statements also include notes that explain some of the information in the statements, as well as provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to the other.

Figure A-1
Organization of the Pottstown School District Annual Financial Report

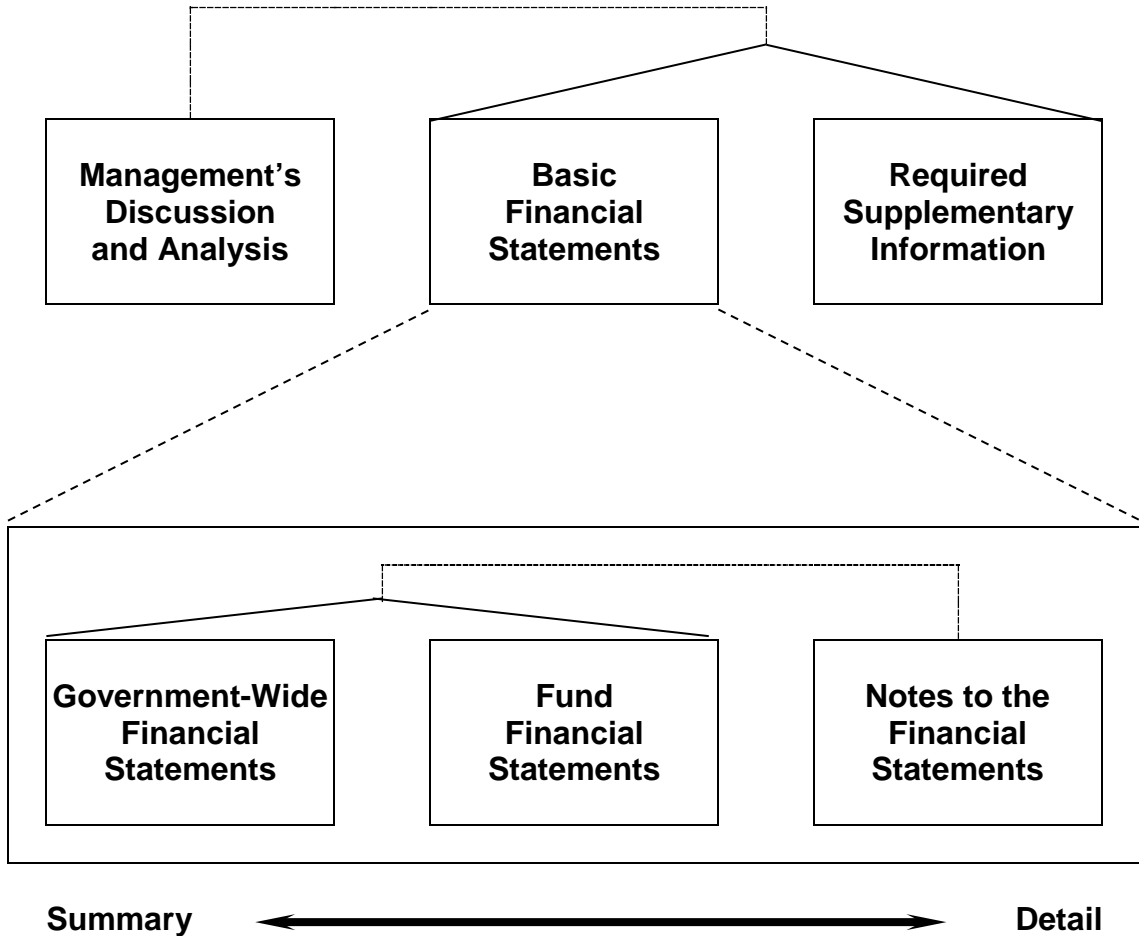


Figure A-2 summarizes the major features of the District's statements. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-Wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except Fiduciary Funds)	Activities of the District that are not proprietary or fiduciary, such as general operating and capital projects	Activities the District operates similar to private businesses, such as food services	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses and changes in net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, current and noncurrent and deferred inflows and outflows of resources	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or noncurrent liabilities included	All assets and liabilities, both financial and capital, current and noncurrent and deferred inflows and outflows of resources	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position and the statement of activities are two financial statements that report information about the District as a whole and about its activities that indicate whether the District is better off or worse off as a result of this year's activities. These statements include all the District's assets and liabilities using the accrual basis of accounting. Revenue and expenses are taken into account regardless of when cash is received or paid.

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

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

Both statements report two activities:

- **Governmental Activities** - Most of the District's basic services, such as regular and special education, maintenance and operation of plant services, are reported under this category. Taxes, state formula aid finance and state and federal grants generally fund these programs.
- **Business-Type Activities** - The only business-type activity in the District is food service operations. The sources of funding for operations consist of charges for meal purchases and federal and state subsidies

Fund Financial Statements

The fund financial statements provide more detailed information about the major individual funds of the District--not the District as a whole. A fund is a fiscal and accounting entity with a self-balancing set of accounts used to keep track of specific sources of funding and spending for particular programs. Some funds are required by state law and by bond requirements. The District establishes other funds to control and manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as federal grants).

The District's funds are divided into three categories: (1) Governmental, (2) Proprietary and (3) Fiduciary.

- **Governmental Funds** - Most of the District's basic services are included in Governmental Funds that focus on how money flows into and out of these funds and the balances left at year-end for future spending. The Governmental Funds financial statements provide a detailed short-term view of the general operations and the basic services provided and provide some direction as to whether there will be more or fewer resources that can be spent in the near future to finance the District's programs.

These funds are reported using the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. Governmental Funds include the General Fund and the Capital Projects Fund. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information behind the Governmental Funds statements explains the relationship (or differences) between them.

- **Proprietary Funds** - Services for which the District charges a fee are generally reported in the Proprietary Funds. These funds utilize the accrual accounting method, which is the same method used by private sector businesses, or where the reporting is on determining net income, financial position, changes in financial position and a significant portion of funding through user charges. When the District charges customers for services it provides, whether to outside customers or to other units in the District, these services are generally reported in the Proprietary Funds. The Food Service Fund is the District's Enterprise Fund and is the same as the business-type activities we report in the government-wide statements but provides more detail and additional information, such as cash flows. In addition to the food service enterprise fund, the district has an internal service fund which is used to record the activities associated with self-funding for medical and prescription benefits.
- **Fiduciary Funds** - The District acts as a trustee, or fiduciary, for assets that belong to others, such as Scholarship and Agency Funds or Student Activity Funds. The District is responsible for ensuring that the assets reported in these funds are used only for the intended purposes and by those to whom the assets belong. These activities are excluded from the District-wide financial statements since these assets cannot be used to finance the District's operations.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net position decreased \$2,816,466 over the course of the fiscal year's operations for total combined net deficit at June 30, 2017, of (\$52,013,261). The net pension liability increase of \$11,663,000 is a main contributing factor to the districts change in net position. The District's financial position was derived from its governmental activities, the net position of which decreased \$2,932,737 to (\$51,047,457). The net deficit of the District's business-type activities increased \$116,271 to (\$965,804).

Figure A – Condensed Statement of Net Position (in millions)

	Governmental		Business-Type		Total	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
Assets						
Current	\$ 22	\$ 21	\$ 1	\$ 1	\$ 23	\$ 22
Capital assets and other	63	65	-	-	63	65
TOTAL	85	86	1	1	86	87
Deferred outflows of resources	18	8	-	-	18	8
Total Assets & Deferred outflows	\$ 103	\$ 94	\$ 1	\$ 1	\$ 104	\$ 95
Current and other	13	12	-	-	13	12
Long-term	140	129	2	2	142	131
TOTAL	153	141	2	2	155	143
Deferred inflow of resources	1	1	-	-	1	1
Invested in capital assets, net of related debt	10	10	-	-	10	10
Restricted net assets	4	5	-	-	4	5
Unrestricted net assets	(65)	(63)	(1)	(1)	(66)	(64)
TOTAL	(51)	(48)	(1)	(1)	(52)	(49)
Total Liabilities & Deferred inflows	\$ 103	\$ 94	\$ 1	\$ 1	\$ 104	\$ 95

Most of the District's net position are invested in capital assets (buildings, land and equipment).

The District's net position decreased by \$2,816,466. The decrease is comprised of an increase in Cash and Receivables of \$1.7 million which is to be expected as Accounts Payable increased \$1,133,888 along with Bonds and Notes Payable decreasing \$1.3 million while the Southeastern Pennsylvania Schools Trust increased \$189,184. This is offset by a decrease in Capital Assets of \$2.2 million primarily as a result of depreciation exceeding capital improvements as building renovations have been completed. In addition the deferred outflows of resources increased \$9.9 million due to the accounting under GASB No. 68, *Accounting and Financial Reporting for Pensions* and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Deferred inflows of resources decreased \$9,120 which was offset by total liabilities increasing \$11.7 million. The increase in liabilities is a direct result of the increased Net Pension Liability which is offset by a reduction in Net Bonds and Notes Payable of \$1.3 million.

The District closely monitors and gives consideration to real estate and economic trends. These considerations are conservatively reflected in the annually approved General Fund budget.

Governmental activities had (127%) of total net position (deficit) as unrestricted. This is the largest component of the District's net position. The Board of Directors and Administration have judiciously followed their capital project's strategy to meet their timeline for investments in capital assets. Business-type activities had an unrestricted net deficit of (102%).

A major portion (85.12%) of the District's total costs for operating programs and services was related to student instruction and support for instruction, including the operation/maintenance of school facilities and transportation as detailed in Figure A-4, Changes in Net Position from Operating Results.

The results of this year's operations as a whole are reported in the statement of activities in the financial statements. All expenses are reported in the first column. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are presented to determine the final amount of the District's activities that are supported by other general revenues. The two largest general revenues are the Basic Education Subsidy provided by the Commonwealth of Pennsylvania and the local taxes assessed to community taxpayers.

Figure A-4 takes the information from the statement of activities and rearranges it slightly, so you can see our total revenues for the year. The following table reflects the revenues and expenses for 2017 and 2016.

Figure A-4

Changes in Net Position from Operating Results (In Millions of Dollars)

	Governmental Activities		Business-Type Activities		Total District	
	<u>2016-17</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2015-16</u>
REVENUES						
Program Revenues						
Charges for Services	\$ 0.2	\$ 0.2	\$ 0.15	\$ 0.2	\$ 0.35	\$ 0.4
Operating grants and contributions	14	12.8	2	1.8	16	14.6
Capital grants and contributions	2.2	0.5	-	-	2.2	0.5
General Revenues						
Property taxes	29.9	29.9	-	-	29.9	29.9
State aid	12.2	11.6	-	-	12.2	11.6
Other taxes and miscellaneous	3.1	3	-	-	3.1	3
TOTAL REVENUES	<u>61.6</u>	<u>58.0</u>	<u>2.2</u>	<u>2.0</u>	<u>63.8</u>	<u>60.0</u>
EXPENSES						
Instruction	40.4	35.7	-	-	40.4	35.7
Pupil and instructional services	5.4	5.1	-	-	5.4	5.1
Administration and business	5.3	4.7	-	-	5.3	4.7
Maintenance and operations	6.7	6.3	-	-	6.7	6.3
Transportation	2.4	2.1	-	-	2.4	2.1
Other	4.3	4.2	2	2	6.3	6.20
TOTAL EXPENSES	<u>64.5</u>	<u>58.1</u>	<u>2</u>	<u>2</u>	<u>66.5</u>	<u>60.1</u>
CHANGE IN NET ASSETS	<u>\$ -2.9</u>	<u>\$ -0.1</u>	<u>\$ 0.15</u>	<u>\$ -</u>	<u>\$ -2.75</u>	<u>\$ -0.1</u>

The following Figure A-5 presents the expenses of both the governmental activities and the business-type activities of the District.

Figure A-5 - Net Cost of District Activities

<u>Functions/Programs</u>	2017		2016	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$ 40,479,623	\$ 28,933,407	\$ 35,715,793	\$ 25,012,140
Pupil and instructional services	5,376,701	4,834,271	5,065,144	4,623,131
Administration and business	5,263,789	4,749,167	4,654,584	4,223,698
Maintenance and operations	6,699,999	6,066,265	6,314,241	5,729,066
Transportation	2,430,094	1,802,148	2,142,259	1,613,935
Pupil Health Services/Other	1,671,989	1,427,957	1,551,774	1,323,595
Food Service, Student activities and community services	1,143,222	943,897	1,004,049	831,800
Interest on long-term debt	1,532,620	(629,051)	1,606,374	1,176,863
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 64,598,037</u>	48,128,061	<u>\$ 58,054,218</u>	44,534,228
Less unrestricted grants, subsidies		<u>12,241,658</u>		<u>11,626,632</u>
TOTAL NEEDS FROM LOCAL TAXES AND OTHER REVENUES		<u>\$ 35,886,403</u>		<u>\$ 32,907,596</u>
Business-Type Activities				
Food Service	\$ 2,013,519	\$ (114,597)	\$ 1,970,177	\$ 46,244

Figure A-5 shows the District's six largest functions: instruction, pupil and instructional services, administrative and business services, operation and maintenance of plant, pupil transportation and student activities and community services, as well as each program's net cost (total cost less revenues generated by the activities). This figure also shows the net costs offset by the other unrestricted grants, subsidies and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At the end of the 2016-2017 fiscal year, Governmental Funds had a total year-end fund balance of \$9,839,126, a \$292,539 decrease from the prior fiscal year's balance of \$10,131,665. The General Fund decreased \$252,815 as result of the annual expenditures being above expected primarily as a result of additional grant funds received above that which was budgeted Capital Projects decreased \$45,381 as a result of capital improvements totaling \$730,041.

General Fund Budgetary Highlights

During the fiscal year, the Board of School Directors authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the District. All adjustments are again confirmed at the time the annual audit is accepted after the end of the fiscal year, which is not prohibited by state law. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided as required supplementary information for the financial statements.

The District applies for federal, state and local grants, and these grants cannot always be anticipated in the budgetary process. Budgeted expenditures and other financing uses also increased this same amount to compensate for the additional approved grants. Transfers between specific categories of expenditures/financing uses occur during the year. The most significant transfers occur from the budget reserve category to specific expenditure areas.

The budgetary reserve is an amount that will be used for unexpected expenditures throughout the fiscal year. Experience indicates that there are certain variables in expenditures where control is difficult, regardless of the care with which the budget is prepared.

The District's budget for fiscal year 2016-2017 anticipated expenditures exceeding revenue by \$500,000; however, the actual results for the year produced an excess of expenditures over revenues and other financing uses of \$252,815. Total revenues received were \$2,651,636 over budget. Local revenue collected exceeded the budget by \$758,456. This was a direct result of additional grant funding received which were not included in the budget along with higher than anticipated collections of Earned Income Taxes, Real Estate Transfer Taxes and Delinquent Taxes. Funds received from State revenue exceeded the budget by \$2,262,580 as a result of Rental and Sinking Fund reimbursements and PSERS funding being greater than originally indicated by the state. Federal revenues were \$369,400 less than anticipated as a result of reduced funding for the Title I and Medical Access programs.

Total expenditures were over budget by \$2,773,933. Instructional expenditures were \$321,378 over spent. Support services were overspent by \$2,122,661 this was primarily a result of Instructional Services Other Instructional Programs inflated budget amount of \$2,254,096 in purchased property services, there were no actual expenditures. The Student transportation actual budget for services was \$25,844 and reported actual expenditures were \$1,828,562. The budget amounts were entered inadvertently into the PDE System, and should have been reversed. These over expenditures were offset by under expenditures for Debt Service and Capital Outlay of \$382,908 as a direct result of bond refinancing.

The District's conservative approach to budgeting is observed by the results indicating that actual revenues were greater than budgeted revenues and actual expenditures were overspent as a result of the additional grants received, which were not included in the original budgeted expenditures. Without such a conservative approach the expenditures should have been overspent by the full amount of the additional grant moneys received. As it is most of the grant expenditures were absorbed by the original budgeted expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

For the Pottstown School District, capital assets include land, buildings, furniture and equipment, vehicles and other items which meet the following criteria:

1. The individual asset must have a useful life of greater than one year.
2. The individual asset cost is equal to or greater than \$2,500 or was purchased with debt proceeds.

The District maintains fixed asset records for the above capital assets, as well as for items costing over \$500 with a life extending at least one year. Each department or school is responsible for the protection of these assets.

At June 30, 2017, the District had \$60,384,146 (net of depreciation) invested in a broad range of capital assets, including land, school buildings, administrative offices, athletic facilities, furniture and equipment. Total depreciation expense for the year was \$3,440,755 for governmental activities and \$22,341 for business type activities. Additions were made to governmental activities in the amount of \$1,283,873. This represents a net decrease of \$2,179,223 from last year. With the Elementary Schools projects completed, capital assets will continue to decrease as depreciation will normally exceed the annual improvements.

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total District</u>	
	<u>2016-17</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2015-16</u>
Land and Constr. In Proc.	\$ 0.5	\$ 0.3	\$ -	\$ -	\$ 0.5	\$ 0.3
Site improvements	2.8	2.1	-	-	2.8	2.1
Buildings and building improvements	60.0	58.6	-	-	60.0	58.6
Furniture and equipment	0.9	1.3	-	-	0.9	1.3
Vehicles	<u>0.1</u>	<u>0.2</u>	<u>-</u>	<u>-</u>	<u>0.1</u>	<u>0.2</u>
	<u>\$ 64.3</u>	<u>\$ 62.5</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64.3</u>	<u>\$ 62.5</u>

Long-Term Debt

At year-end, the District had \$51,468,864 of general obligation bonds and notes payable, net of discounts and premiums. This is a decrease of \$1,185,275 from the previous year as a result of debt payments. Other obligations include compensated absences (accrued vacation pay and sick leave for specific employees of the District). More detailed information about our long-term liabilities is included in the financial statements.

	<u>2016-17</u>	<u>2015-16</u>
General obligation bonds and notes	\$ 51.5	\$ 52.6
Other general obligation debt (compensated absences)	<u>0.3</u>	<u>0.7</u>
	<u>\$ 51.8</u>	<u>\$ 53.3</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District has completed the Elementary Schools Project. The decision has been made to maintain the Administration Building. Improvements will be necessary in the not too distant future to maintain the building for the long term. Necessary improvements may include items such as HVAC repair, mechanical upgrades, window replacement, masonry repairs, asbestos abatement and cosmetic upgrades such as paint, carpeting and flooring.
- The Pennsylvania School Employees Retirement System continues to reset the percentage of payroll that school districts must pay as the actuarial projections based on required investment returns are not met. The actual and projected rates for employer contributions were, again, recently increased as follows:
 - 2010-11 was 5.64%
 - 2011-12 was 8.65% - an increase of 53.4%
 - 2012-13 was 12.36% - an increase of 42.9%
 - 2013-14 was 16.93% - an increase of 37.0%
 - 2014-15 was 21.4% - an increase of 26.4%
 - 2015-16 was 25.84% – an increase of 20.8%
 - 2016-17 was 30.03% – an increase of 16.2%
 - 2017-18 is 32.57% – an increase of 8.45%
 - 2018-19 projected to be 33.43% – an increase of 2.6%
 - 2019-20 projected to be 34.79% – an increase of 4.0%
 - 2020-21 projected to be 35.26% – an increase of 1.35%
 - 2021-22 projected to be 35.68% - an increase of 1.19%
 - 2022-23 projected to be 36.32%- an increase of 1.79%

Starting with 2010-2011 through 2017-2018 the rate increases from 5.64% to 32.57%, an increase of 477.4% over the last seven years. Over the next five years, 2017-18 through 2022-23 the rate increases from 32.57% to 36.32%, an increase of 11.5%. From 2010-11 to 2022-23 the rate increases from 5.64% to 36.32% or 543.97% over this 12 year period. (Based on PSERS projections from 12/8/2017.)

- Prior to the latest projections the PSERS rate was expected to be at its maximum level in 2019-20. With the most recent revised projections the rates will not reach their maximum level prior to 2022-23. Current projections were not available beyond the 2021-22 school year. The federal mandates, "Student Success Act" which replaces "No Child Left Behind" and IDEA requirements exceed the federal funding available to support these mandates. As a result, these mandates will require additional costs to the taxpayers to meet the requirements.
- The District anticipates rising health care costs in the ensuing fiscal years, as indicators report increases significantly above the index. The District moved to the self funded SEPaST, comprised of various county districts, to realize administrative savings on health benefits.
- The Affordable Health Care Act will also place a burden on the district through additional manpower to comply along with the potential to consider alternative health care plans.
- The Governor and state legislature passed Act 1 of the 2006 Special Session - Taxpayer Relief Act which has an effect on how school districts budget and raise revenue for education since the 2007-08 fiscal year. This legislation restricts the School District's ability to increase property taxes without voter approval of the District's budget if the budget exceeds an annual inflation index determined by the Commonwealth. The District has never exceeded the index and only raised taxes to half (50%) of the allowable rate as indicated by the index for the 2012-13 school year while there was no tax increase in the 2015-16, 2016-17 and 2017-18 school years.
- Legislation was passed which eliminates all but three exceptions of the original exceptions passed under the Act 1 of the 2006 Special Session, allowing Districts to increase local tax effort above the Index without voter approval. The three remaining exceptions are retirement, debt and special education expenses.
- The District currently has a labor agreement with the Federation of Pottstown Teachers with a contract period of August 31, 2016 through September 1, 2019.
- With the change in Governor and legislators there is uncertainty in the financial support for public schools at the state level. There is also momentum building for real estate tax elimination which would significantly hinder the district's ability to meaningfully impact school finances.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Office, Pottstown School District, 230 Beech Street, Pottstown, PA 19464.

POTTSTOWN SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2017

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and Investments	\$ 15,807,018	\$ 508,496	\$ 16,315,514
Taxes Receivable, Net	2,714,861	-	2,714,861
Internal Balances	7,321	(7,321)	-
Intergovernmental Receivables	3,727,260	60,213	3,787,473
Other Receivables	86,481	141	86,622
Inventories	27,905	24,818	52,723
Prepaid Expenses	314,007	-	314,007
Funds Held by Southeastern Pennsylvania Schools Trust	2,482,704	-	2,482,704
Capital Assets Not Being Depreciated:			
Land	298,222	-	298,222
Construction-in-Progress	186,763	-	186,763
Capital Assets, Net of Accumulated Depreciation	59,875,214	23,947	59,899,161
TOTAL ASSETS	85,527,756	610,294	86,138,050
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charge on Bond Refunding	286,960	-	286,960
Interest Rate Swap	1,570,323	-	1,570,323
Deferred Outflows of Resources for Pension	8,371,341	212,374	8,583,715
Pension Contributions Made Subsequent to the Measurement Date	7,329,146	148,238	7,477,384
TOTAL DEFERRED OUTFLOWS OF RESOURCES	17,557,770	360,612	17,918,382
LIABILITIES			
Accounts Payable	2,363,773	-	2,363,773
Payroll Deductions and Withholdings	388,992	-	388,992
Accrued Salaries and Benefits	5,946,127	13,214	5,959,341
Accrued Interest	93,060	-	93,060
Unearned Revenues	447,898	13,106	461,004
Interest Rate Option Agreement	1,570,323	-	1,570,323
Noncurrent Liabilities, Due Within One Year	2,289,000	-	2,289,000
Noncurrent Liabilities:			
Bonds and Notes Payable, Net	49,179,864	-	49,179,864
Long-Term Portion of Compensated Absences	303,560	20,820	324,380
Net Pension Liability	89,023,816	1,863,184	90,887,000
Other Postemployment Benefit Obligation	1,287,164	-	1,287,164
TOTAL LIABILITIES	152,893,577	1,910,324	154,803,901
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources for Pension	1,239,406	26,386	1,265,792
NET POSITION			
Net Investment in Capital Assets	9,446,879	23,947	9,470,826
Restricted for:			
Capital Projects	1,178,860	-	1,178,860
Health Claims	2,673,704	-	2,673,704
Other	262,684	-	262,684
Unrestricted (Deficit)	(64,609,584)	(989,751)	(65,599,335)
TOTAL NET POSITION (DEFICIT)	\$ (51,047,457)	\$ (965,804)	\$ (52,013,261)

See accompanying notes.

POTTSTOWN SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
Instructional Services:							
Regular Programs - Elementary/Secondary	\$ 20,868,749	\$ -	\$ 4,133,037	\$ -	\$ (16,735,712)	\$ -	\$ (16,735,712)
Special Programs - Elementary/Secondary	13,601,732	-	3,790,871	-	(9,810,861)	-	(9,810,861)
Vocational Education	1,390,707	-	457,022	-	(933,685)	-	(933,685)
Other Instructional Programs - Elementary/Secondary	2,083,117	-	557,426	-	(1,525,691)	-	(1,525,691)
Nonpublic School Programs	6,115	-	6,115	-	-	-	-
Pre-kindergarten	2,529,203	-	2,601,745	-	72,542	-	72,542
Total Instructional Services	40,479,623	-	11,546,216	-	(28,933,407)	-	(28,933,407)
Support Services:							
Students	2,177,243	-	278,057	-	(1,899,186)	-	(1,899,186)
Instructional Staff	3,199,458	-	264,373	-	(2,935,085)	-	(2,935,085)
Administration	4,106,360	-	361,171	-	(3,745,189)	-	(3,745,189)
Pupil Health	1,242,475	-	202,049	-	(1,040,426)	-	(1,040,426)
Business Services	1,157,429	-	153,451	-	(1,003,978)	-	(1,003,978)
Operation and Maintenance of Plant	6,699,999	104,894	471,245	57,595	(6,066,265)	-	(6,066,265)
Student Transportation	2,430,094	1,301	626,645	-	(1,802,148)	-	(1,802,148)
Central Support	411,261	-	41,983	-	(369,278)	-	(369,278)
Other Support	18,253	-	-	-	(18,253)	-	(18,253)
Total Support Services	21,442,572	106,195	2,398,974	57,595	(18,879,808)	-	(18,879,808)
Noninstructional Services:							
Student Activities	1,064,825	75,374	106,283	-	(883,168)	-	(883,168)
Community Services	78,397	-	17,668	-	(60,729)	-	(60,729)
Interest on Long-Term Debt	1,532,620	-	-	2,161,671	629,051	-	629,051
Total Noninstructional Services	2,675,842	75,374	123,951	2,161,671	(314,846)	-	(314,846)
Total Governmental Activities	64,598,037	181,569	14,069,141	2,219,266	(48,128,061)	-	(48,128,061)
Business-Type Activities							
Food Service	2,013,519	155,027	1,973,089	-	-	114,597	114,597
Total Primary Government	<u>\$ 66,611,556</u>	<u>\$ 336,596</u>	<u>\$ 16,042,230</u>	<u>\$ 2,219,266</u>	(48,128,061)	114,597	(48,013,464)
General Revenues							
Taxes:							
Property Taxes					29,849,470	-	29,849,470
Public Utility Realty, Earned Income, LST Tax and Mercantile Taxes					2,917,141	-	2,917,141
Grants, Subsidies, and Contributions Not Restricted to Specific Programs					12,241,658	-	12,241,658
Investment Earnings					113,196	1,674	114,870
Miscellaneous Income					73,859	-	73,859
Total General Revenues					<u>45,195,324</u>	<u>1,674</u>	<u>45,196,998</u>
Change in Net Position					(2,932,737)	116,271	(2,816,466)
Net Position (Deficit) - Beginning of year					<u>(48,114,720)</u>	<u>(1,082,075)</u>	<u>(49,196,795)</u>
Net Position (Deficit) - End of year					<u>\$ (51,047,457)</u>	<u>\$ (965,804)</u>	<u>\$ (52,013,261)</u>

See accompanying notes.

POTTSTOWN SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2017

	General	Capital Projects	Nonmajor Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 13,826,514	\$ 1,873,033	\$ 107,471	\$ 15,807,018
Taxes Receivable	2,761,853	-	-	2,761,853
Interfund Receivables	638,823	205,898	-	844,721
Intergovernmental Receivables	3,727,260	-	-	3,727,260
Other Receivables	86,481	-	-	86,481
Inventories	27,905	-	-	27,905
Prepaid Expenditures	123,007	-	-	123,007
TOTAL ASSETS	\$ 21,191,843	\$ 2,078,931	\$ 107,471	\$ 23,378,245
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Interfund Payable	\$ 1,412,230	\$ 631,487	\$ 16	\$ 2,043,733
Accounts Payable	2,360,807	-	1,971	2,362,778
Payroll Deductions and Withholdings	388,992	-	-	388,992
Accrued Salaries and Benefits	5,946,127	-	-	5,946,127
Unearned Revenues	447,898	-	-	447,898
TOTAL LIABILITIES	10,556,054	631,487	1,987	11,189,528
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Property Taxes	2,349,591	-	-	2,349,591
FUND BALANCES				
Nonspendable Fund Balance	150,912	-	-	150,912
Restricted Fund Balance	157,200	1,447,444	105,484	1,710,128
Committed Fund Balance:				
PSERS Increase	3,799,409	-	-	3,799,409
Transportation Costs	200,000	-	-	200,000
Residency Incentive	100,000	-	-	100,000
Assigned Fund Balance:				
Appropriated 17/18 Budget	650,000	-	-	650,000
Unassigned Fund Balance	3,228,677	-	-	3,228,677
TOTAL FUND BALANCES	8,286,198	1,447,444	105,484	9,839,126
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 21,191,843	\$ 2,078,931	\$ 107,471	\$ 23,378,245

See accompanying notes.

POTTSTOWN SCHOOL DISTRICT

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

June 30, 2017

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

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS		\$ 9,839,126
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$103,886,460 and the accumulated depreciation is \$43,526,261.		60,360,199
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as unavailable revenue in the funds adjusted for allowance for doubtful accounts.		2,302,599
An internal service fund is used by the District to account for future self-insured healthcare costs. The assets and liabilities of the internal service fund are reported with governmental activities.		3,879,042
The net pension and other postemployment benefit obligations are not reflected on the fund financial statements.		(90,310,980)
Deferred outflows and inflows of resources for pension are recorded and amortized in the statement of net position.		14,461,081
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bonds and Notes Payable	\$(51,439,000)	
Accrued Interest on Bonds	(93,060)	
Unamortized Bond Premium	(71,123)	
Unamortized Bond Discount	41,259	
Deferred Charge on Bond Refunding	286,960	
Long-Term Portion of Compensated Absences	(303,560)	<u>(51,578,524)</u>
TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES		<u><u>\$ (51,047,457)</u></u>

POTTSTOWN SCHOOL DISTRICT

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

For the Year Ended June 30, 2017

	General	Capital Projects	Nonmajor Funds	Total Governmental Funds
REVENUES				
Local Sources	\$ 34,616,356	\$ 9,437	\$ 53,958	\$ 34,679,751
State Sources	25,390,914	-	-	25,390,914
Federal Sources	1,697,515	-	-	1,697,515
TOTAL REVENUES	61,704,785	9,437	53,958	61,768,180
EXPENDITURES				
Current:				
Instructional Services	37,958,961	-	-	37,958,961
Support Services	18,388,392	339,958	-	18,728,350
Operation of Noninstructional Services	1,009,341	-	48,301	1,057,642
Capital Outlay	442,581	560,000	-	1,002,581
Debt Service:				
Principal	2,338,000	-	-	2,338,000
Interest	1,356,289	170,041	-	1,526,330
Refund of Prior Year Revenues	464,036	-	-	464,036
TOTAL EXPENDITURES	61,957,600	1,069,999	48,301	63,075,900
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(252,815)	(1,060,562)	5,657	(1,307,720)
OTHER FINANCING SOURCES (USES)				
Issuance of Refunding Bond	-	9,995,000	-	9,995,000
Payment to Refunded Debt Escrow Agent	-	(8,995,000)	-	(8,995,000)
Bond Premium	-	15,181	-	15,181
TOTAL OTHER FINANCING SOURCES (USES)	-	1,015,181	-	1,015,181
NET CHANGE IN FUND BALANCES	(252,815)	(45,381)	5,657	(292,539)
FUND BALANCES - BEGINNING OF YEAR	8,539,013	1,492,825	99,827	10,131,665
FUND BALANCES - END OF YEAR	\$ 8,286,198	\$ 1,447,444	\$ 105,484	\$ 9,839,126

POTTSTOWN SCHOOL DISTRICT

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

For the Year Ended June 30, 2017

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

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (292,539)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital Outlays	\$ 1,283,873	
Less: Depreciation Expense	<u>(3,440,755)</u>	(2,156,882)

Because some property taxes will not be collected for several months after the District's year end, they are not considered as "available" revenues in the governmental funds. (102,880)

Issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.

Issuance of Refunding Bond	(9,995,000)	
Repayment of Bond and Note Principal	2,338,000	
Current Refunding Debt Service - Principal	8,995,000	
Bond Premium Incurred	(15,181)	
Amortization of Bond Premium	23,604	
Amortization of Bond Discount	(6,839)	
Amortization of Deferred Charge on Bond Refunding	<u>(29,334)</u>	1,310,250

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and, thus, requires the use of current financial resources. 6,279

In the statement of activities, certain operating expenses - compensated absences (retirement bonus and sick days) are measured by the amounts earned during the year. 109,275

The change in net pension liability and other postemployment benefit obligation and related deferred outflows and inflows of resources are reflected as an adjustment to expense on the statement of activities, but not included in the fund statements. (1,995,424)

An internal service fund is used to account for future self-insured healthcare costs charged to the individual funds. The net revenue of the internal service fund is reported with governmental activities. 189,184

CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES \$ (2,932,737)

POTTSTOWN SCHOOL DISTRICT

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

June 30, 2017

	Enterprise Fund Food Service	Internal Service Fund	Totals
ASSETS			
CURRENT ASSETS			
Cash and Investments	\$ 508,496	\$ -	\$ 508,496
Interfund Receivables	-	1,205,338	1,205,338
Intergovernmental Receivables	60,213	-	60,213
Other Receivables	141	-	141
Inventories	24,818	-	24,818
Funds held by Southeastern Pennsylvania Schools Trust	-	2,482,704	2,482,704
TOTAL CURRENT ASSETS	593,668	3,688,042	4,281,710
NONCURRENT ASSETS			
Long-Term Deposit	-	191,000	191,000
Furniture and Equipment, Net	23,947	-	23,947
TOTAL ASSETS	617,615	3,879,042	4,496,657
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows of Resources for Pension	212,374	-	212,374
Pension Contributions Made Subsequent to the Measurement Date	148,238	-	148,238
TOTAL DEFERRED OUTFLOWS OF RESOURCES	360,612	-	360,612
LIABILITIES			
CURRENT LIABILITIES			
Interfund Payable	7,321	-	7,321
Accrued Salaries and Benefits	13,214	-	13,214
Unearned Revenues	13,106	-	13,106
TOTAL CURRENT LIABILITIES	33,641	-	33,641
NONCURRENT LIABILITIES			
Compensated Absences	20,820	-	20,820
Net Pension Liability	1,863,184	-	1,863,184
TOTAL LIABILITIES	1,917,645	-	1,917,645
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources for Pension	26,386	-	26,386
NET POSITION			
Net Investment in Capital Assets	23,947	-	23,947
Restricted for Health Claims	-	2,482,704	2,482,704
Restricted Terminal Liability Reserve	-	191,000	191,000
Unrestricted (Deficit)	(989,751)	1,205,338	215,587
TOTAL NET POSITION (DEFICIT)	\$ (965,804)	\$ 3,879,042	\$ 2,913,238

See accompanying notes.

POTTSTOWN SCHOOL DISTRICT

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

For the Year Ended June 30, 2017

	Enterprise Fund Food Service	Internal Service Fund	Totals
OPERATING REVENUES			
Food Service Revenue	\$ 155,027	\$ -	\$ 155,027
Charges for Services	-	6,894,879	6,894,879
TOTAL OPERATING REVENUES	155,027	6,894,879	7,049,906
OPERATING EXPENSES			
Salaries	540,937	-	540,937
Employee Benefits	373,933	6,481,695	6,855,628
Purchased Property Services	6,331	-	6,331
Other Purchased Services	194	-	194
Supplies	1,059,574	-	1,059,574
Depreciation	22,341	-	22,341
Other	10,209	224,000	234,209
TOTAL OPERATING EXPENSES	2,013,519	6,705,695	8,719,214
OPERATING INCOME (LOSS)	(1,858,492)	189,184	(1,669,308)
NONOPERATING REVENUES			
Earnings on Investments	1,674	-	1,674
State Sources	162,752	-	162,752
Federal Sources	1,810,337	-	1,810,337
TOTAL NONOPERATING REVENUES	1,974,763	-	1,974,763
CHANGE IN NET POSITION	116,271	189,184	305,455
NET POSITION (DEFICIT) - BEGINNING OF YEAR	(1,082,075)	3,689,858	2,607,783
NET POSITION (DEFICIT) - END OF YEAR	<u>\$ (965,804)</u>	<u>\$ 3,879,042</u>	<u>\$ 2,913,238</u>

POTTSTOWN SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

For the Year Ended June 30, 2017

	Enterprise Fund Food Service	Internal Service Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Users	\$ 165,520	\$ 6,419,414	\$ 6,584,934
Cash Payments to Employees for Services	(935,117)	-	(935,117)
Cash Payments for Supplies and Other Operating Expenses	(928,815)	(224,000)	(1,152,815)
Cash Payments for Health Insurance Costs	-	(6,195,414)	(6,195,414)
	<u> </u>	<u> </u>	<u> </u>
NET CASH USED FOR OPERATING ACTIVITIES	(1,698,412)	-	(1,698,412)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
State Sources	163,609	-	163,609
Federal Sources	1,683,332	-	1,683,332
	<u> </u>	<u> </u>	<u> </u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	1,846,941	-	1,846,941
CASH FLOWS FROM INVESTING ACTIVITIES			
Earnings on Investments	1,674	-	1,674
	<u> </u>	<u> </u>	<u> </u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	150,203	-	150,203
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	358,293	-	358,293
	<u> </u>	<u> </u>	<u> </u>
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 508,496	\$ -	\$ 508,496
	<u> </u>	<u> </u>	<u> </u>

See accompanying notes.

POTTSTOWN SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS - CONTINUED

For the Year Ended June 30, 2017

	Enterprise Fund Food Service	Internal Service Fund	Totals
<u>Reconciliation of Operating Income (Loss) to Net Cash Used for Operating Activities:</u>			
Operating Income (Loss)	\$ (1,858,492)	\$ 189,184	\$ (1,669,308)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used for Operating Activities:			
Depreciation	22,341	-	22,341
Donated Commodities Used	140,251	-	140,251
Changes in Assets, Deferred Outflows of Resources, Liabilities, and Deferred Inflows of Resources:			
Other Receivables	(111)	-	(111)
Inventories	2,600	-	2,600
Funds held by Southeastern Pennsylvania Schools Trust	-	286,281	286,281
Interfund Balances	(45,471)	(475,465)	(520,936)
Deferred Outflows of Resources for Pension	(68,416)	-	(68,416)
Pension Contributions Made Subsequent to the Measurement Date	(28,390)	-	(28,390)
Accounts Payable	(726)	-	(726)
Accrued Salaries and Benefits	(16,583)	-	(16,583)
Unearned Revenues	5,369	-	5,369
Compensated Absences	(1,205)	-	(1,205)
Net Pension Liability	136,101	-	136,101
Deferred Inflows of Resources for Pension	14,320	-	14,320
Total Adjustments	160,080	(189,184)	(29,104)
NET CASH USED FOR OPERATING ACTIVITIES	\$ (1,698,412)	\$ -	\$ (1,698,412)

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the District used \$140,251 of commodities from the U.S. Department of Agriculture.

POTTSTOWN SCHOOL DISTRICT

STATEMENT OF NET POSITION
FIDUCIARY FUNDS

June 30, 2017

	Private Purpose Trust Fund	Agency Funds Student Activities
ASSETS		
CURRENT ASSETS		
Cash and Investments	\$ 113,098	\$ 113,489
Interfund Receivable	995	-
Accounts Receivable	5,550	-
	<hr/>	<hr/>
TOTAL ASSETS	119,643	113,489
	<hr/>	<hr/>
LIABILITIES		
CURRENT LIABILITIES		
Other Current Liabilities	3,273	\$ 113,489
	<hr/>	<hr/>
NET POSITION HELD IN TRUST	\$ 116,370	
	<hr/>	

POTTSTOWN SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS

For the Year Ended June 30, 2017

	Private Purpose Trust Fund
ADDITIONS	
Contributions	\$ 47,200
Earnings on Investments	449
TOTAL ADDITIONS	47,649
DEDUCTIONS	
Purchased Services	37,184
CHANGE IN NET POSITION	10,465
NET POSITION - BEGINNING OF YEAR	105,905
NET POSITION - END OF YEAR	\$ 116,370

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

Pottstown School District ("School District" or the "District") is located in Montgomery County, Pennsylvania. The District is comprised of five elementary schools, one middle school, and one high school, and serves approximately 3,000 students.

The Pottstown School District is governed by a board of nine school directors who are residents of the District and who are elected every two years, on a staggered basis, for a four-year term. The board of school directors has the power and duty to establish, equip, furnish and maintain a sufficient number of elementary, secondary, and other schools necessary to educate every person, residing in such district, between the ages of six and 21 years, who may attend.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A. Reporting Entity - continued

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

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

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

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

Jointly Governed Organizations: The District is a participating member of the Montgomery County Intermediate Unit (MCIU). The MCIU is run by a joint committee consisting of members from each participating district. No participating district appoints a majority of the joint committee. The board of directors of each participating district must approve MCIU's annual operating budget.

The MCIU is a self-sustaining organization that provides services for fees to participating districts. As such, the District has no ongoing financial interest or responsibility in the MCIU. The MCIU contracts with participating districts to supply special education services, computer services, and to act as a conduit for certain federal programs.

B. Basis of Presentation - Government-Wide Financial Statements

Government-wide financial statements (i.e., the statement of net position and the statement of activities) display information about the reporting entity, except for its fiduciary activities. All fiduciary activities are reported only in the fund financial statements. The government-wide statements include separate columns for the governmental and business-type activities of the primary government, as well as any discretely presented component units. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions are reported separately from business-type activities which rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

The statement of activities demonstrates the degree to which the direct expenses of a given function to the District are offset by the program revenues related to that function. Direct expenses are those that are directly related to and clearly identified with a function. Program revenues include 1) charges to customers or others who purchase, use, or directly benefit from services or goods provided by a given function, or 2) grants and contributions that are restricted to meet the operational or capital requirements of a function. Taxes and other items properly not included in program revenues are reported as general revenues.

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

C. Basis of Presentation - Fund Financial Statements

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

The District Reports the Following Major Governmental Funds:

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

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

The District has the Following Major Enterprise Fund:

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

Additionally, the District Reports the Following Fund Types:

Internal Service Fund: This fund accounts for the financing of services provided to other departments or agencies of the government on a cost reimbursement basis. The District's internal service fund is a major proprietary fund used to account for the activity related to the District's self-insured medical, vision, and prescription drug plan. Since this fund supports largely governmental activities, it is included in governmental activities in the government-wide statements.

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

During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as interfund receivables and payables. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Measurement Focus and Basis of Accounting

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

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

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Property taxes and interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met. If time-eligibility requirements are not met, deferred inflows of resources would be recorded. All other revenue items are considered to be measurable and available only when cash is received by the government.

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

The proprietary fund is reported using the economic resources measurement focus and the accrual basis of accounting. The trust fund is reported using the economic resources measurement focus and the accrual basis of accounting. The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Budgetary Process

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

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

Accelerated Budget Process Option

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

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

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

Board Resolution Option

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

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Budgetary Process - continued

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the PDE 2028 when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all 2016/2017 budget transfers.

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

1. Cash and Investments

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

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

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

2. Receivables/Payables

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

3. Inventories and Prepaid Expenses/Expenditures

Inventories of governmental funds are presented at the lower of cost or market on a first-in, first-out basis and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased. The inventories on hand at June 30, 2017, consisted of the following:

Paper supplies	<u>\$ 27,905</u>
----------------	------------------

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

3. Inventories and Prepaid Expenses/Expenditures - continued

Inventories of the Enterprise Fund consisting of food and paper supplies are carried at cost, using the first-in, first-out method. Federal donated commodities are valued at their fair market value as determined by the U.S. Department of Agriculture at the date of donation. The inventories on hand at June 30, 2017, consisted of the following:

Purchased food and supplies	\$ 14,723
Donated commodities	<u>10,095</u>
	<u>\$ 24,818</u>

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the government-wide financial statements and prepaid expenses/expenditures in the fund financial statements. The costs of prepaid items is recorded as expenses/expenditures when consumed rather than when purchased.

4. Capital Assets, Depreciation, and Amortization

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

The District generally capitalizes assets with a cost of \$2,500 or more as purchase and construction outlays occur. Assets purchased or constructed with long-term debt may be capitalized regardless of the threshold established. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

4. Capital Assets, Depreciation, and Amortization - continued

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

Assets	Years
Buildings and building improvements	5 - 40
Site improvements	15 - 40
Furniture and equipment	5 - 20
Vehicles	5 - 7

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

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District currently has four items that qualify for reporting in this category, which are a deferred charge on bond refunding, an interest rate swap, a deferred pension contribution, and deferred outflows of resources for pension, which are reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The interest rate derivative is deemed a hedge instrument and is reported as a deferred outflow on the government-wide statement of net position. A deferred pension contribution results from contributions made to the pension plan subsequent to the measurement date and prior to the District's year end. The contributions will be recognized as a reduction in net pension liability in the following year. Deferred outflows of resources for pension relates to the District's net pension liability and pension expenses and arises from changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, changes in the employer's proportion, differences between employer contributions and the proportionate share of total contributions reported by the pension plan, or changes in the internal allocation of the net pension liability between governmental and business-type activities. These amounts are deferred and amortized over either a closed five-year period or the average remaining service life of all employees depending on what gave rise to the deferred outflow.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

5. Deferred Outflows/Inflows of Resources - continued

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two types of items that qualify for reporting in this category. The first item, deferred inflows of resources for pension, relates to the District's net pension liability and pension expense and arises from changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, changes in the employer's proportion, differences between employer contributions and the proportionate share of total contributions reported by the pension plan, or changes in the internal allocation of the net pension liability between governmental and business-type activities. These amounts are deferred and amortized over either a closed five-year period or the average remaining service life of all employees depending on what gave rise to the deferred inflow. The second item, unavailable revenue, arises only under a modified accrual basis of accounting and is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source - property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

6. Unearned Revenues

Revenues that are received but not earned are reported as unearned revenues in the government-wide and fund financial statements. Unearned revenues arise when resources are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has legal claim to the resources, the liability for unearned revenue is removed from the respective financial statements and revenue is recognized.

7. Net Position

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

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

8. Fund Balance Policies and Flow Assumptions

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The board of school directors is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The board of school directors may assign fund balance. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

The District's unassigned and assigned fund balance of the General Fund should not be less than five percent of the following year's budgeted expenditures.

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. The District's policy states there are no restrictions on the order of the unrestricted fund balances used when an expenditure is incurred for a purpose in which unrestricted fund balance amounts are available under committed, assigned, or unassigned fund balance. The decision will be made at the discretion of the business manager.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

G. Revenues and Expenditures/Expense

1. Program Revenues

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

2. Compensated Absences

Vested or accumulated vacation and sick leave is expected to be liquidated with expendable available financial resources and is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation and sick leave that are not expected to be liquidated with expendable available financial resources are reported in the government-wide financial statements. Vested or accumulated vacation or sick leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

District employees earn sick leave depending upon their classification. A total of 300 sick days may be accumulated. Upon retirement, eligible employees are paid an established rate per day ranging from \$20 to \$70, depending upon their classification. In addition, the District is required to pay eligible employees for unused vacation.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the food service fund and internal service fund are charges to customers for sales and services provided. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

H. Other Use of Estimates

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Compliance with Finance Related Legal and Contractual Provisions

The District has no material violations of finance related legal and contractual provisions.

B. Deficit Fund Balance or Net Position of Individual Funds

Deficit Fund Balance - Proprietary Fund (Food Service Fund)

For the year ended June 30, 2017, the accounting under GASB No. 68, *Accounting and Financial Reporting for Pensions*, and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, created a deficiency in net position at year end of \$965,804. The District will fund this deficiency in future years through contributions to the Pennsylvania Public School Employees' Retirement Plan (PSERS) at a rate required by PSERS.

C. Excess of Expenditures Over Appropriations in Individual Funds

For the year ended June 30, 2017, the General Fund had an excess of expenditures over appropriations of \$2,773,933. The District used revenues in excess of budgeted amounts to fund a portion the excess expenditures. The remainder was funded by use of fund balance.

D. Budgetary Compliance

The District's only legally adopted budget is for the General Fund. All budgetary transfers were made within the last nine months of the fiscal year. The District cancels all purchase orders open at year-end; therefore, it does not have any outstanding encumbrances at June 30, 2017. In addition, the District includes a portion of the prior year's fund balance represented by unappropriated liquid assets remaining in the fund as budgeted revenue in the succeeding year. The results of operations on a GAAP basis do not recognize the fund balance allocation as revenue as it represents prior period's excess of revenues over expenditures.

NOTE 3 - CASH AND INVESTMENTS

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

The breakdown of total cash and investments at June 30, 2017, was as follows:

Petty cash	\$ 837
Cash	7,821,307
Pooled cash and investments	<u>8,719,957</u>
	<u>\$ 16,542,101</u>

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. The District does have a policy for custodial credit risk on deposits. At June 30, 2017, the carrying amount of the District's deposits was \$7,821,307 and the bank balance was \$7,825,956. Of the bank balance, \$589,294 was covered by federal depository insurance, and \$7,236,662 was exposed to custodial credit risk but covered by collateralization requirements in accordance with Act 72 of the 1971 Session of the General Assembly.

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

Investments

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

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

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

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Investments - continued

As of June 30, 2017, the District had the following investments:

	<u>Maturities</u>	<u>Fair Value</u>	<u>Carrying Value</u>
PA Local Government Investment Trust:			
Money Market Fund		\$ 53,999	\$ 53,999
PA School District Liquid Asset Fund:			
Full Flex Pool	< 1 year	2,000,000	2,000,000
Certificates of Deposits	< 1 year	500,000	500,000
MAX Account Balance		6,625,520	6,625,520
PA State Treasury INVEST Daily Pool:			
U.S. Government Agencies and Money Market Funds		<u>607</u>	<u>607</u>
	Total		9,180,126
	Less: Reconciling Items		<u>(460,169)</u>
	Total Investments		<u><u>\$ 8,719,957</u></u>

Certain external investments held by the District, based on portfolio maturity, quality, diversification, and liquidity measures, qualify for measurement at amortized cost at both the pool and participating government level consistent with GASB Statement No. 79. The District measures those investments, which include \$9,180,126 (INVEST, PSDLAF and PLGIT) at amortized cost. There are no limitations or restrictions on withdrawals from these accounts.

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

The District's cash equivalent investments in PLGIT, PSDLAF, and INVEST cannot be classified by risk category because they are not evidenced by securities that exist in physical or book entry form. The fair value of the District's position in the external investment pool is the same as the value of the pool shares. All investments in external investment pools that are not registered with the Securities and Exchange Commission are subject to oversight by the Commonwealth of Pennsylvania.

As of June 30, 2017, the entire PLGIT, PSDLAF, and INVEST book balance of \$8,719,957 is considered to be a cash equivalent for presentation on the government-wide and fund financial statements.

POTTSTOWN SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Interest Rate Risk

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

Credit Risk

The District has an investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2017, the District's investments were rated as:

<u>Investment</u>	<u>Standard & Poor's</u>
PA School District Liquid Asset Fund	AAA
PA Invest	AAA
PA Local Government Investment Trust	AAA

Concentration of Credit Risk

The District places no limit on the amount it may invest in any one issuer.

Custodial Credit Risk

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE

The District has one independently elected tax collector who is responsible for the collection of taxes. Assessed values are established by the County’s Board of Assessment. All taxable real property was assessed at \$804,630,169. In accordance with Act 1 of 2006, the District received \$1,616,511 in property tax reduction funds for the 2016/2017 fiscal year. The District tax rate for the year ended June 30, 2017, was 39.252 mills (\$39.252 per \$1,000 of assessed valuation) as levied by the board of school directors. The schedule for real estate taxes levied for each fiscal year is as follows:

July 1	Levy date
July 1 - August 31	2% discount period
September 1 - October 31	Face payment period
November 1 - January 14	10% penalty period
January 15	Lien date

The District, in accordance with generally accepted accounting principles, recognized the delinquent and unpaid taxes receivable reduced by an allowance for uncollectible taxes as determined by administration. A portion of the net amount estimated to be collectible which was measurable and available within 60 days was recognized as revenue and the balance reported as unavailable revenue under deferred inflows of resources in the fund financial statements.

The balances at June 30, 2017, were as follows:

	Gross Taxes Receivable	Allowance for Uncollectible Taxes	Net Estimated to be Collectible	Tax Revenue Recognized	Unavailable Revenue
Real Estate	\$ 2,697,640	\$ 46,992	\$ 2,650,648	\$ 348,049	\$ 2,349,591
Earned Income Tax	11,764	-	11,764	11,764	-
Other	52,449	-	52,449	52,449	-
	<u>\$ 2,761,853</u>	<u>\$ 46,992</u>	<u>\$ 2,714,861</u>	<u>\$ 412,262</u>	<u>\$ 2,349,591</u>

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES

The following schedule represents intergovernmental receivables at June 30, 2017:

Receivable	General Fund	Proprietary Fund - Food Service
Commonwealth of PA:		
Retirement	\$ 1,292,503	\$ -
Rental Subsidy	1,289,861	-
Social Security	268,422	-
Transportation	44,158	-
National School Lunch / Breakfast Programs	-	2,419
Federal Subsidies:		
Special Education Grants to States	670,696	-
Title I Grants to Local Education Agencies	39,347	-
English Language Acquisition State Grants	3,144	-
Medical Assistance Program	9,968	-
21st Century Community Learning Centers	108,074	-
National School Lunch / Breakfast Programs	-	57,794
Other Local Agencies	1,087	-
	\$ 3,727,260	\$ 60,213

NOTE 6 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The District had the following interfund receivables/payables at June 30, 2017:

	Interfund Receivables	Interfund Payables
General Fund	\$ 638,823	\$ 1,412,230
Capital Projects Fund	205,898	631,487
Elementary Activities (NonMajor)	-	16
Food Service Fund	-	7,321
Internal Service Fund	1,205,338	-
Trust Fund	995	-
	\$ 2,051,054	\$ 2,051,054

Interfund receivables and payables exist as a result of a time lag between dates when payments between funds are made. All will be paid within one year.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 7 - CHANGES IN CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2017, were as follows:

Governmental Activities

	Beginning Balance	Increase	Reclass/ Decrease	Ending Balance
Capital assets not being depreciated:				
Land	\$ 298,222	\$ -	\$ -	\$ 298,222
Construction-in-progress	8,498	186,763	(8,498)	186,763
Total not being depreciated	<u>306,720</u>	<u>186,763</u>	<u>(8,498)</u>	<u>484,985</u>
Capital assets being depreciated:				
Buildings and building improvements	87,912,919	64,612	-	87,977,531
Site improvements	4,129,809	899,223	8,498	5,037,530
Furniture and equipment	9,500,032	100,465	(9,800)	9,590,697
Vehicles	789,757	32,810	(26,850)	795,717
Total being depreciated	<u>102,332,517</u>	<u>1,097,110</u>	<u>(28,152)</u>	<u>103,401,475</u>
Less accumulated depreciation for:				
Buildings and building improvements	29,293,601	2,731,944	-	32,025,545
Site improvements	2,005,647	189,838	-	2,195,485
Furniture and equipment	8,204,590	455,315	(9,800)	8,650,105
Vehicles	618,318	63,658	(26,850)	655,126
Total accumulated depreciation	<u>40,122,156</u>	<u>3,440,755</u>	<u>(36,650)</u>	<u>43,526,261</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	<u>62,210,361</u>	<u>(2,343,645)</u>	<u>8,498</u>	<u>59,875,214</u>
GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET	<u>\$ 62,517,081</u>	<u>\$ (2,156,882)</u>	<u>\$ -</u>	<u>\$ 60,360,199</u>
Business-Type Activities				
Capital assets being depreciated:				
Furniture and equipment	\$ 860,842	\$ -	\$ -	\$ 860,842
Accumulated depreciation for:				
Furniture and equipment	<u>814,554</u>	<u>22,341</u>	<u>-</u>	<u>836,895</u>
BUSINESS-TYPE ACTIVITIES, CAPITAL ASSETS, NET	<u>\$ 46,288</u>	<u>\$ (22,341)</u>	<u>\$ -</u>	<u>\$ 23,947</u>

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 7 - CHANGES IN CAPITAL ASSETS - CONTINUED

Depreciation expense was charged to functions/programs of the governmental activities of the primary government as follows:

Instructional Services:	
Regular Programs	\$ 581,125
Special Programs	236,463
Vocational Education	44,270
Other Instructional Programs	16,587
Pre-kindergarten	10,165
	<hr/>
	888,610
Support Services:	
Students	103,166
Instructional Staff	389,944
Administration	126,192
Pupil Health	42,051
Business Services	43,956
Operation and Maintenance of Plant	1,704,593
Student Transportation	76,698
Central Support	15,483
	<hr/>
	2,502,083
Noninstructional Services:	
Student Activities	38,222
Community Services	11,840
	<hr/>
	50,062
	<hr/>
	<hr/>
TOTAL DEPRECIATION EXPENSE - GOVERNMENTAL ACTIVITIES	\$ 3,440,755
	<hr/>
	<hr/>

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 8 - LONG-TERM LIABILITIES

Bonds and notes payable are as follows:

General Obligation Bonds, Series of 2016: The General Obligation Bonds, Series of 2016, aggregate principal of \$9,995,000, were issued on November 1, 2016, for the purpose of currently refunding a portion of the outstanding General Obligation Bonds, Series of 2011 and providing funds for various capital projects of the District. The bonds mature from January 1, 2017, to January 1, 2031. Interest rates range from 0.75% to 3.0%. Total cash flow savings was \$128,755 related to the current refunding. \$ 9,850,000

General Obligation Note, Series of 2015: The General Obligation Note, Series of 2015, aggregate principal of \$10,000,000, was issued on November 19, 2015, for the purpose of currently refunding a portion of the outstanding General Obligation Bonds, Series A of 2010. The note matures from June 1, 2016, to June 1, 2027, and has an interest rate of 2.44%. Total cash flow savings was \$397,401 related to the current refunding. 9,935,000

General Obligation Bonds, Series of 2014: The General Obligation Bonds, Series of 2014, aggregate principal of \$6,730,000, were issued on April 25, 2014, for the purpose of providing funds for various capital projects of the District. The bonds mature from June 1, 2019, to June 1, 2035. Bonds maturing on June 1, 2019, 2024, 2029, and 2033 are subject to mandatory redemption. Maturity schedule reflects mandatory redemption amounts. Interest rates range from 1.5% to 4.25%. 6,715,000

General Obligation Bonds, Series of 2013: The General Obligation Bonds, Series of 2013, aggregate principal of \$10,000,000, were issued on November 26, 2013, for the purpose of providing funds for various capital projects of the District. The bonds mature from June 1, 2020, to June 1, 2033. Bonds stated to mature June 1, 2020, are subject to mandatory redemption beginning 2015. Maturity schedule reflects mandatory redemption amounts. Interest rates range from 2.25% to 4.1%. 9,975,000

General Obligation Bonds, Series of 2012: The General Obligation Bonds, Series of 2012, aggregate principal of \$5,315,000, were issued on April 3, 2012, for the purpose of currently refunding the outstanding General Obligation Bonds, series A of 2006. The bonds mature from April 1, 2013, to April 1, 2019. Interest rates range from 1.5% to 2.0%. Total cash flow savings was \$435,442 related to current refinancing. 1,710,000

General Obligation Bonds, Series of 2011: The General Obligation Bonds, Series of 2011, aggregate principal of \$10,000,000, were issued on November 3, 2011, for the purpose of providing funds for various capital projects of the District. The bonds mature from January 1, 2017, to June 1, 2031. Interest rates range from 2.0% to 3.9%. In November 2016, a portion of the bonds were currently refunded. 980,000

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 8 - LONG-TERM LIABILITIES - CONTINUED

General Obligation Bonds, Series A of 2010: The General Obligation Bonds, Series A of 2010, aggregate principal of \$16,715,000, were issued on October 15, 2010, for the purpose of currently refunding the outstanding General Obligation Bonds, Series of 2005 and 2006. The bonds mature from June 1, 2011, to June 1, 2027. Interest rates range from 0.5% to 3.5%. Total cash flow savings was \$978,865 related to current refinancing. In November 2015, a portion of the bonds were currently refunded. 1,815,000

General Obligation Bonds, Series B of 2010: The General Obligation Bonds, Series A of 2010, aggregate principal of \$1,865,000, were issued on October 15, 2010, for the purpose of providing funds for various capital projects of the District. The bonds mature from June 1, 2011, to June 1, 2020. Interest rates range from 2.0% to 3.0%. 635,000

General Obligation Notes, Series of 2002: The General Obligation Notes, Series of 2002, aggregate principal of \$2,000,000, were issued on November 12, 2002, for the purpose of financing certain renovations and improvements of buildings within the District. The bonds mature from June 25, 2004, to June, 25, 2022. Interest rates are variable. 640,000

General Obligation Notes, Series of 2000: The General Obligation Notes, Series of 2000, aggregate principal of \$9,200,000, were issued on September 8, 2000, for the purpose of financing certain renovations and improvements of buildings within the District. The bonds mature from April 25, 2002, to April 25, 2028. Interest rates are variable. 9,184,000

Total Bonds and Notes Payable \$ 51,439,000

The future annual payments required to amortize all outstanding bonds and notes are as follows:

	Principal	Interest *
2018	\$ 2,289,000	\$ 1,278,910
2019	2,344,000	1,360,134
2020	2,402,000	1,301,987
2021	2,462,000	1,252,125
2022	2,566,000	1,202,514
2023 - 2027	13,841,000	5,178,893
2028 - 2032	15,450,000	3,544,869
2033 - 2035	10,085,000	827,643
	<u>\$ 51,439,000</u>	<u>\$ 15,947,075</u>

* Includes interest for variable rate debt at 1.393%.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 8 - LONG-TERM LIABILITIES - CONTINUED

Long-term liabilities and activity, except for the net pension liability and other postemployment benefit obligation, for the year ended June 30, 2017, were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
General Obligation Debt:					
Bonds and notes payable	\$ 52,777,000	\$ 9,995,000	\$ 11,333,000	\$ 51,439,000	\$ 2,289,000
Less deferred amounts:					
For issuance discounts	(202,407)	-	(161,148)	(41,259)	-
For issuance premiums	79,546	15,181	23,604	71,123	-
Subtotal	<u>52,654,139</u>	<u>10,010,181</u>	<u>11,195,456</u>	<u>51,468,864</u>	<u>2,289,000</u>
Other Liabilities:					
Compensated absences	<u>676,395</u>	<u>-</u>	<u>372,835</u>	<u>303,560</u>	<u>-</u>
Total Governmental Long-term Liabilities	<u>\$ 53,330,534</u>	<u>\$ 10,010,181</u>	<u>\$ 11,568,291</u>	<u>\$ 51,772,424</u>	<u>\$ 2,289,000</u>
Business-Type Activities					
Other Liabilities:					
Compensated absences	<u>\$ 22,025</u>	<u>\$ -</u>	<u>\$ 1,205</u>	<u>\$ 20,820</u>	<u>\$ -</u>

Funds to repay outstanding bonds and notes will be provided from future taxes or other general revenues of the general fund. The compensated absence liabilities will be liquidated by the general fund and the food service fund. Total interest expense paid during the year was \$1,526,330.

Subsequent to June 30, 2017, the District issued General Obligation Note, Series of 2017 in the original amount of \$9,996,000. The funds will be used to advance refund a portion of the outstanding General Obligation Bonds, Series of 2013, to currently refund a portion of the outstanding General Obligation Bonds, Series of 2011, and to pay expenses of issuing the notes. Principal maturities occur on September 1, 2018, through maturity in 2032. Interest is payable in semi-annually on March 1 and September 1 at a fixed rate of 2.55 percent through September 1, 2017 and then variable at 68 percent of the Wall Street Journal prime rate with a maximum interest rate of 4.5 percent.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 - EMPLOYEE RETIREMENT PLANS

Employee Defined Benefit Pension Plan

Summary of Significant Accounting Policies

Pension Plan

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

General Information About the Pension Plan

Plan Description

PSERS is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania under Title 24 Part IV of the Pennsylvania General Assembly. The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.state.pa.us.

Benefits Provided

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information About the Pension Plan - continued

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

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

Contributions

The contribution policy is set by state statute and requires contributions by active members, employers, and the Commonwealth of Pennsylvania.

Member Contributions:

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

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

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

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information About the Pension Plan - continued

Contributions - continued

Employer Contributions:

The District's contractually required contribution rate for fiscal year ended June 30, 2017, was 29.20 percent of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The rate was certified by the PSERS Board of Trustees. Contributions to the pension plan from the District were \$7,477,384 for the year ended June 30, 2017.

The District is also required to contribute a percentage of covered payroll to PSERS for healthcare insurance premium assistance. For the year ended June 30, 2017, the contribution rate was 0.83 percent of covered payroll and the District contributed \$212,542.

Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for no less than one-half of the employer contributions made, including contributions related to pension and healthcare. This arrangement does not meet the criteria of a special funding situation in accordance with GASB Standards. Therefore, the net pension liabilities and related pension expense represent 100 percent of the District's share of these amounts. The total reimbursement recognized by the District for the year ended June 30, 2017, was \$4,709,284.

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 \$90,887,000 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 0.1834 percent, which was an increase of 0.0005 percent from its proportion measured as of June 30, 2015.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

For the year ended June 30, 2017, the District recognized pension expense of \$9,106,770. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings	\$ 5,066,000	\$ -
Difference between expected and actual experience	-	758,000
Changes of assumptions	3,281,000	-
Changes in proportions - plan level	208,000	483,000
Changes in proportions - internal	24,792	24,792
Difference between employer contributions and proportionate share of total contributions	3,923	-
Contributions made subsequent to the measurement date	<u>7,477,384</u>	<u>-</u>
	<u>\$ 16,061,099</u>	<u>\$ 1,265,792</u>

The \$7,477,384 reported as deferred outflows of resources resulting from District pension contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the years ending June 30:

2018	\$ 1,364,770
2019	1,364,769
2020	2,638,580
2021	<u>1,949,804</u>
	<u>\$ 7,317,923</u>

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

Actuarial Assumptions

The total pension liability as of June 30, 2016, was determined by rolling forward the System's total pension liability as of 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 3.0% 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 assumption changes based on this experience study were adopted by the board at its June 10, 2016 board meeting, and were effective beginning 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 weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

Actuarial Assumptions - continued

The pension plan’s policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS 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 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

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

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

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
District's proportionate share of the net pension liability	\$ 111,180,000	\$ 90,887,000	\$ 73,836,000

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

At June 30, 2017, the District had an accrued balance due to PSERS of \$2,859,272. This amount represents the District's contractually obligated contributions for wages earned in April 2017 through June 2017. The balance will be paid in September 2017.

403(b) Tax Shelter Plan

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

Plan Description

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

Funding Policy

Contribution requirements also are negotiated between the District and union representatives. The required contribution is based on pay-as-you-go financing. The District currently provides the following plans:

Administrators:

Administrators retired between July 1, 2007, and June 30, 2008, or between July 1, 2009, and June 30, 2010, who have 20 years of service with the District, 20 years of PSERS service, and are eligible for PSERS retirement, the retiree must pay full premium for vision and dental. The District will pay 100 percent of single coverage for the core plan up to \$5,000 per year for up to 10 years.

Administrators retired before June 30, 2007, between July 1, 2008, and June 30, 2009, or after July 1, 2010, with at least 25 years of service with the District and eligible for PSERS retirement, the retiree pays full premium for vision and dental. The District will pay 100 percent of the single coverage premium for the core plan for medical and prescription drug.

Teachers, Support Staff, and Cafeteria Staff:

Teachers, support staff, and cafeteria staff retired between September 1, 1996, and June 30, 2007, must pay full premium for vision and dental. For medical and prescription drug, the District will pay \$175 per month towards retiree's premium only for up to 10 years.

Teachers, support staff, and cafeteria staff retired between July 1, 2007, and June 30, 2008, or between July 1, 2009, and June 30, 2012, with at least 20 years of service with the District, 20 years of PSERS service and are eligible for PSERS retirement must pay full premium for vision and dental. For medical and prescription drug, the District will pay 100 percent of the single coverage premium for the core plan up to \$5,000 per year for up to 10 years.

Under Act 110/43, any employee who is eligible - age 60 with 30 years of service; age 62 with one year of service; or 35 years of service, regardless of age, is allowed to continue coverage for themselves and their dependents until the member reaches Medicare age. The retiree is responsible for payment equal to the premium determined for the purposes of COBRA.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation:

Annual required contribution	\$ 722,004
Interest on net OPEB obligation	39,038
Adjustment to annual required contribution	<u>(53,258)</u>
Annual OPEB Cost	707,784
Contributions made (estimated)	<u>(288,131)</u>
Estimated increase in net OPEB obligation	419,653
Net OPEB obligation - beginning of year	<u>867,511</u>
 Net OPEB obligation - end of year	 <u><u>\$ 1,287,164</u></u>

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 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2017	\$ 707,784	40.71%	\$ 1,287,164
6/30/2016	679,719	50.49%	867,511
6/30/2015	686,159	42.74%	530,953

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Funded Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date, the Plan was unfunded. The actuarial accrued liability for benefits was \$5,948,183, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,948,183. The covered payroll (annual payroll of active employees covered by the Plan) was \$23,062,472, and the ratio of the UAAL to the covered payroll was 25.79 percent.

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

Actuarial Methods and Assumptions

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

In the July 1, 2016 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5 percent initially, decreasing 0.5 percent per year to an ultimate rate of 5.5 percent in 2018 through 2020. Rates gradually decrease from 5.4 percent to 3.8 percent in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. The unfunded actuarial accrued liability is being amortized using single period amortization as of the end of the year based on level dollar, 30-year open period.

NOTE 11 - DERIVATIVE INSTRUMENT

Introduction

The District follows accounting guidance for derivative instruments. All derivatives are to be reported on the statement of net position at fair value, and depending on whether a derivative is deemed a hedge or an investment instrument, the changes in fair value are either reported on the statement of net position as a deferral, or in the statement of activities as investment revenue or loss.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 11 - DERIVATIVE INSTRUMENT - CONTINUED

The District engaged an independent party to perform the valuation on the two derivative instruments that it holds. Both derivatives are considered level 2 investments. Both the District's basis swaps qualify and are considered hedging derivative instruments with the fair value of the derivative reported as deferred outflow of \$1,570,323. The swap transactions were considered effective under both the consistent critical terms and the quantitative method standards.

Terms and Fair Value

The terms as of June 30, 2017, were as follows:

Government Activity	Objective	Principal Amount at Issuance	Closing Date	Maturity Date	Interest		Market Value
					Paid	Rate ⁽¹⁾	
Effective Hedges							
2000 Note SWAP	Provide fixed interest rate to borrowers	\$ 9,200,000	09/08/2000	04/25/2028	\$ 127,404	1.393%	\$ 1,468,022
2002 Note SWAP	To hedge exposure to changes in long-term interest rates	2,000,000	11/12/2002	06/25/2022	10,593	1.393%	102,301

(1) The loan interest rate is determined by the program administrator to fund the payments for debt service on Delaware Valley Regional Finance Authority (DeVal) bond issues, the net payments on interest rate swap agreements related to the loans, and the administrative expenses to operate the DeVal Loan Program.

DeVal has entered into interest rate swap agreements with Bank of America, N.A.; Barclays Bank PLC; Citibank, N.A.; PNC Bank; National Association; and Toronto-Dominion Bank (the "Counterparties") related to DeVal's bonds and fixed rate loans. The "market value" is the estimated price that DeVal would receive (pay) if the agreements were terminated as of June 30, 2017. If DeVal were obligated to make a payment and sufficient funds were not available, DeVal could assess each borrower its allocable share of the termination payment. A related interest rate swap agreement may be terminated under the following circumstances:

- (a) DeVal and the Counterparty mutually consent to the termination,
- (b) The borrower defaults on its loan, or
- (c) DeVal or the Counterparty default or their financial conditions deteriorate to make a default imminent.
- (d) The borrower prepays or terminates the fixed rate of a fixed rate loan before its scheduled termination date.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 11 - DERIVATIVE INSTRUMENT - CONTINUED

Terms and Fair Value - continued

DelVal would seek to replace the terminated underlying swap agreement with a new agreement with similar terms and conditions. At market value, the loss or gain of the replacement swap should offset the gain or loss from the termination payment. DelVal may not be able to secure a replacement interest rate swap if the swap market is not functioning normally or if DelVal does not have access to the swap market. The long-term, unsecured, senior debt ratings of DelVal are currently "A1" and "A+" by Moody's Investors Service and Standard & Poor's, respectively.

Risks

Credit Risk. As of June 30, 2017, the District was not exposed to credit risk on its outstanding swaps. The District is exposed to credit risk in the amount of the derivative's fair value. This amount may increase if interest rates increase in the future. However, when interest rates decline and the fair value of the swaps are negative, the District is not exposed to credit risk. The District will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated. The current credit rating of Delaware Valley Regional Finance Authority, the counterparty, is A1 and A+ by Moody's and Standard & Poor's, respectively.

Basis Risk. Basis risk is the risk that the interest rate paid by the District on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The District bears basis risk on its swaps. The swaps have basis risk since the District receives a percentage of LIBOR to offset the actual variable bond rate the District pays on its bonds. The District is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the District pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

Tax Risk. Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the District's underlying variable-rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds, e.g., a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. The District is receiving 67 percent of LIBOR (a taxable index) on the swaps and would experience a shortfall relative to the rate paid on its bonds if marginal income tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

Termination Risk. The District or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the District would be liable to the counterparty for a payment equal to the swap's fair value.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 12 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs except for workers' compensation for which the District retains risk of loss. The District monitors their insured programs and increases insurance coverage as needed. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years. The District has no unfunded liability.

Effective July 1, 2012, the District became self-insured for medical and prescription insurance for employees and their dependents. During the year, the District handled all activity through its general fund. Effective June 30, 2012, the District established an internal service fund to administer future self-insurance benefits to all District employees. The District uses a third party administrator to provide consulting and administrative services to process claims within the self insurance fund. For the year ended June 30, 2017, the District has coverage for claims in excess of \$200,000 per person.

Changes in claims are as follows for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Claims payable, beginning of year	\$ -	\$ -
Incurred claims	6,195,414	5,962,804
Claims paid	<u>(6,195,414)</u>	<u>(5,962,804)</u>
Claims payable, end of year	<u>\$ -</u>	<u>\$ -</u>

NOTE 13 - CONTINGENCIES AND COMMITMENTS

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

The District is the defendant in several lawsuits arising in the normal course of operations. In the opinion of the administration, the outcome of these lawsuits will not have a material adverse effect on the accompanying financial statements and, accordingly, no provision for losses has been recorded.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 13 - CONTINGENCIES AND COMMITMENTS - CONTINUED

During the 2016/2017 year, the District awarded various contracts for work related to the 2017 Building Repair Program, Cosmetology A/C Repair Project and Franklin Street Fields totaling \$971,262. At June 30, 2017, a balance of \$784,499 remains outstanding on these commitments. The District plans to use existing resources in the general and capital projects funds to fulfill these commitments.

NOTE 14 - FUND BALANCE

Details of the District's governmental fund balance reporting and policy can be found in Note 1, *Summary of Significant Accounting Policies*. Fund balance classifications for the year ended June 30, 2017, were as follows:

General Fund

The General Fund has nonspendable funds of \$150,912 related to inventories and prepaid expenses, and restricted funds of \$157,200 for the "Save the Lights" campaign. Committed funds are \$3,799,409 for retirement rate increases, \$200,000 for future transportation costs, and \$100,000 for residency incentives. Assigned funds are \$650,000 for appropriations for the 2017/2018 budget. The remaining fund balance of \$3,228,677 is unassigned. The commitments were authorized by the board of school directors' motion to set aside resources to fund anticipated increases in PSERS contributions, for future anticipated increases in transportation, and for future residency incentives.

Capital Projects Fund

The capital projects fund has restricted funds of \$1,447,444 consisting of \$318,419 of unspent bond funds, and \$1,129,025 as authorized by Municipal Code P.L. 145 Act of April 30, 1943, and comprised of surplus money transferred from the general fund for the acquisition or construction of capital facilities and qualifying capital assets.

Nonmajor Funds

The nonmajor funds have restricted funds of \$105,484 consisting of \$96,793 of spendable receipts that are received from donors for specific purposes and \$8,691 of sinking fund deposits that will be used to pay future interest expenses.

The District has established and will maintain reservations of fund balance in accordance with GASB 54. This policy applies to the District's General Fund and all governmental funds. Fund balance is composed of nonspendable, restricted, committed, assigned, and unassigned amounts.

Fund balance information is used to identify the available resources to repay long-term debt, reduce property taxes, add new governmental programs, expand existing programs, or enhance the financial position of the District in accordance with policies established by the board of school directors.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 15 - NEW ACCOUNTING PRONOUNCEMENTS

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

- Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* - This statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The scope of this statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This statement is effective for the year ending June 30, 2018.
- Statement No. 84, *Fiduciary Activities* - This statement establishes criteria for identifying fiduciary activities and describes four types of fiduciary funds, as well as provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. This statement is effective for the District's fiscal year ending June 30, 2020.
- Statement No. 87, *Leases* - This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. This statement is effective for the District's fiscal year ending June 30, 2021.

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

REQUIRED SUPPLEMENTARY INFORMATION

POTTSTOWN SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

For the Year Ended June 30, 2017

	Budgeted Amount		Actual (GAAP) Basis	Variances Final to Actual
	Original	Final		
REVENUES				
Local Sources	\$ 33,857,900	\$ 33,857,900	\$ 34,616,356	\$ 758,456
State Sources	23,128,334	23,128,334	25,390,914	2,262,580
Federal Sources	2,066,915	2,066,915	1,697,515	(369,400)
TOTAL REVENUES	59,053,149	59,053,149	61,704,785	2,651,636
EXPENDITURES				
Instructional Services:				
Regular Programs - Elementary/Secondary	19,157,459	19,157,459	19,452,000	(294,541)
Special Programs - Elementary/Secondary	11,692,370	11,692,370	13,047,427	(1,355,057)
Vocational Education Programs	1,315,982	1,315,982	1,262,510	53,472
Other Instructional Programs - Elementary/Secondary	3,486,393	3,486,393	1,669,270	1,817,123
Nonpublic School Programs	2,827	2,827	6,115	(3,288)
Pre-kindergarten	1,982,552	1,982,552	2,521,639	(539,087)
Total Instructional Services	37,637,583	37,637,583	37,958,961	(321,378)
Support Services:				
Students	2,165,361	2,165,361	2,093,586	71,775
Instructional Staff	2,244,718	2,244,718	2,767,694	(522,976)
Administration	3,296,304	3,296,304	3,515,849	(219,545)
Pupil Health	1,226,310	1,226,310	1,131,237	95,073
Business Services	1,090,625	1,090,625	1,072,820	17,805
Operation and Maintenance of Plant	5,226,789	5,226,789	5,086,678	140,111
Student Transportation	549,591	549,591	2,324,775	(1,775,184)
Central Support	436,033	436,033	377,500	58,533
Other Support	30,000	30,000	18,253	11,747
Total Support Services	16,265,731	16,265,731	18,388,392	(2,122,661)
Operation of Noninstructional Services:				
Student Activities	688,607	688,607	943,395	(254,788)
Community Services	71,968	71,968	65,946	6,022
Total Operation of Noninstructional Services	760,575	760,575	1,009,341	(248,766)
Capital Outlay	783,255	783,255	442,581	340,674
Debt Service	3,736,523	3,736,523	3,694,289	42,234
Refund of Prior Year Revenues	-	-	464,036	(464,036)
TOTAL EXPENDITURES	59,183,667	59,183,667	61,957,600	(2,773,933)
DEFICIENCY OF REVENUES OVER EXPENDITURES	(130,518)	(130,518)	(252,815)	(122,297)
OTHER FINANCING SOURCES (USES)				
Budgetary Reserve	(369,482)	(369,482)	-	369,482
TOTAL OTHER FINANCING SOURCES (USES)	(369,482)	(369,482)	-	369,482
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (500,000)	\$ (500,000)	(252,815)	\$ 247,185
FUND BALANCE - BEGINNING OF YEAR			8,539,013	
FUND BALANCE - END OF YEAR			\$ 8,286,198	

See note to required supplementary information.

POTTSTOWN SCHOOL DISTRICT

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

	2017	2016	2015	2014
District's proportion of the collective net pension liability	0.1834%	0.1829%	0.1848%	0.1846%
District's proportionate share of the collective net pension liability	\$ 90,887,000	\$ 79,224,000	\$ 73,145,000	\$ 75,568,000
District's covered employee payroll	\$ 23,752,630	\$ 23,528,030	\$ 23,582,695	\$ 23,691,286
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	382.64%	336.72%	310.16%	318.97%
Plan fiduciary net position as a percentage of the total pension liability	50.14%	54.36%	57.24%	54.50%

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

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

POTTSTOWN SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS - PENSION PLAN

LAST 10 FISCAL YEARS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually required contribution	\$ 7,477,384	\$ 5,834,012	\$ 4,696,902	\$ 3,732,485	\$ 2,686,177	\$ 1,899,240	\$ 1,261,707	\$ 1,034,458	\$ 977,792	\$ 1,525,536
Contributions in relation to the contractually required contribution	<u>7,477,384</u>	<u>5,834,012</u>	<u>4,696,902</u>	<u>3,732,485</u>	<u>2,686,177</u>	<u>1,899,240</u>	<u>1,261,707</u>	<u>1,034,458</u>	<u>977,792</u>	<u>1,525,536</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 24,869,589	\$ 23,752,630	\$ 23,520,030	\$ 23,582,695	\$ 23,691,286					
Contributions as a percentage of covered employee payroll	30.07%	24.56%	19.97%	15.83%	11.34%					

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

POTTSTOWN SCHOOL DISTRICT

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
Eligible Employees	7/1/2016	\$ -	\$ 5,948,183	\$ 5,948,183	0.00%	\$ 23,062,472	25.79%
Eligible Employees	5/1/2014	-	5,725,496	5,725,496	0.00%	21,089,150	27.15%
Eligible Employees	5/1/2012	-	3,351,076	3,351,076	0.00%	20,810,112	16.10%

POTTSTOWN SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2017

BUDGETARY DATA

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

SUPPLEMENTARY INFORMATION

POTTSTOWN SCHOOL DISTRICT
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2017

	Special Revenue	Debt Service	Total Governmental Funds
ASSETS			
Cash and Investments	\$ 98,780	\$ 8,691	\$ 107,471
TOTAL ASSETS	\$ 98,780	\$ 8,691	\$ 107,471
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
LIABILITIES			
Interfund Payable	\$ 16	\$ -	\$ 16
Accounts Payable	1,971	-	1,971
TOTAL LIABILITIES	1,987	-	1,987
 FUND BALANCES			
Restricted Fund Balance	96,793	8,691	105,484
TOTAL FUND BALANCES	96,793	8,691	105,484
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 98,780	\$ 8,691	\$ 107,471

POTTSTOWN SCHOOL DISTRICT

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

For the Year Ended June 30, 2017

	Special Revenue	Debt Service	Total Governmental Funds
REVENUES			
Local Sources	\$ 53,958	\$ -	\$ 53,958
TOTAL REVENUES	53,958	-	53,958
EXPENDITURES			
Operation of Noninstructional Services	48,301	-	48,301
NET CHANGE IN FUND BALANCES	5,657	-	5,657
FUND BALANCES - BEGINNING OF YEAR	91,136	8,691	99,827
FUND BALANCES - END OF YEAR	\$ 96,793	\$ 8,691	\$ 105,484

POTTSTOWN SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Source Code	Federal CFDA Number	Federal Pass-Through Grantor's Number	Grant Period Beginning/Ending Dates	Program or Award Amount	Total Received for the Year	Accrued or (Unearned) Revenue at July 1, 2016	Revenue Recognized	Expenditures	Accrued or (Unearned) Revenue at June 30, 2017
U.S. DEPARTMENT OF DEFENSE										
Basic, Applied, and Advanced Research in Science and Engineering	D	12.630-297929	N/A	07/01/16-06/30/17	\$ 57,514	\$ 57,514	\$ -	\$ 57,514	\$ 57,514	\$ -
U.S. DEPARTMENT OF EDUCATION										
Passed through the Pennsylvania Department of Education:										
Title I Grants to Local Education Agencies	I	84.010	013-170348	07/01/16-09/30/17	1,264,403	937,079	-	976,426	976,426	39,347
Title I Grants to Local Education Agencies	I	84.010	013-160348	07/01/15-09/30/16	1,078,052	7,908	7,908	-	-	-
Title I Subtotal						944,987	7,908	976,426	976,426	39,347
Career and Technical Training	I	84.048	380-160051	08/31/16-06/30/17	63,054	63,054	-	63,054	63,054	-
Supporting Effective Instruction State Grants	I	84.367	020-170348	07/01/16-09/30/17	139,516	140,519	-	139,516	139,516	(1,003)
Supporting Effective Instruction State Grants	I	84.367	020-160348	07/01/15-09/30/16	142,889	(386)	(386)	-	-	-
Supporting Effective Instruction State Grants Subtotal						140,133	(386)	139,516	139,516	(1,003)
21st Century Community Learning Centers	I	84.287	4100068087	10/01/16-09/30/17	400,000	216,913	-	324,987	324,987	108,074
21st Century Community Learning Centers	I	84.287	4100068087	10/01/15-09/30/16	400,000	259,050	138,149	120,901	120,901	-
21st Century Community Learning Centers	I	84.287	4100068087	10/01/14-09/30/15	400,000	35,714	35,714	-	-	-
21st Century Community Learning Centers	I	84.287	4100068087	10/01/14-09/30/15	500,000	-	-	-	-	-
21st Century Community Learning Centers	I	84.287	4100068087	10/01/13-09/30/14	500,000	-	(17,440)	-	-	(17,440)
21st Century Community Learning Centers Subtotal						511,677	156,423	445,888	445,888	90,634
Passed through Berks County Intermediate Unit										
Race to the Top	I	84.412	N/A	07/01/16-06/30/17	75,000	75,000	-	75,000	75,000	-
Passed through the Montgomery County Intermediate Unit:										
English Language Acquisition State Grants	I	84.365	N/A	07/17/16-09/30/17	4,084	940	-	4,084	4,084	3,144
English Language Acquisition State Grants	I	84.365	N/A	07/17/15-09/30/16	3,845	3,845	3,845	-	-	-
English Language Acquisition State Grants Subtotal						4,785	3,845	4,084	4,084	3,144
Special Education Cluster:										
Special Education - Preschool Grants	I	84.173	N/A	07/01/16-06/30/17	3,827	3,827	-	3,827	3,827	-
Special Education - Grants to States	I	84.027	N/A	07/01/16-06/30/17	670,696	-	-	670,696	670,696	670,696
Special Education - Grants to States	I	84.027	N/A	07/01/15-06/30/16	667,987	349,191	349,191	-	-	-
Special Education - Preschool Grants	I	84.173	N/A	07/01/15-06/30/16	3,668	3,668	3,668	-	-	-
Passed through the Lancaster-Lebanon Intermediate Unit:										
Special Education - Grants to States	I	84.027	N/A	07/01/15-06/30/16	20,000	16,547	16,547	-	-	-
Total Special Education Cluster						373,233	369,406	674,523	674,523	670,696
TOTAL U.S. DEPARTMENT OF EDUCATION						2,112,869	537,196	2,378,491	2,378,491	802,818
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES										
Passed through PA Department of Human Services:										
Medical Assistance Program	I	93.778	N/A	07/01/16-06/30/17	N/A	11,920	6,771	15,117	15,117	9,968
U.S. DEPARTMENT OF AGRICULTURE										
Passed through Pennsylvania Department of Education:										
Child and Adult Care Food Program	I	10.558	N/A	07/01/16-06/30/17	N/A	9,014	-	9,014	9,014	-
Child Nutrition Cluster										
Passed through Pennsylvania Department of Education:										
National School Lunch Program	I	10.555	N/A	07/01/16-06/30/17	N/A	1,295,401	-	1,340,908	1,340,908	45,507
National School Lunch Program	I	10.555	N/A	07/01/15-06/30/16	N/A	55,806	55,806	-	-	-
School Breakfast Program	I	10.553	N/A	07/01/16-06/30/17	N/A	307,877	-	320,164	320,164	12,287
School Breakfast Program	I	10.553	N/A	07/01/15-06/30/16	N/A	15,234	15,234	-	-	-
Passed through the Pennsylvania Department of Agriculture:										
National School Lunch Program	I	10.555	N/A	07/01/16-06/30/17	N/A	145,619	(4,727)	140,251	140,251	(10,095)
Total Child Nutrition Cluster						1,819,937	66,313	1,801,323	1,801,323	47,699
TOTAL U.S. DEPARTMENT OF AGRICULTURE						1,828,951	66,313	1,810,337	1,810,337	47,699
TOTAL FEDERAL AWARDS						\$ 4,011,254	\$ 610,280	\$ 4,261,459	\$ 4,261,459	\$ 860,485

Source Code: D - Direct Funding and I - Indirect Funding

^A Adjusted for write-off of receivable deemed uncollectible of \$300,683.

NOTE: No funds were passed through to subrecipients in the year ended June 30, 2017.

See notes to schedule of expenditures of federal awards.

POTTSTOWN SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2017

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal awards activity of the Pottstown School District under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Pottstown School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Pottstown School District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

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

NOTE 3 - DE MINIMIS RATE FOR INDIRECT COSTS

The District did not elect to use the De Minimis rate for indirect costs.

NOTE 4 - FOOD COMMODITIES

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. At June 30, 2017, the District had \$10,095 of food commodity inventory.



Herbein + Company, Inc.
2763 Century Boulevard
Reading, PA 19610
P: 610.378.1175
F: 610.378.0999
www.herbein.com

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

**To the Board of School Directors
Pottstown School District
Pottstown, Pennsylvania**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Pottstown School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Pottstown School District's basic financial statements and have issued our report thereon dated February 12, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Pottstown School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pottstown School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pottstown School District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be material weaknesses: 2017-001.

Compliance and Other Matters

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

Pottstown School District's Response to Findings

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

Purpose of this Report

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

Herbein + Company, Inc.

Reading, Pennsylvania
February 12, 2018



Herbein + Company, Inc.
2763 Century Boulevard
Reading, PA 19610
P: 610.378.1175
F: 610.378.0999
www.herbein.com

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

**To the Board of School Directors
Pottstown School District
Pottstown, Pennsylvania**

Report on Compliance for Each Major Federal Program

We have audited Pottstown 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 the Pottstown School District's major federal programs for the year ended June 30, 2017. The Pottstown School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Pottstown School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pottstown 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 qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of Pottstown School District's compliance.

Basis for Qualified Opinion on Title I Grants to Local Education Agencies and 21st Century Community Learning Centers

As described in the accompanying schedule of findings and questioned costs, the Pottstown School District did not comply with requirements regarding CFDA 84.010 Title I Grants to Local Education Agencies as described in finding numbers 2017-002 for Unallowable Costs and Unallowable Activities and CFDA 84.287 21st Century Community Learning Centers as described in finding numbers 2017-002 for Unallowable Costs and Unallowable Activities and 2017-003 for Cash Management and Reporting. Compliance with such requirements is necessary, in our opinion, for Pottstown School District to comply with the requirements applicable to those programs.

Qualified Opinion on Title I Grants to Local Education Agencies and 21st Century Community Learning Centers

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Pottstown 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 Title I Grants to Local Education Agencies and 21st Century Community Learning Centers for the year ended June 30, 2017.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Pottstown 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 other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2017.

Other Matters

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

Report on Internal Control Over Compliance

Management of the Pottstown School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Pottstown 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 the Pottstown School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2017-002 and 2017-003 that we consider to be material weaknesses.

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

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

Herbein + Company, Inc.

Reading, Pennsylvania
February 12, 2018

POTTSTOWN SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

Section I - Summary of Auditor's Results

Financial Statements

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

Federal Awards

Internal Control over major programs:
Material weakness(es) identified? X yes no
Significant deficiency(ies) identified not considered to be
material weaknesses? yes X none reported
Type of auditor's report issued on compliance for major programs: Qualified
Any audit findings disclosed that are required to be
reported in accordance with 2 CFR, Section 200.516(a)? X yes no

Identification of major program(s):

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I Grants to Local Education Agencies
84.287	21 st Century Community Learning Centers
10.555/10.553	Child Nutrition Cluster

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

Auditee qualified as low-risk auditee? yes X no

POTTSTOWN SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

Section II - Financial Statement Findings

2017-001 ACCOUNT RECONCILIATIONS/MATERIAL ADJUSTMENTS POSTED AS A RESULT OF THE AUDIT - MATERIAL WEAKNESS

Criteria

AU Section 325 indicates that the "Identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity's internal control" should be regarded as a material weakness in internal controls.

Condition

Material audit adjustments were proposed during the audit and recorded to properly reflect accounts on the financial statement. Certain material balance sheet accounts were not accurately and properly reconciled throughout the year or at year end.

Cause

The turnover in the business office staff contributed to certain reconciliations not being performed timely.

Effect

Significant adjustments are posted at year end to bring numerous funds and accounts into compliance with reporting under U.S. generally accepted accounting standards. As a result of reconciliations and other monitoring activities not being performed, the financial statements were materially misstated at year end.

Recommendation

The business office should review and document its policies and procedures for key transaction classes to ensure that an appropriate individual is assigned the task and has the tools necessary to complete that task effectively and efficiently. We also recommend that a further understanding of the reports needed and the analysis of said reports be obtained by the appropriate personnel in order to identify possible under/overstatements in material accounts and investigate the possible cause. It is also recommended that these material accounts are reconciled monthly to the general ledger and deadlines are setup for accountability of preparation and review.

Management Response

See corrective action plan included in this report package.

POTTSTOWN SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

Section III - Federal Awards Findings and Questioned Costs

2017-002 UNALLOWABLE COSTS / UNALLOWABLE ACTIVITIES - MATERIAL WEAKNESS

Federal Program

U.S. Department of Education passed through the PA Department of Education
Title I Grants to Local Education Agencies - 84.010 (Grant 013-1703848)
21st Century Community Learning Centers - 84.287 (Grant 4100068087)

Criteria

The cost principles in 2 CFR Part 200, subpart E (Cost Principles), prescribe the cost accounting requirements associated with the administration of Federal awards by local governments. In order to be allowable a cost must be necessary and reasonable for the performance of the Federal award and be allocable thereto under the principles in 2 CFR part 200, subpart E.

In a targeted assistance school, funds available under Title I, Part A may be used only for programs that are designed to help participating children meet the State's student academic achievement standards expected of all children. Allowable activities in these schools include, but are not limited to, instructional programs, counseling, mentoring, other pupil services, college and career awareness and preparation, services to prepare students for the transition from school to work, services to assist preschool children in the transition to elementary school, parental involvement activities, and professional staff development.

21st Century Community Learning Centers awards may be used to carry out a broad array of before-school and after-school activities that advance student academic achievement

Condition

For both the Title I and 21st Century programs, the District charged about 50 percent of retirement expense to the program; however, for the majority of the employees in the program, the District receives 69.14 percent reimbursement from the state. Additionally, for the Title I program, wages were charged for activities unrelated to the program and FICA expense totaled 7.83 percent of wages while that standard rate is 7.65 percent. Additionally, for the 21st Century program, wages for time not worked were inadvertently accrued for one employee and wages also were paid to the wrong employee for time worked by another employee with the same last name in the 21st Century program. The correct employee was subsequently paid and charged to the program a second time. Other errors resulted in an employee being underpaid.

Cause

Overcharging of benefits was a result of oversight during the review process. Charging of wages paid for activities not allowed under Title I was due to error during the payroll input process. Wages that were improperly accrued for in the 21st Century program was due to human error as a box in the payroll system was inadvertently checked causing the accrual. All other incorrect wage payments were also due to human error. In addition, the current system of review does not uncover the problems.

POTTSTOWN SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

Section III - Federal Awards Findings and Questioned Costs - continued

2017-002 UNALLOWABLE COSTS / UNALLOWABLE ACTIVITIES - MATERIAL WEAKNESS

Effect

The District has unallowable activities and costs charged to the Title I and 21st Century programs.

Questioned Costs

Title I Grants to Local Education Agencies - 84.010 (Grant 013-1703848) - Known questioned costs of \$32,962. \$31,322 for retirement costs that were reimbursed by the state, \$1,099 for FICA costs in excess of 7.65 percent of wages, and \$541 for tutoring wages not related to Title I.

21st Century Community Learning Centers - 84.287 (Grant 4100068087) - Known questioned less than \$25,000.

Context

For Title I, all employee wages charged to the program were tested. Our testing disclosed one instance where time was charged for wages not eligible for the program. For 21st Century, a selection of 40 timecards were selected from the population of 751 bi-weekly timecards coded to the program. Our testing disclosed one instance where time was charged for an employee that did not have a timecard because the hours paid were worked by a different employee, one instance where an employee was paid less than their board approved rate on file, and one instance where an employee was paid for fewer hours than worked per their time card. Review of all 12 months of reporting for 21st Century also identified one employee that had wages improperly accrued and expensed to the program. Analytics were performed on benefits charged to both programs.

Repeat Finding

No.

Recommendation

We recommend that the District consider the use of an electronic timecard system. This would help alleviate the risk of human error that results from entering activity from manual timecards. Additionally we recommend the District institute better tracking of benefits that are charged to the programs and identify those employees for which the state reimburses over 50 percent of retirement expense to ensure that cost are not charged to the program that are reimbursed elsewhere.

We suggest the business office also review its procedures related to grant reporting process to strengthen controls as the review process is the last chance to identify unallowable activities/costs that have been charged to the program. Reports should be prepared with supporting documentation attached and then reviewed by someone independent of the preparer, such as a member of management. The reviewer should initial the report or otherwise document that the review took place prior to the report being filed.

Management Response

See corrective action plan included in this report package.

POTTSTOWN SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

Section III - Federal Awards Findings and Questioned Costs - continued

2017-003 CASH MANAGEMENT AND REPORTING - MATERIAL WEAKNESS

Federal Program

U.S. Department of Education passed through the PA Department of Education
21st Century Community Learning Centers - 84.287 (Grant 4100060872)

Criteria

As a subrecipient of the Pennsylvania Department of Education (PDE) for 21st Century Community Learning Centers funding, the District is required to submit monthly reports detailing expenditures incurred during the month to receive reimbursement from the state.

Condition

An e-mail received from the Pennsylvania Department of Education on November 5, 2015, indicated that for the grant period of October 1, 2014 through September 30, 2015, reports for the months of November 2014, February 2015, July 2015, and August 2015 were never received. These months were included on the corrected monthly expenditure reports provided to PDE, however, the totals on the corrected expenditure report forms exceeded the \$500,000 approved budget by \$12,210. PDE requested the District review and resubmit report forms minus the additional \$12,210 so that the budget is not exceeded. There is no evidence this was done. Another e-mail from PDE received October 12, 2017, noted that they have paid everything that has been billed to them and this grant was closed resulting in a loss of funding.

Cause

There was inadequate procedures in place regarding cash management. Costs were incurred but never reimbursed and the current system of control did not prevent this.

Effect

During the current year the District wrote off a receivable of \$300,683 that should have been funded by the 21st Century grant. Not spending the entire amount allocated on the grant also leads to the risk of the loss of future funding.

Questioned Costs

None.

Context

Four of the monthly reports for the 2014/2015 year 21st Century grant funding were prepared but never submitted to the state for reimbursement. The receivable and revenue were recorded by the District but there was not adequate follow up as to why the receivable was never paid.

Repeat Finding

No.

POTTSTOWN SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

Section III - Federal Awards Findings and Questioned Costs - continued

2017-003 CASH MANAGEMENT AND REPORTING - MATERIAL WEAKNESS

Recommendation

Once reports are prepared they should be reviewed and approved by another individual before they are submitted to request reimbursement of federal funds to determine that the reports are filed accurately and timely. Expenditures submitted for reimbursement should be tracked to ensure that the grant is spent in full, reimbursement submissions do not exceed the amount of the grant, and that reimbursements are received and agree to what was submitted. There should be a timely review of all outstanding billings.

Management Response

See corrective action plan included in this report package.



POTTSTOWN SCHOOL DISTRICT

ADMINISTRATION BUILDING • 230 Beech Street • Pottstown PA 19464 • (610)323-8200 • FAX (610)326-6540
www.pottstownschoools.com

Building a Better Tomorrow

POTTSTOWN SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

Section II - Financial Statement Findings

2016-001 ACCOUNT RECONCILIATIONS/MATERIAL ADJUSTMENTS POSTED AS A RESULT OF THE AUDIT - MATERIAL WEAKNESS

Criteria

AU Section 325 indicates that the "Identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity's internal control" should be regarded as a material weakness in internal controls.

Condition

Material audit adjustments were proposed during the audit and recorded to properly reflect accounts on the financial statement. Certain material balance sheet accounts were not accurately and properly reconciled throughout the year or at year end.

Cause

The turnover in the business office staff contributed to certain reconciliations not being performed timely.

Effect

Significant adjustments are posted at year end to bring numerous funds and accounts into compliance with reporting under U.S. generally accepted accounting standards. As a result of reconciliations and other monitoring activities not being performed, the financial statements were materially misstated at year end.

Recommendation

The business office should review and document its policies and procedures for key transaction classes to ensure that the appropriate individual is assigned the proper task and has the tools necessary to complete that task effectively and efficiently. We also recommend that a further understanding of the reports needed and the analysis of said reports be obtained by the appropriate personnel in order to identify possible under/overstatements in material accounts and investigate the possible cause. It is strongly recommended that these material accounts are reconciled monthly to the general ledger and deadlines are setup for accountability of preparation and review.

Current Status of Corrective Action Plan

This is a repeat finding in the current year. See corrective action plan included in this report package related to finding 2017-01.

POTTSTOWN SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

Section II - Financial Statement Findings - continued

2016-002 GRANT ADMINISTRATION/PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA) - MATERIAL WEAKNESS

See Section III - Federal Awards Findings and Questioned Costs

Section III - Federal Awards Findings and Questioned Costs

2016-002 GRANT ADMINISTRATION/PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA) - MATERIAL WEAKNESS

Federal Program

Title I Grants to Local Education Agencies - 84.010 (Grant 013-1603848)

Criteria

The District receives grants through various funding sources to be used for numerous programs. Each grant has specific time periods in which it must be spent and agreements typically outline what the money must be used to fund. Additionally, Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) requires the auditee to prepare a complete and accurate SEFA.

Condition

The District uses separate funding sources to track activity for each grant. However, during the year grant activity in the general ledger was not accurately reconciled to expense reports submitted or revenue recorded, which lead to material adjustments needed at year-end to reconcile grant activity. Furthermore, the District was not tracking all grants to be sure funds were spent within the applicable time period. Additionally, the District did not prepare a SEFA containing all required information.

Cause

Due to turnover in the business office, reconciliations for grant activity were not accurately and properly maintained. Because certain grant reconciliations were not performed throughout the year, a complete SEFA was not updated accurately to reflect current year activity.

Effect

The District does have a system in place to capture complete and accurate grant information by using various funding sources within the general ledger software. However, there was no reconciliation between the general ledger and reports submitted or any system for tracking if the full grant amount was spent timely. Without proper reconciliations, the District risks not completing reports accurately or drawdowns timely, which creates a risk of loss of current or future funding. With turnover in the business office and grant reconciliations not being performed, a SEFA was not accurately prepared at year end. The SEFA was subsequently updated through further inquiry and documentation of awards received.

POTTSTOWN SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

Section III - Federal Awards Findings and Questioned Costs

2016-002 GRANT ADMINISTRATION/PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA) - MATERIAL WEAKNESS - CONTINUED

Questioned Costs

None.

Context

Material adjustments were proposed during the audit to properly reconcile accounts receivable and unearned revenue related to grants. The material adjustments posted to reconcile unearned revenue and receivables related to grants significantly impact the District's ability to produce an accurate SEFA.

Repeat Finding

No.

Recommendation

We recommend that the District re-evaluate its procedures for tracking grant activity and reconciling reports to the general ledger periodically throughout the year and at a minimum at year end. It is important to assign responsibility for grant activity, as well as accountability in the form of oversight and review by management. Accurate reconciliations will allow for a complete SEFA to be prepared timely.

Current Status of Corrective Action Plan

This is no longer a finding in the current year.

2016-003 REPORTING - SIGNIFICANT DEFICIENCY

Federal Program

Title I Grants to Local Education Agencies - 84.010 (Grant 013-160348)

Criteria

The District receives Title I funds as a subrecipient from the Pennsylvania Department of Education (PDE). The District's agreement with PDE requires that reconciliation of cash on hand reports and final expenditure reports are filed during the grant period.

Condition

The final expenditure report that was filed for the 2015/2016 grant period did not agree to the breakdown of expenditures charged to the program during the year.

Cause

During audit testing, entries were prepared by management to properly reflect allowable costs within the general ledger for the grant year. Because of these entries, the final expenditure report, which was filed prior to the entries being posted, did not accurately reflect the costs charged to the program for the year.

POTTSTOWN SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

Section III - Federal Awards Findings and Questioned Costs - continued

2016-003 REPORTING - SIGNIFICANT DEFICIENCY - CONTINUED

Effect

The District was not in compliance with the reporting requirements of the grant.

Questioned Costs

None.

Context

A majority of the costs charged to Title I are for payroll and benefits. While the District historically overspends the grant annually, the final expenditure report reported more salaries expense than was charged to the general ledger at year end. There is no control in place to review reports for accuracy prior to filing.

Repeat Finding

No.

Recommendation

We suggest the business office reviews its procedures related to grant report preparation and filing to strengthen controls over this compliance requirement. Reports should be prepared with supporting documentation attached and then reviewed by someone independent of the preparer, such as a member of management. The reviewer should initial the report or otherwise document that the review took place prior to the report being filed.

Current Status of Corrective Action Plan

This is no longer a finding in the current year.



POTTSTOWN SCHOOL DISTRICT

ADMINISTRATION BUILDING • 230 Beech Street • Pottstown PA 19464 • (610)323-8200 • FAX (610)326-6540
www.pottstownschooldistrict.org

Building a Better Tomorrow

CORRECTIVE ACTION PLAN

Department of Education:

The Pottstown School District respectfully submits the following corrective action plan for the year ended June 30, 2017.

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

Audit period: Year ending June 30, 2017

The findings for the year ended June 30, 2017 schedule of findings are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Section II - Financial Statement Findings

2017-001 Account Reconciliations/Material Adjustments Posted as a Result of the Audit - Material Weakness

Condition

Material audit adjustments were proposed during the audit and recorded to properly reflect accounts on the financial statement. Certain material balance sheet accounts were not accurately and properly reconciled throughout the year or at year end.

Cause

The turnover in the business office staff contributed to certain reconciliations not being performed timely.

Recommendation

The business office should review and document its policies and procedures for key transaction classes to ensure that the appropriate individual is assigned the proper task and has the tools necessary to complete that task effectively and efficiently. We also recommend that a further understanding of the reports needed and the analysis of said reports be obtained by the appropriate personnel in order to identify possible under/overstatements in material accounts and investigate the possible cause. It is strongly recommended that these material accounts are reconciled monthly to the general ledger and deadlines are setup for accountability of preparation and review.

Management Response

The district is in agreement with the recommendation. We have initiated a monthly closing procedure which includes reconciliations of the balance sheet accounts and all grant expenditure accounts. All balances in the grant expense reimbursements and balance sheet will be reconciled and tied to expenditure accounts prior to filing reimbursement requests. This is performed by the Assistant Business Manager to segregate the reconciliation from the payroll department and grant coordinator. A second review and sign off by the Business Manager will be performed. The assistant business manager will manually calculate the year end payroll accrual and compare it to the system initiated payroll accrual prior. If needed a manual payroll accrual entry will be made.

The district has initiated a monthly update of the Schedule of Expenditure Federal Awards, State and miscellaneous grants. The district is utilizing separate accounting software in order to track grant receivables to ensure the actual grant amounts have been requested accurately and revenue received on a timely basis.

Section III – Federal Award Findings and Questioned Costs

2017-002 Unallowable Costs/ Unallowable Activities - Material Weakness

Federal Program

Title I - 84.010 (Grant 013-1603848)

21st Century- 84.287 (Grant 4100068087)

Condition

For both the Title I and 21st Century programs, the District charged about 50 percent of retirement expense to the program; however, for the majority of the employees in the program, the District receives 69.14 percent reimbursement from the state. Additionally, for the Title I program, wages were charged for activities unrelated to the program and FICA expense totaled 7.83 percent of wages while that standard rate is 7.65 percent. Additionally, for the 21st Century program, wages for time not worked were inadvertently accrued for one employee and wages also were paid to the wrong employee for time worked by another employee with the same last name in the 21st Century program. The correct employee was subsequently paid and charged to the program a second time. Other errors resulted in an employee being underpaid.

Cause

Overcharging of benefits was a result of oversight during the review process. Charging of wages paid for activities not allowed under Title I was due to error during the payroll input process. Wages that were improperly accrued for in the 21st Century program was due to human error as a box in the payroll system was inadvertently checked causing the accrual. All other incorrect wage payments were also due to human error. In addition, the current system of review does not uncover the problems.

Recommendation

We recommend that the District consider the use of an electronic timecard system. This would help alleviate the risk of human error that results from entering activity from manual timecards. Additionally we recommend the District institute better tracking of benefits that are charged to the programs and identify those employees for which the state reimburses over 50 percent of retirement expense to ensure that cost are not charged to the program that are reimbursed elsewhere.

We suggest the business office also review its procedures related to grant reporting process to strengthen controls as the review process is the last chance to identify unallowable activities/costs that have been charged to the program. Reports should be prepared with supporting documentation attached and then reviewed by someone independent of the preparer, such as a member of management. The reviewer should initial the report or otherwise document that the review took place prior to the report being filed.

Management Response

The district is in agreement with the recommendation. Due to system limitations on segregating allowable retirement expenditures, reconciliations will be made between grant expenditures reported and the posting of expenditures to the general ledger prior to reports being filed. This will require a manual journal entry to properly reflect qualifying retirement expenditures for federal grants. Due to the historical reimbursement rate in excess of 60% from the state, the district has implemented a 30% reimbursement request on all retirement expenditures subject to state reimbursement. The district is researching the use of an electronic timekeeping system that will provide an electronic feed to employees timecards in the payroll system, eliminating the possibility input errors. All grants will be identified and reconciled on a monthly basis as well as reviewed and signed off by the grant coordinator. The reconciliations will assist in the annual preparation of the required SEFA.

2017-003 Cash Management and Reporting - Material Weakness

Federal Program

21st Century- 84.287 (Grant 4100060872)

Condition

An e-mail received from the Pennsylvania Department of Education on November 5, 2015, indicated that for the grant period of October 1, 2014 through September 30, 2015, reports for the months of November 2014, February 2015, July 2015, and August 2015 were never received. These months were included on the corrected monthly expenditure reports provided to PDE, however, the totals on the corrected expenditure report forms exceeded the \$500,000 approved budget by \$12,210. PDE requested the District review and resubmit report forms minus the additional \$12,210 so that the budget is not exceeded. There is no evidence this was done. Another e-mail from PDE received October 12, 2017, noted that they have paid everything that has been billed to them and this grant was closed resulting in a loss of funding.

Cause

There was inadequate procedures in place regarding cash management. Costs were incurred but never reimbursed and the current system of control did not prevent this.

Recommendation

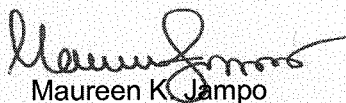
Once reports are prepared they should be reviewed and approved by another individual before they are submitted to request reimbursement of federal funds to determine that the reports are filed accurately and timely. Expenditures submitted for reimbursement should be tracked to ensure that the grant is spent in full, reimbursement submissions do not exceed the amount of the grant, and that reimbursements are received and agree to what was submitted. There should be a timely review of all outstanding billings.

Management Response

The district is in agreement with the recommendation. The monthly reconciliation of all grants will assist in strengthening the controls over this requirement. Supporting documentation will be attached to the reconciliations which will be prepared by the grant accountant and reviewed by the grant coordinator (if applicable) and Assistant Business manager and signed off on, by the Business Manager prior to reports being filed. The Assistant Business manager will utilize an additional accounting software to track all grant receivables.

If the Department of Education has questions regarding this plan, please call Maureen Jampo at 610-970-6611.

Sincerely,


Maureen K. Jampo



Herbein + Company, Inc.
 2763 Century Boulevard
 Reading, PA 19610
 P: 610.378.1175
 F: 610.378.0999
www.herbein.com

**INDEPENDENT ACCOUNTANT’S REPORT ON APPLYING
 AGREED-UPON PROCEDURES**

**To the Members of the Board
 Pottstown School District
 Pottstown, Pennsylvania**

We have performed the procedures enumerated below, which were agreed to by the Commonwealth of Pennsylvania and Pottstown School District solely to assist you with respect to the financial schedules and exhibits required by the Commonwealth of Pennsylvania. The sufficiency of the procedures is solely the responsibility of the Commonwealth of Pennsylvania. Consequently, we made no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

- a. We have verified by comparison that the amounts and classifications that the supplemental financial schedules listed below, which summarize amounts reported to the Commonwealth of Pennsylvania for the fiscal year ended June 30, 2017, have been accurately compiled and reflect the audited books and records of Pottstown School District. We have also verified by comparison to the example schedules that these schedules are presented, at a minimum, at the level of detail and in the format required by the Commonwealth of Pennsylvania pertaining to this period.

<u>Program Name</u>	<u>Referenced Schedule/Exhibit</u>
PA Pre-K Counts	Supplemental Audit Schedule for Fiscal Year Ended June 30, 2017

- b. We have inquired of management regarding adjustments to reported revenues or expenditures, which were not reflected on the reports submitted to the Commonwealth of Pennsylvania for the period in question.
- c. The processes detailed in paragraphs (a) and (b) above disclosed no adjustments and/or findings.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

We were not engaged to, and did not conduct an examination review, the objective of which would be the expression of an opinion or conclusion, respectively, on the specified elements, accounts, or items. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the Commonwealth of Pennsylvania and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Herbein + Company, Inc.

Reading, Pennsylvania
February 12, 2018

POTTSTOWN SCHOOL DISTRICT
PA PRE-K COUNTS SUPPLEMENTAL AUDIT SCHEDULE

For the Fiscal Year Ended June 30, 2017

	<u>Original Budgeted Expenditures</u>	<u>Final Approved Revised Budget</u>	<u>Actual Expenditures</u>	<u>Differences</u>
PERSONNEL:				
Salaries/Wages:				
Child Health and Development	\$ 229,213	\$ 229,213	\$ 252,134	\$ (22,921)
Total Salaries	<u>229,213</u>	<u>229,213</u>	<u>252,134</u>	<u>(22,921)</u>
Benefits (net of retirement and Social Security reimbursement)	153,365	153,365	123,048	30,317
Total Personnel	<u>382,578</u>	<u>382,578</u>	<u>375,182</u>	<u>7,396</u>
OPERATIONS:				
Supplies for Program Purposes	4,000	4,000	4,000	-
Supplies for Management Purposes	10,131	10,131	10,131	-
Nutritional Services	7,644	2,644	2,908	(264)
Amount Related to Parent Services	3,960	3,960	3,960	-
Building Maintenance/Repairs	12,388	8,388	8,388	-
Utilities and Telephone	1,103	1,103	1,103	-
Publications/Advertising/Printing	1,980	1,980	206	1,774
Substitutes	2,860	2,860	3,042	(182)
Non-Student Travel	5,175	1,175	1,175	-
Contracted Services	97,181	110,181	118,905	(8,724)
Training and Staff Development	7,000	7,000	7,000	-
Student Transportation	2,000	2,000	2,000	-
Total Operations	<u>155,422</u>	<u>155,422</u>	<u>162,818</u>	<u>(7,396)</u>
PROGRAMS				
Funds Passed Through to Partners	1,359,200	1,359,200	1,359,200	-
Total Programs	<u>1,359,200</u>	<u>1,359,200</u>	<u>1,359,200</u>	<u>-</u>
Total Budget	<u>\$ 1,897,200</u>	<u>\$ 1,897,200</u>	<u>\$ 1,897,200</u>	<u>\$ -</u>
	<u>Original Budgeted Revenues</u>	<u>Revised Budgeted Revenues</u>	<u>Actual Revenues</u>	<u>Differences</u>
Revenues				
Pennsylvania Pre-K Counts	\$ 1,897,200	\$ 1,897,200	\$ 1,897,200	\$ -
	<u>\$ 1,897,200</u>	<u>\$ 1,897,200</u>	<u>\$ 1,897,200</u>	<u>\$ -</u>