



POTTSTOWN SCHOOL DISTRICT

FINANCIAL AND COMPLIANCE REPORT

Year Ended June 30, 2018

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 JUNE 30, 2018**



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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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Change in Accounting Principle

As described in Note 14 to the financial statements, effective July 1, 2017, the Pottstown School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison schedule for the general fund, and pension and other postemployment benefit information on pages 85 through 89 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 January 15, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Herbein + Company, Inc.

Reading, Pennsylvania
January 15, 2019



POTTSTOWN SCHOOL DISTRICT

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

June 30, 2018

The following is a discussion and analysis of the Pottstown School District's annual financial performance during the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the 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. The District's enrollment, including out placed students was 3,366 students. The District employed approximately 224 professionals, 220 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 \$236,650. In 2017-18 the District's Food Service participated, for the fourth 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 revenues exceeded expenditures by \$355,897. This resulted from unexpected grant carryover revenue and increased state subsidies, net of a large tax appeal that resulted in a refund of prior year revenues. The net surplus for the fiscal year 2017-18 is \$902,484.
- The District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, which was effective for fiscal years beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by the District for postemployment benefits other than pensions. The adoption of this Statement resulted in a restatement of the District's beginning net position as outlined in Figure A-3 and Figure A-4 below.

Fund Level

- Total General Fund revenues and other financing sources exceeded expenditures and other financing uses budgeted by \$872,016, bringing the General Fund balance to \$9,158,214. Revenues were \$1,499,037 greater than anticipated due to the uncertainty of available state grant revenues. Expenditures were \$799,752 greater than anticipated due to higher transportation costs as well as higher pre-kindergarten costs as a result of increased funding.
- Reserves for future increases in employer contributions to the Public School Employees Retirement System (PSERS) remained at \$3,799,409. Reserves that had been previously established for future transportation needs of \$200,000 and the Residency Incentive of \$100,000 were utilized during the year and no longer exist. An assigned fund balance of \$432,874 have been appropriated for the 2018-2019 budget along with non-spendable funds of \$117,854. Non-spendable funds consist of prepaid expenses and inventories. The remaining fund balance of \$4,808,077 is unassigned.
- The net position of the Internal Service Fund for medical costs associated with self-funding increased \$23,847 to \$3,902,889.

- The trends of prior years indicated that during the fiscal year 2017-2018 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, anticipated increases in the employer contribution to PSERS will continue to cause an additional drain on the financial resources of all schools in Pennsylvania, this was further complicated by the loss of the Top Taxpayer, the Pottstown Memorial Hospital. The loss in local tax revenue amounted to \$924,087.
- At the close of the fiscal year, the General Fund ending fund balance increased by \$872,016 to \$9,158,214 of which \$4,808,077 is unassigned. The remaining General Fund balance is comprised of funds committed for PSERS of \$3,799,409; nonspendable fund balance of \$17,854 and an assigned fund balance of \$432,874 which is appropriated in the 2018-19 budget. The Capital Projects ending fund balance increased \$19,084 to a balance of \$1,466,528. This is also observed in the Total Governmental fund balance increase of \$902,484 to \$10,741,610 from \$9,839,126.
- 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 \$3,902,889. This represents an increase of \$23,847. These funds were a combination of the funds reserved in prior years for medical costs and better experience over the last few 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

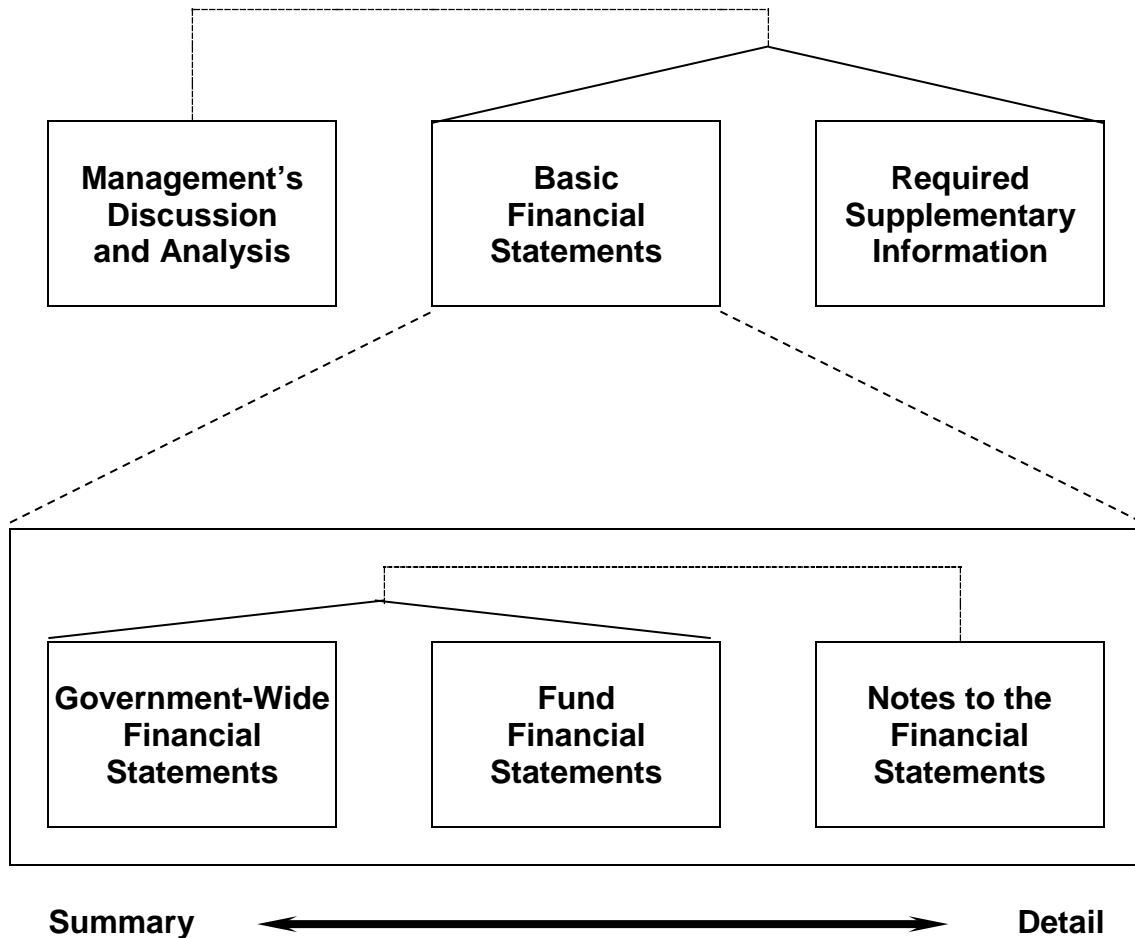


Figure A-2 summarizes the major features of the District's statements. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

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 \$563,983 over the course of the fiscal year's operations for total combined net deficit at June 30, 2018, of (\$61,712,335). The net pension liability increase 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 \$800,543 to (\$60,854,149). The net deficit of the District's business-type activities increased \$236,650 to (\$858,186).

Figure A-3 – Condensed Statement of Net Position (in millions)

	Governmental		Business-Type		Total	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
<u>Assets</u>						
Current	\$ 23	\$ 22	\$ 1	\$ 1	\$ 24	\$ 23
Capital assets and other	61	63	-	-	61	63
TOTAL ASSETS	84	85	1	1	85	86
Deferred outflows of resources	16	18	-	-	16	18
<u>Liabilities</u>						
Current and other	11	13	-	-	11	13
Long-term	149	140	2	2	151	142
TOTAL LIABILITIES	160	153	2	2	162	155
Deferred inflow of resources	1	1	-	-	1	1
<u>Net Position (Deficit)</u>						
Net investment in capital assets	10	10	-	-	10	10
Restricted net assets	4	4	-	-	4	4
Unrestricted net assets	(75)	(65)	(1)	(1)	(76)	(66)
TOTAL NET POSITION (DEFICIT)	(61)	(51)	(1)	(1)	(62)	(52)
Restatement - GASB 75	-	(9)	-	-	-	(9)
TOTAL NET POSITION (DEFICIT)	(61)	(60)	(1)	(1)	(62)	(61)

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

The District's net position decreased by \$563,893. The decrease is comprised of an increase in Cash and Receivables of \$1.1 million which is to be expected as Accounts Payable decreased \$758,521 along with Bonds and Notes Payable decreasing \$1.8 million while the Southeastern Pennsylvania Schools Trust decreased \$107,618. This is offset by a decrease in Capital Assets of \$1.7 million primarily as a result of depreciation exceeding capital improvements as building renovations have been completed. In addition the net impact of 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* resulted in a decrease in net position of \$1.9 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. As of 2017, Pottstown Hospital Co. LLC was the School District's largest real property taxpayer. The most recent assessed value for the four parcels associated with Pottstown Hospital Co. LLC was \$23,540,030 (as of December 31, 2017). Effective October 1, 2017, Pottstown Hospital Co. LLC was acquired by Tower Health, a not-for-profit entity.

Governmental activities had (123%) 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 (85.77%) 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 2018 and 2017.

Figure A-4

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

	Governmental Activities		Business-Type Activities		Total District	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
REVENUES						
Program Revenues						
Charges for Services	\$ 0.3	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.5	\$ 0.4
Operating grants and contributions	15.3	14.0	2.1	2.0	17.4	16.0
Capital grants and contributions	1.2	2.2	-	-	1.2	2.2
General Revenues						
Property taxes	28.3	29.9	-	-	28.3	29.9
State aid	13.0	12.2	-	-	13.0	12.2
Other taxes and miscellaneous	3.8	3.1	-	-	3.8	3.1
TOTAL REVENUES	61.9	61.6	2.3	2.2	64.2	63.8
EXPENSES						
Instruction	39.8	40.4	-	-	39.8	40.4
Pupil and instructional services	5.0	5.4	-	-	5.0	5.4
Administration and business	4.9	5.3	-	-	4.9	5.3
Maintenance and operations	6.5	6.7	-	-	6.5	6.7
Transportation	2.5	2.4	-	-	2.5	2.4
Other	4.0	4.3	2.0	2.0	6.0	6.3
TOTAL EXPENSES	62.7	64.5	2.0	2.0	64.7	66.5
CHANGE IN NET POSITION	\$ -0.8	\$ -2.9	\$ 0.25	\$ 0.15	\$ -0.55	\$ -2.75
Net Position (Deficit) - Beginning	(60.0)	(48.1)	(1.10)	(1.10)	(61.10)	(49.20)
Restatement - GASB #75	-	(9.0)	-	(0.15)	-	(9.15)
Net Position (Deficit) - Ending	\$ (60.8)	\$ (60.0)	\$ (0.85)	\$ (1.10)	\$ (61.65)	\$ (61.10)

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

Functions/Programs	2018		2017	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$ 39,831,148	\$ 27,238,671	\$ 40,479,623	\$ 28,933,407
Pupil and instructional services	4,992,697	4,348,383	5,376,701	4,834,271
Administration and business	4,915,895	4,366,752	5,263,789	4,749,167
Maintenance and operations	6,437,257	5,441,666	6,699,999	6,066,265
Transportation	2,526,695	1,824,953	2,430,094	1,802,148
Pupil Health Services/Other	1,573,099	1,302,497	1,671,989	1,427,957
Student activities and community services	1,179,686	974,525	1,143,222	943,897
Interest on long-term debt	1,256,122	378,599	1,532,620	(629,051)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 62,712,599	45,876,046	\$ 64,598,037	48,128,061
Less unrestricted grants, subsidies		13,033,376		12,241,658
TOTAL NEEDS FROM LOCAL TAXES AND OTHER REVENUES		\$ 32,842,670		\$ 35,886,403
Business-Type Activities				
Food Service	\$ 2,017,603	\$ (230,268)	\$ 2,013,519	\$ (114,597)

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 2017-2018 fiscal year, Governmental Funds had a total year-end fund balance of \$10,741,610, a \$902,484 increase from the prior fiscal year’s balance of \$9,839,126. The General Fund increased \$872,016 as result of the annual revenues being above expected primarily as a result of additional grant funds received above that which was budgeted. Capital Projects increased \$19,084 as a result of interest and other local revenues.

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 2017-2018 anticipated expenditures exceeding revenue by \$650,001; however, the actual results for the year produced an excess of revenues over expenditures and other financing sources (uses) of \$872,016. Total revenues received were \$1,499,037 over budget. Local revenue collected exceeded the budget by \$314,366. This was largely a result of higher than anticipated collections of Real Estate Transfer Taxes which were over budget by \$317,243 primarily due to the sale of the hospital. Funds received from State revenue exceeded the budget by \$1,091,231 as a result of State Social Security and PSERS reimbursements, Pre-K counts funding, and more Plan Con rental and sinking fund subsidies than originally anticipated. Federal revenues were \$93,440 more than anticipated as a result of additional funding for the Medical Access program.

Total expenditures were over budget by \$799,752. This was significantly offset by the additional revenues received above what was budgeted. Instructional expenditures were under budget by just \$172,751. Support services were under budget by \$648,620 primarily a result of administrative savings realized by outsourcing and unfilled positions. These under expenditures were offset by over expenditures for Capital Outlay and refund of prior year revenues of \$1,209,035 due to assessment appeal refunds primarily resulting from the Pottstown Plaza.

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 underspent 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, 2018, the District had \$58,658,287 (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 \$3,407,068 for governmental activities and \$15,605 for business type activities. Additions were made to governmental activities in the amount of \$1,691,278. 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>2017-18</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2016-17</u>
Land and Constr. In Proc.	\$ 0.5	\$ 0.5	\$ -	\$ -	\$ 0.5	\$ 0.5
Site improvements	1.7	2.8	-	-	1.7	2.8
Buildings and building improvements	55.6	56.0	-	-	55.6	56.0
Furniture and equipment	0.8	0.9	-	-	0.8	0.9
Vehicles	0.1	0.1	-	-	0.1	0.1
	<u>\$ 58.7</u>	<u>\$ 60.3</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58.7</u>	<u>\$ 60.3</u>

Long-Term Debt

At year-end, the District had \$49,672,575 of general obligation bonds and notes payable, net of discounts and premiums. This is a decrease of \$1,796,289 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>2017-18</u>	<u>2016-17</u>
General obligation bonds and notes	\$ 49.6	\$ 51.5
Other general obligation debt (compensated absences)	0.6	0.3
	<u>\$ 50.2</u>	<u>\$ 51.8</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 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 was 32.57% - an increase of 8.45%
 - 2018-19 is 33.43% - an increase of 2.6%
 - 2019-20 projected to be 34.29% - an increase of 2.57%
 - 2020-21 projected to be 34.77% - an increase of 1.40%
 - 2021-22 projected to be 35.19% - an increase of 1.21%
 - 2022-23 projected to be 35.84% - an increase of 1.85%
 - 2023-24 projected to be 36.30% - an increase of 1.28%

Starting with 2010-2011 through 2018-2019 the rate increases from 5.64% to 32.57%, an increase of 492.7% over the last seven years. Over the next five years, 2019-20 through 2023-24 the rate increases from 34.29% to 36.30%, an increase of 5.9%. From 2010-11 to 2023-24 the rate increases from 5.64% to 36.30% or 543.62% over this 13 year period. (Based on PSERS projections from 12/7/2018.)

- 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 2023-24. Current projections were not available beyond the 2023-24 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. The district raised taxes to the adjusted index 3.5% for a millage rate of 40.6260.
- 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, 2018

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and Investments	\$ 16,555,731	\$ 754,745	\$ 17,310,476
Taxes Receivable, Net	2,981,061	-	2,981,061
Internal Balances	(32,247)	32,247	-
Intergovernmental Receivables	2,962,217	65,776	3,027,993
Other Receivables	662,616	44	662,660
Inventories	26,587	19,161	45,748
Prepaid Expenses	243,267	-	243,267
Funds Held by Southeastern Pennsylvania Schools Trust	2,502,952	-	2,502,952
Capital Assets Not Being Depreciated	477,629	-	477,629
Capital Assets, Net of Accumulated Depreciation	58,166,780	13,878	58,180,658
TOTAL ASSETS	84,546,593	885,851	85,432,444
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charge on Bond Refunding	654,062	-	654,062
Deferred Outflows of Resources for Pension	14,877,556	323,086	15,200,642
Deferred Outflows of Resources for Other Postemployment Benefits - Health Insurance Premium Assistance Program	268,115	5,557	273,672
Deferred Outflows of Resources for Other Postemployment Benefits - District Plan	640,227	16,315	656,542
TOTAL DEFERRED OUTFLOWS OF RESOURCES	16,439,960	344,958	16,784,918
LIABILITIES			
Accounts Payable	1,598,449	6,803	1,605,252
Accrued Interest	139,257	-	139,257
Payroll Accruals and Withholdings	6,570,404	13,393	6,583,797
Unearned Revenues	18,286	2,987	21,273
Other Current Liabilities	449,042	-	449,042
Noncurrent Liabilities, Due Within One Year	2,416,077	-	2,416,077
Noncurrent Liabilities:			
Bonds and Notes Payable, Net	47,332,575	-	47,332,575
Long-Term Portion of Compensated Absences	499,367	24,317	523,684
Net Pension Liability	90,431,292	1,826,708	92,258,000
Net Other Postemployment Benefit Obligation - Health Insurance Premium Assistance Program	3,730,641	75,359	3,806,000
Total Other Postemployment Benefit Obligation - District Plan	7,620,488	76,018	7,696,506
TOTAL LIABILITIES	160,805,878	2,025,585	162,831,463
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources for Pension	861,329	59,905	921,234
Deferred Inflows of Resources for Other Postemployment Benefits - Health Insurance Premium Assistance Program	173,495	3,505	177,000
TOTAL DEFERRED INFLOWS OF RESOURCES	1,034,824	63,410	1,098,234
NET POSITION			
Net Investment in Capital Assets	9,625,896	13,878	9,639,774
Restricted for:			
Capital Projects	1,466,528	-	1,466,528
Health Claims	2,654,952	-	2,654,952
Other	116,868	-	116,868
Unrestricted (Deficit)	(74,718,393)	(872,064)	(75,590,457)
TOTAL NET POSITION (DEFICIT)	\$ (60,854,149)	\$ (858,186)	\$ (61,712,335)

See accompanying notes.

POTTSTOWN SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
Instructional Services:							
Regular Programs - Elementary/Secondary	\$ 20,253,717	\$ -	\$ 4,454,191	\$ -	\$ (15,799,526)	\$ -	\$ (15,799,526)
Special Programs - Elementary/Secondary	13,282,363	-	4,405,468	-	(8,876,895)	-	(8,876,895)
Vocational Education	1,249,546	-	500,181	-	(749,365)	-	(749,365)
Other Instructional Programs - Elementary/Secondary	2,221,045	-	530,149	-	(1,690,896)	-	(1,690,896)
Pre-kindergarten	2,824,477	-	2,702,488	-	(121,989)	-	(121,989)
Total Instructional Services	39,831,148	-	12,592,477	-	(27,238,671)	-	(27,238,671)
Support Services:							
Students	2,290,991	-	298,130	-	(1,992,861)	-	(1,992,861)
Instructional Staff	2,701,706	-	346,184	-	(2,355,522)	-	(2,355,522)
Administration	3,848,805	-	405,823	-	(3,442,982)	-	(3,442,982)
Pupil Health	1,146,389	-	224,257	-	(922,132)	-	(922,132)
Business Services	1,067,090	-	143,320	-	(923,770)	-	(923,770)
Operation and Maintenance of Plant	6,437,257	218,363	481,051	296,177	(5,441,666)	-	(5,441,666)
Student Transportation	2,526,695	13,341	688,401	-	(1,824,953)	-	(1,824,953)
Central Support	408,649	-	46,345	-	(362,304)	-	(362,304)
Other Support	18,061	-	-	-	(18,061)	-	(18,061)
Total Support Services	20,445,643	231,704	2,633,511	296,177	(17,284,251)	-	(17,284,251)
Noninstructional Services:							
Student Activities	1,009,588	102,564	99,522	-	(807,502)	-	(807,502)
Community Services	170,098	-	3,075	-	(167,023)	-	(167,023)
Interest on Long-Term Debt	1,256,122	-	-	877,523	(378,599)	-	(378,599)
Total Noninstructional Services	2,435,808	102,564	102,597	877,523	(1,353,124)	-	(1,353,124)
Total Governmental Activities	62,712,599	334,268	15,328,585	1,173,700	(45,876,046)	-	(45,876,046)
Business-Type Activities							
Food Service	2,017,603	161,744	2,086,127	-	-	230,268	230,268
Total Primary Government	\$ 64,730,202	\$ 496,012	\$ 17,414,712	\$ 1,173,700	(45,876,046)	230,268	(45,645,778)
General Revenues							
Taxes:							
Property Taxes					28,269,353	-	28,269,353
Public Utility Realty, Earned Income, LST Tax and Mercantile Taxes					3,299,687	-	3,299,687
Grants, Subsidies, and Contributions Not Restricted to Specific Programs					13,033,376	-	13,033,376
Investment Earnings					289,196	6,382	295,578
Miscellaneous Income					183,891	-	183,891
Total General Revenues					45,075,503	6,382	45,081,885
Change in Net Position					(800,543)	236,650	(563,893)
Net Position (Deficit) - Beginning of Year - Restated					(60,053,606)	(1,094,836)	(61,148,442)
Net Position (Deficit) - End of Year					\$ (60,854,149)	\$ (858,186)	\$ (61,712,335)

See accompanying notes.

POTTSTOWN SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2018

	General	Capital Projects	Nonmajor Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 15,603,732	\$ 831,854	\$ 120,145	\$ 16,555,731
Interfund Receivables	633,634	755,898	-	1,389,532
Taxes Receivable	3,033,008	-	-	3,033,008
Intergovernmental Receivables	2,962,217	-	-	2,962,217
Other Receivables	272,638	-	-	272,638
Inventories	26,587	-	-	26,587
Prepaid Expenditures	91,267	-	-	91,267
TOTAL ASSETS	\$ 22,623,083	\$ 1,587,752	\$ 120,145	\$ 24,330,980
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Interfund Payable	\$ 2,158,514	\$ 121,224	\$ -	\$ 2,279,738
Accounts Payable	1,595,172	-	3,277	1,598,449
Accrued Salaries and Benefits	6,233,392	-	-	6,233,392
Payroll Deductions and Withholdings	337,012	-	-	337,012
Current Portion of Compensated Absences	76,077	-	-	76,077
Unearned Revenues	18,286	-	-	18,286
Other Liabilities	449,042	-	-	449,042
TOTAL LIABILITIES	10,867,495	121,224	3,277	10,991,996
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Property Taxes	2,597,374	-	-	2,597,374
FUND BALANCES				
Nonspendable	117,854	-	-	117,854
Restricted	-	1,466,528	116,868	1,583,396
Committed:				
PSERS Increase	3,799,409	-	-	3,799,409
Assigned:				
Appropriated 2018/2019 Budget	432,874	-	-	432,874
Unassigned	4,808,077	-	-	4,808,077
TOTAL FUND BALANCES	9,158,214	1,466,528	116,868	10,741,610
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 22,623,083	\$ 1,587,752	\$ 120,145	\$ 24,330,980

POTTSTOWN SCHOOL DISTRICT

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

June 30, 2018

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

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS		\$ 10,741,610
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 \$105,577,738 and the accumulated depreciation is \$46,933,329.		58,644,409
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.		2,545,427
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.		3,902,889
The net pension liability and related deferred outflows and inflows of resources of pensions are not reflected on the fund financial statements.		(76,415,065)
The other postemployment benefit obligations and related deferred outflows and inflows of resources for other postemployment benefits are not reflected on the fund financial statements.		(10,616,282)
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	(49,631,000)	
Accrued Interest on Bonds	(139,257)	
Unamortized Bond Premium	(47,068)	
Unamortized Bond Discount	5,493	
Deferred Charge on Bond Refunding	654,062	
Long-Term Portion of Compensated Absences	(499,367)	(49,657,137)
TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES		<u><u>\$ (60,854,149)</u></u>

POTTSTOWN SCHOOL DISTRICT

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

For the Year Ended June 30, 2018

	General	Capital Projects	Nonmajor Funds	Total Governmental Funds
REVENUES				
Local Sources	\$ 34,568,235	\$ 19,084	\$ 66,048	\$ 34,653,367
State Sources	25,782,630	-	-	25,782,630
Federal Sources	2,380,413	-	-	2,380,413
TOTAL REVENUES	62,731,278	19,084	66,048	62,816,410
EXPENDITURES				
Current:				
Instructional Services	37,938,729	-	-	37,938,729
Support Services	17,319,890	-	73,167	17,393,057
Operation of Noninstructional Services	1,029,358	-	54,664	1,084,022
Capital Outlay	1,371,869	-	-	1,371,869
Debt Service:				
Principal	2,284,000	-	-	2,284,000
Interest	1,168,690	-	11,111	1,179,801
Refund of Prior Year Revenues	1,209,035	-	-	1,209,035
TOTAL EXPENDITURES	62,321,571	-	138,942	62,460,513
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	409,707	19,084	(72,894)	355,897
OTHER FINANCING SOURCES (USES)				
Issuance of Refunding Bond	-	-	9,996,000	9,996,000
Payment to Refunded Debt Escrow Agent	-	-	(9,905,515)	(9,905,515)
Transfers In	462,309	-	-	462,309
Transfers Out	-	-	(6,207)	(6,207)
TOTAL OTHER FINANCING SOURCES (USES)	462,309	-	84,278	546,587
NET CHANGE IN FUND BALANCES	872,016	19,084	11,384	902,484
FUND BALANCES - BEGINNING OF YEAR	8,286,198	1,447,444	105,484	9,839,126
FUND BALANCES - END OF YEAR	\$ 9,158,214	\$ 1,466,528	\$ 116,868	\$ 10,741,610

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, 2018

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

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 902,484

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	\$ 1,691,278	
Less: Depreciation Expense	<u>(3,407,068)</u>	(1,715,790)

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. 242,828

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	(9,996,000)	
Repayment of Bond and Note Principal	2,284,000	
Payment to Refunded Debt Escrow Agent	9,905,515	
Amortization of Bond Premium	24,055	
Amortization of Bond Discount	(1,381)	
Amortization of Deferred Charge on Bond Refunding	<u>(52,798)</u>	2,163,391

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. (46,197)

In the statement of activities, certain operating expenses - compensated absences (retirement bonus and sick days) are measured by the amounts earned during the year. (195,807)

The change in net pension liability and related deferred outflows and inflows of resources for pension are reflected as an adjustment to expense on the statement of activities, but not included in the fund statements. (1,852,330)

The change in other postemployment benefits obligation and related deferred outflows and inflows of resources for other postemployment benefits are reflected as an adjustment to expense on the statement of activities, but not included in the fund statements. (322,969)

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. 23,847

CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES \$ (800,543)

POTTSTOWN SCHOOL DISTRICT

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS

June 30, 2018

	Enterprise Fund Food Service	Internal Service Fund	Totals
ASSETS			
CURRENT ASSETS			
Cash and Investments	\$ 754,745	\$ -	\$ 754,745
Interfund Receivables	32,247	857,959	890,206
Intergovernmental Receivables	65,776	-	65,776
Other Receivables	44	389,978	390,022
Inventories	19,161	-	19,161
Funds held by Southeastern Pennsylvania Schools Trust	-	2,502,952	2,502,952
TOTAL CURRENT ASSETS	871,973	3,750,889	4,622,862
NONCURRENT ASSETS			
Long-Term Deposit	-	152,000	152,000
Furniture and Equipment, Net	13,878	-	13,878
TOTAL ASSETS	885,851	3,902,889	4,788,740
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows of Resources for Pension	323,086	-	323,086
Deferred Outflows of Resources for Other Postemployment Benefits - Health Insurance Premium Assistance Program	5,557	-	5,557
Deferred Outflows of Resources for Other Postemployment Benefits - District Plan	16,315	-	16,315
TOTAL DEFERRED OUTFLOWS OF RESOURCES	344,958	-	344,958
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	6,803	-	6,803
Accrued Salaries and Benefits	13,393	-	13,393
Unearned Revenues	2,987	-	2,987
TOTAL CURRENT LIABILITIES	\$23,183	-	23,183
NONCURRENT LIABILITIES			
Compensated Absences	24,317	-	24,317
Net Pension Liability	1,826,708	-	1,826,708
Net Other Postemployment Benefit Obligation - Health Insurance Premium Assistance Program	75,359	-	75,359
Total Other Postemployment Benefit Obligation - District Plan	76,018	-	76,018
TOTAL LIABILITIES	2,025,585	-	2,025,585
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources for Pension	59,905	-	59,905
Deferred Inflows of Resources for Other Postemployment Benefits - Health Insurance Premium Assistance Program	3,505	-	3,505
TOTAL DEFERRED INFLOWS OF RESOURCES	63,410	-	63,410
NET POSITION (DEFICIT)			
Net Investment in Capital Assets	13,878	-	13,878
Restricted for Health Claims	-	2,502,952	2,502,952
Restricted Terminal Liability Reserve	-	152,000	152,000
Unrestricted (Deficit)	(872,064)	1,247,937	375,873
TOTAL NET POSITION (DEFICIT)	\$ (858,186)	\$ 3,902,889	\$ 3,044,703

See accompanying notes.

POTTSTOWN SCHOOL DISTRICT

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

For the Year Ended June 30, 2018

	Enterprise Fund Food Service	Internal Service Fund	Totals
OPERATING REVENUES			
Food Service Revenue	\$ 156,886	\$ -	\$ 156,886
Charges for Services	4,858	6,662,910	6,667,768
	<u>161,744</u>	<u>6,662,910</u>	<u>6,824,654</u>
TOTAL OPERATING REVENUES			
OPERATING EXPENSES			
Salaries	525,022	-	525,022
Employee Benefits	371,665	-	371,665
GASB Pension and OPEB Expense	38,547	-	38,547
Health Claims and Administrative Expenses	-	6,206,808	6,206,808
Purchased Property Services	11,335	-	11,335
Other Purchased Services	493	-	493
Supplies	1,042,990	-	1,042,990
Depreciation	15,605	-	15,605
Other Operating Costs	11,946	-	11,946
	<u>2,017,603</u>	<u>6,206,808</u>	<u>8,224,411</u>
TOTAL OPERATING EXPENSES			
OPERATING INCOME (LOSS)	(1,855,859)	456,102	(1,399,757)
NONOPERATING REVENUES			
Earnings on Investments	6,382	23,847	30,229
State Sources	171,830	-	171,830
Federal Sources	1,914,297	-	1,914,297
	<u>2,092,509</u>	<u>23,847</u>	<u>2,116,356</u>
TOTAL NONOPERATING REVENUES			
INCOME BEFORE TRANSFERS	236,650	479,949	716,599
TRANSFERS OUT	-	(456,102)	(456,102)
CHANGE IN NET POSITION	236,650	23,847	260,497
NET POSITION (DEFICIT) - BEGINNING OF YEAR - RESTATED	(1,094,836)	3,879,042	2,784,206
NET POSITION (DEFICIT) - END OF YEAR	<u>\$ (858,186)</u>	<u>\$ 3,902,889</u>	<u>\$ 3,044,703</u>

POTTSTOWN SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS

For the Year Ended June 30, 2018

	Enterprise Fund Food Service	Internal Service Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Users	\$ 128,653	\$ 6,620,311	\$ 6,748,964
Cash Payments to Employees for Services	(900,332)	-	(900,332)
Cash Payments for Supplies and Other Operating Expenses	(931,520)	-	(931,520)
Cash Payments for Health Claims and Administrative Expenses	-	(6,188,056)	(6,188,056)
	<u> </u>	<u> </u>	<u> </u>
NET CASH USED FOR OPERATING ACTIVITIES	(1,703,199)	432,255	(1,270,944)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
State Sources	171,642	-	171,642
Federal Sources	1,776,960	-	1,776,960
Transfer Out	-	(456,102)	(456,102)
	<u> </u>	<u> </u>	<u> </u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	1,948,602	(456,102)	1,492,500
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of Capital Assets	(5,536)	-	(5,536)
CASH FLOWS FROM INVESTING ACTIVITIES			
Earnings on Investments	6,382	23,847	30,229
	<u> </u>	<u> </u>	<u> </u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	246,249	-	246,249
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	508,496	-	508,496
	<u> </u>	<u> </u>	<u> </u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 754,745</u>	<u>\$ -</u>	<u>\$ 754,745</u>

POTTSTOWN SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS - CONTINUED

For the Year Ended June 30, 2018

	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)	\$ (1,855,859)	\$ 456,102	\$ (1,399,757)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used for Operating Activities:			
Depreciation	15,605	-	15,605
Donated Commodities Used	131,962	-	131,962
Changes in Assets, Deferred Outflows of Resources, Liabilities, and Deferred Inflows of Resources:			
Other Receivables	97	(389,978)	(389,881)
Inventories	5,657	-	5,657
Funds held by Southeastern Pennsylvania Schools Trust	-	(20,248)	(20,248)
Interfund Balances	(39,568)	347,379	307,811
Long-Term Deposit	-	39,000	39,000
Deferred Outflows of Resources for Pension	37,526	-	37,526
Deferred Outflows of Resources for Other Postemployment Benefits - Health Insurance Premium Assistance Program	(1,343)	-	(1,343)
Deferred Outflows of Resources for Other Postemployment Benefits - District Plan	(15,128)	-	(15,128)
Accounts Payable	6,803	-	6,803
Accrued Salaries and Benefits	179	-	179
Unearned Revenues	(10,119)	-	(10,119)
Compensated Absences	3,497	-	3,497
Net Pension Liability	(36,476)	-	(36,476)
Net Other Postemployment Benefit Obligation - Health Insurance Premium Assistance Program	(2,851)	-	(2,851)
Total Other Postemployment Benefit Obligation - District Plan	19,795	-	19,795
Deferred Inflows of Resources for Pension	33,519	-	33,519
Deferred Inflows of Resources for Other Postemployment Benefits - Health Insurance Premium Assistance Program	3,505	-	3,505
Total Adjustments	152,660	(23,847)	128,813
NET CASH USED FOR OPERATING ACTIVITIES	\$ (1,703,199)	\$ 432,255	\$ (1,270,944)

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the District used \$131,962 of commodities from the U.S. Department of Agriculture.

POTTSTOWN SCHOOL DISTRICT

**STATEMENT OF NET POSITION
FIDUCIARY FUNDS**

June 30, 2018

	<u>Private Purpose Trust Fund</u>	<u>Agency Funds (Student Activities)</u>
ASSETS		
CURRENT ASSETS		
Cash and Investments	\$ 92,925	\$ 138,119
TOTAL ASSETS	<u>92,925</u>	<u>138,119</u>
LIABILITIES		
CURRENT LIABILITIES		
Other Current Liabilities	-	<u>\$ 138,119</u>
NET POSITION HELD IN TRUST	<u>\$ 92,925</u>	

POTTSTOWN SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS

For the Year Ended June 30, 2018

	Private Purpose Trust Fund
ADDITIONS	
Contributions	\$ 54,806
Earnings on Investments	1,238
TOTAL ADDITIONS	56,044
DEDUCTIONS	
Purchased Services	79,489
CHANGE IN NET POSITION	(23,445)
NET POSITION - BEGINNING OF YEAR	116,370
NET POSITION - END OF YEAR	\$ 92,925

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

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 6 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

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

A. Reporting Entity

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A. Reporting Entity - continued

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

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

Jointly Governed Organization: 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.

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.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

C. Basis of Presentation - Fund Financial Statements

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

The District Reports the Following Major Governmental Funds:

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

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

The District has the Following 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.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

Additionally, the District Reports the Following Fund Types - continued:

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.

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.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Measurement Focus and Basis of Accounting - continued

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.

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.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Budgetary Process - continued

Accelerated Budget Process Option - continued

If the primary budget exceeds the increase authorized by the Index, an application for an exception may be filed with the Pennsylvania Department of Education (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.

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

F. Financial Position

1. Cash and Cash Equivalents

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.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

2. Investments

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.

3. Interfund Transactions

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

4. 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, 2018, consisted of the following:

Paper supplies	<u>\$ 26,587</u>
----------------	------------------

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

Purchased food and supplies	\$ 18,244
Donated commodities	<u>917</u>
	<u>\$ 19,161</u>

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

4. Inventories and Prepaid Expenses/Expenditures - continued

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.

5. 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. Donated capital assets, donated works of art and similar items, and capital assets receivable of a service concession arrangement should be reported at acquisition value rather than fair value.

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

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

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

6. Deferred Outflows/Inflows of Resources

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

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

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

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

6. 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 District has three types of items that qualify for reporting in this category.

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

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

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

7. 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.

8. 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.

9. Fund Balance Policies and Flow Assumptions

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

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

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

9. Fund Balance Policies and Flow Assumptions - continued

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 5% 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.

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.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

G. Revenues and Expenditures/Expense - continued

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, 2018

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Compliance with Finance Related Legal and Contractual Provisions

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

B. Deficit Fund Balance or Net Position of Individual Funds

Deficit Net Position - Proprietary Fund (Food Service Fund)

For the year ended June 30, 2018, the implementation of GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and the accounting under GASB No. 68, *Accounting and Financial Reporting for Pensions*, and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, created a deficiency in net position at year end of \$858,186. 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, 2018, the General Fund had an excess of expenditures over appropriations of \$799,752. The District used revenues in excess of budgeted amounts to fund the excess expenditures.

D. Budgetary Compliance

The District's only legally adopted budget is for the General Fund. All budgetary transfers were made within the last nine months of the fiscal year. The District cancels all purchase orders open at year-end; therefore, it does not have any outstanding encumbrances at June 30, 2018. In addition, the District includes a portion of the prior year's fund balance represented by unappropriated liquid assets remaining in the fund as budgeted revenue in the succeeding year. The results of operations on a GAAP basis do not recognize the fund balance allocation as revenue as it represents prior period's excess of revenues over expenditures.

NOTE 3 - CASH AND INVESTMENTS

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

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

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

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

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

The carrying amount of cash and investments at June 30, 2018, consists of the following:

Petty cash	\$	837
Cash		7,736,212
Pooled cash and investments		<u>9,804,471</u>
	\$	<u><u>17,541,520</u></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, 2018, the carrying amount of the District's deposits was \$7,736,212 and the bank balance was \$7,747,072. Of the bank balance, \$466,918 was covered by federal depository insurance, and \$7,280,154 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.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Investments

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

	<u>Maturities</u>	<u>Fair Value</u>	<u>Carrying Value</u>
PA School District Liquid Asset Fund:			
Full Flex Pool	< 1 year	\$ 6,500,000	\$ 6,500,000
MAX Account Balance		3,879,363	3,879,363
PA Local Government Investment Trust:			
PLGIT - Class		11,059	11,059
PLGIT/PLUS - Class		43,586	43,586
PA State Treasury INVEST Daily Pool:			
U.S. Government Agencies and Money Market Funds		<u>615</u>	<u>615</u>
	Total		10,434,623
	Less: Reconciling Items		<u>(630,152)</u>
	Total Investments		<u><u>\$ 9,804,471</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 \$10,434,623 (PSDLAF, PLGIT and INVEST) at amortized cost. All investments in external investment pools that are not registered with the Securities and Exchange Commission are subject to oversight by the Commonwealth of Pennsylvania.

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

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Investments - continued

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

PLGIT invests primarily in U.S. Treasury and federal agency securities and repurchase agreements secured by such obligations, as well as certain municipal obligations and collateralized or insured certificates of deposit. The fund manager intends to comply with guidelines similar to those mandated for money-market funds as contained in Rule 2a-7 of the Investment Company Act of 1940.

PLGIT - Class Shares are a flexible option within the PLGIT fund which requires no minimum balance, no minimum initial investment, and a one-day minimum investment period. Dividends are paid monthly.

PLGIT/PLUS - Class Shares are an option which requires a minimum investment of \$50,000, a minimum investment period of thirty (30) days, and had a premature withdrawal penalty. Dividends are paid quarterly.

The PA IVEST INVEST Daily Fund invest in short-term, high-quality, fixed-income securities, which may include: U.S. Government and Agency obligations, certificates of deposit, commercial paper, money market funds, and repurchase agreements fully collateralized by obligations guaranteed by the U.S. Government. Assets of the fund are managed to ensure that the weighted average maturity does not exceed 60 days at any time. There are no deposit minimums or restrictions on withdrawals.

As of June 30, 2018, the entire PSDLAF, PLGIT, and INVEST book balance of \$9,804,471 is considered to be a cash equivalent for presentation on the government-wide and fund financial statements.

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, 2018, the District's investments were rated as:

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

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.

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 \$803,638,619. In accordance with Act 1 of 2006, the District received \$1,618,435 in property tax reduction funds for the 2017/2018 fiscal year. The District tax rate for the year ended June 30, 2018, 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.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE - CONTINUED

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

	Gross Taxes Receivable	Allowance for Uncollectible Taxes	Net Estimated to be Collectible	Tax Revenue Recognized	Unavailable Revenue
Real Estate	\$ 2,941,116	\$ 51,947	\$ 2,889,169	\$ 34,742	\$ 2,597,374
Earned Income Tax	33,865	-	33,865	33,865	-
Other	58,027	-	58,027	58,027	-
	<u>\$ 3,033,008</u>	<u>\$ 51,947</u>	<u>\$ 2,981,061</u>	<u>\$ 126,634</u>	<u>\$ 2,597,374</u>

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES

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

Receivable	General Fund	Proprietary Fund - Food Service
Commonwealth of PA:		
Act 30 PRRI	\$ 2,772	\$ -
Basic Ed Adjustments	36	-
Pre-K Counts	196,633	-
Retirement	1,399,072	-
Rental Subsidy	677,419	-
Social Security	339,858	-
Transportation Subsidy	104,833	-
National School Lunch / Breakfast Programs	-	2,607
Federal Subsidies:		
Basic, Applied, and Advanced Research in Science and Engineering	6,985	-
Title I Grants to Local Educational Agencies	73,457	-
21st Century Community Learning Centers	144,185	-
English Language Acquisition State Grants	4,371	-
Medical Assistance Program	12,596	-
National School Lunch / Breakfast Programs	-	63,169
	<u>\$ 2,962,217</u>	<u>\$ 65,776</u>

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 6 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The District had the following interfund receivables/payables at June 30, 2018:

	Interfund Receivables	Interfund Payables
General Fund	\$ 633,634	\$ 2,158,514
Capital Projects Fund	755,898	121,224
Food Service Fund	32,247	-
Internal Service Fund	857,959	-
	\$ 2,279,738	\$ 2,279,738

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.

Interfund transfers are summarized as follows:

	Transfers In	Transfers Out
General Fund	\$ 462,309	\$ -
Debt Service Fund	-	6,207
Internal Service Fund	-	456,102
	\$ 462,309	\$ 462,309

Transfers were made to apply excess funds from debt refunding to future debt payments made from the general fund and to repay original funds advanced at startup for the Internal Service Fund.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 7 - CHANGES IN CAPITAL ASSETS

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

Governmental Activities

	Beginning Balance	Increase	Reclass/ Decrease	Ending Balance
Capital assets not being depreciated:				
Land	\$ 298,222	\$ -	\$ -	\$ 298,222
Construction-in-progress	186,763	179,407	(186,763)	179,407
Total not being depreciated	<u>484,985</u>	<u>179,407</u>	<u>(186,763)</u>	<u>477,629</u>
Capital assets being depreciated:				
Buildings and building improvements	87,977,531	633,397	1,904,012	90,514,940
Site improvements	5,037,530	623,193	(1,717,249)	3,943,474
Furniture and equipment	9,590,697	255,281	-	9,845,978
Vehicles	795,717	-	-	795,717
Total being depreciated	<u>103,401,475</u>	<u>1,511,871</u>	<u>186,763</u>	<u>105,100,109</u>
Less accumulated depreciation for:				
Buildings and building improvements	32,025,545	2,807,760	103,680	34,936,985
Site improvements	2,195,485	167,012	(103,680)	2,258,817
Furniture and equipment	8,650,105	379,838	-	9,029,943
Vehicles	655,126	52,458	-	707,584
Total accumulated depreciation	<u>43,526,261</u>	<u>3,407,068</u>	<u>-</u>	<u>46,933,329</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	<u>59,875,214</u>	<u>(1,895,197)</u>	<u>186,763</u>	<u>58,166,780</u>
GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET	<u>\$ 60,360,199</u>	<u>\$ (1,715,790)</u>	<u>\$ -</u>	<u>\$ 58,644,409</u>

Business-Type Activities

Capital assets being depreciated:				
Furniture and equipment	\$ 860,842	\$ 5,536	\$ -	\$ 866,378
Less accumulated depreciation for:				
Furniture and equipment	<u>836,895</u>	<u>15,605</u>	<u>-</u>	<u>852,500</u>
BUSINESS-TYPE ACTIVITIES, CAPITAL ASSETS, NET	<u>\$ 23,947</u>	<u>\$ (10,069)</u>	<u>\$ -</u>	<u>\$ 13,878</u>

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

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	\$ 569,607
Special Programs	232,250
Vocational Education	44,164
Other Instructional Programs	16,291
Pre-kindergarten	9,984
	<hr/>
	872,296
Support Services:	
Students	101,328
Instructional Staff	387,260
Administration	123,943
Pupil Health	41,302
Business Services	42,604
Operation and Maintenance of Plant	1,705,398
Student Transportation	68,560
Central Support	15,207
	<hr/>
	2,485,602
Noninstructional Services:	
Student Activities	37,541
Community Services	11,629
	<hr/>
	49,170
	<hr/>
	<hr/>
TOTAL DEPRECIATION EXPENSE - GOVERNMENTAL ACTIVITIES	\$ 3,407,068

NOTE 8 - LONG-TERM LIABILITIES

Bonds and notes payable are as follows:

General Obligation Bonds, Series of 2017: The General Obligation Bonds, Series of 2017, aggregate principal of \$9,996,000, were issued on October 24, 2017, for the purpose of currently refunding the outstanding General Obligation Bonds, Series of 2011 and advanced refunding a portion of the outstanding General Obligation Bonds, Series of 2013. The bonds mature from September 1, 2018, to September 1, 2032. The interest rate is fixed at 2.55% through September 1, 2027, at which point it becomes variable at 68% of the Wall Street Journal Prime Rate with a cap of 4.5%.

\$ 9,996,000

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 8 - LONG-TERM LIABILITIES - CONTINUED

<p><u>General Obligation Bonds, Series of 2016</u>: 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.</p>	9,800,000
<p><u>General Obligation Note, Series of 2015</u>: 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.</p>	9,873,000
<p><u>General Obligation Bonds, Series of 2014</u>: 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%.</p>	6,710,000
<p><u>General Obligation Bonds, Series of 2013</u>: 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%.</p>	1,430,000
<p><u>General Obligation Bonds, Series of 2012</u>: 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.</p>	860,000

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

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. 830,000

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%. 430,000

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. 520,000

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. 9,182,000

Total Bonds and Notes Payable \$ 49,631,000

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

	<u>Principal</u>	<u>Interest *</u>
2019	\$ 2,340,000	\$ 1,283,499
2020	2,477,000	1,223,887
2021	2,539,000	1,167,592
2022	2,645,000	1,111,293
2023	2,709,000	1,051,339
2024 - 2028	14,505,000	4,285,187
2029 - 2033	15,781,000	2,515,509
2034 - 2035	6,635,000	407,810
	<u>\$ 49,631,000</u>	<u>\$ 13,046,116</u>

* Interest for variable rate debt is calculated at the interest rate in effect at year end (1.855% for GON 2000 and GON 2002, and 2.55% for GOB 2017).

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 8 - LONG-TERM LIABILITIES - CONTINUED

General Obligation Bonds - Series of 2000 and 2002 Interest Rate Management Plan

These General Obligation Bonds of the District have been issued to the Delaware Valley Regional Finance Authority ("DelVal"). DelVal was formed by four counties in Southeastern Pennsylvania under the provisions of the Pennsylvania Municipality Authorities Act to provide loans to local governments ("participants") located in the Commonwealth of Pennsylvania for capital projects. DelVal obtained the funds used to finance these projects by issuing its Local Government Revenue Bonds. In order to reduce the interest costs of participants in its loan program and to enhance their ability to manage their interest rate risks, DelVal and the participants in its loan program, including the District, have entered into an Interest Rate Management Plan, the provisions of which allow the participants to select fixed or variable rates of interest on their loans. In order to provide this option to participants, DelVal has entered into interest rate swap agreements with financial institutions. In the event that the swap agreements between DelVal and the financial institutions are terminated and the value of the swaps to DelVal at the time of termination is a liability, the participants are required to pay their proportionate share of the liability. At June 30, 2018 swap agreements relative to the General Obligation Bonds had a positive market value of \$1,121,760. The market value is the estimate price that DelVal would receive if the agreements were terminated as of June 30, 2018, and are not reflected on the District's statement of net position (deficit).

Long-term liabilities and activity, except for the net pension liability and other postemployment benefit obligation, for the year ended June 30, 2018, 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	\$ 51,439,000	\$ 9,996,000	\$ 11,804,000	\$ 49,631,000	\$ 2,340,000
Less deferred amounts:					
For issuance discounts	(41,259)	-	(35,766)	(5,493)	-
For issuance premiums	71,123	-	24,055	47,068	-
Subtotal	<u>51,468,864</u>	<u>9,996,000</u>	<u>11,792,289</u>	<u>49,672,575</u>	<u>2,340,000</u>
Other Liabilities:					
Compensated absences	<u>303,560</u>	<u>490,197</u>	<u>218,313</u>	<u>575,444</u>	<u>76,077</u>
 Total Governmental Long-term Liabilities	 <u>\$ 51,772,424</u>	 <u>\$ 10,486,197</u>	 <u>\$ 12,010,602</u>	 <u>\$ 50,248,019</u>	 <u>\$ 2,416,077</u>
 Business-Type Activities					
Other Liabilities:					
Compensated absences	<u>\$ 20,820</u>	<u>\$ 6,712</u>	<u>\$ 3,215</u>	<u>\$ 24,317</u>	<u>\$ -</u>

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 8 - LONG-TERM LIABILITIES - CONTINUED

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 \$1,179,801.

Defeasance of Debt

During the year ended June 30, 2018, the District issued General Obligation Bonds, Series of 2017 to advance refund a portion of the outstanding General Obligation Bonds, Series of 2013. The advance refunding met the requirements of an in-substance debt defeasance and the bonds were removed from the District's long-term liabilities. As of June 30, 2018, outstanding general obligation bonds of the District in the amount of \$8,540,000 were considered defeased. This defeased debt was paid in full on December 3, 2018.

Subsequent to June 30, 2018, the District issued General Obligation Bonds, Series of 2018 in the original amount of \$9,315,000. The funds will be used to currently refund all of the outstanding General Obligation Note, Series of 2000 and to pay expenses of issuing the bonds.

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.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

General Information About the Pension Plan

Plan Description

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

Benefits Provided

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

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

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information About the Pension Plan - continued

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% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.

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

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

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

Employer Contributions:

The school districts' contractually required contribution rate for the fiscal year ended June 30, 2018 was 31.74% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$7,903,347 for the year ended June 30, 2018.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information About the Pension Plan - continued

Contributions - continued

Employer Contributions:

The District is also required to contribute a percentage of covered payroll to PSERS for healthcare insurance premium assistance. Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for no less than one-half of the employer contributions made, including contributions related to pension and healthcare. This arrangement does not meet the criteria of a special funding situation in accordance with GASB Standards. Therefore, the net pension liability and related pension expense represents 100% of the District's share of these amounts. The total reimbursement recognized by the District for the year ended June 30, 2018, for pension and OPEB benefits was \$4,944,781.

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

At June 30, 2018, the District reported a liability of \$92,258,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2016 to June 30, 2017. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the District's proportion was 0.1868%, which was an increase of 0.0034% from its proportion measured as of June 30, 2017. The net position liability will be liquidated through future contributions to PSERS at the statutory rates. Contributions will be made from the general fund and the food service funds.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

For the year ended June 30, 2018, the District recognized pension expense of \$9,790,246. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual experience	\$ 962,000	\$ 558,000
Changes in assumptions	2,506,000	-
Net difference between projected and actual investment earnings	2,139,000	-
Changes in proportion - plan level	1,384,000	322,000
Changes in proportion - internal	41,234	41,234
Difference between employer contributions and proportionate share of total contributions	265,061	-
Contributions made subsequent to the measurement date	<u>7,903,347</u>	<u>-</u>
	<u>\$ 15,200,642</u>	<u>\$ 921,234</u>

The \$7,903,347 reported as deferred outflows of resources related to pensions resulting from District contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the years ending June 30:

2019	\$ 1,468,245
2020	2,766,056
2021	2,064,280
2022	<u>77,480</u>
	<u>\$ 6,376,061</u>

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

Actuarial Assumptions

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

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

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

Actuarial Assumptions - continued

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

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

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

Discount Rate

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

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

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

	<u>1% Decrease 6.25%</u>	<u>Current Discount Rate 7.25%</u>	<u>1% Increase 8.25%</u>
District's proportionate share of the net pension liability	\$ 113,561,000	\$ 92,258,000	\$ 74,271,000

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.pa.gov.

Payables to the Pension Plan

At June 30, 2018, the District had an accrued balance due to PSERS, including contributions related to pension and OPEB of \$2,049,425. This amount represents the District's contractually obligated contributions for wages earned in April 2018 through June 2018. The balance was paid in September 2018.

403(b) Tax Shelter Plan

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 10 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM

Employee Defined Benefit Other Postemployment Benefits Plan

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

Summary of Significant Accounting Policies

Other Postemployment Benefits

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

General Information About the Health Insurance Premium Assistance Program

Health Insurance Premium Assistance Program

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

Premium Assistance Eligibility Criteria

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

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 10 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

General Information About the Health Insurance Premium Assistance Program - continued

Pension Plan Description

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

Benefits Provided

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

Contributions:

The contribution policy is set by state statute. A portion of each employer's contribution is set aside for premium assistance. The school districts' contractually required contribution rate for the fiscal year ended June 30, 2018, was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$206,672 for the year ended June 30, 2018.

The District is also required to contribute a percentage of covered payroll to PSERS for pension benefits. Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for no less than one-half of the employer contributions made, including contributions related to pension and healthcare. This arrangement does not meet the criteria of a special funding situation in accordance with GASB Standards. Therefore, the net HIPAP obligation and related expense represents 100% of the District's share of these amounts. The total reimbursement recognized by the District for the year ended June 30, 2018, for pension and OPEB benefits was \$4,944,781.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 10 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

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

At June 30, 2018, the District reported an obligation of \$3,806,000 for its proportionate share of the net OPEB obligation. The net OPEB obligation was measured as of June 30, 2017, and the total OPEB obligation used to calculate the net OPEB obligation was determined by rolling forward the System's total OPEB obligation as of June 30, 2016 to June 30, 2017. The District's proportion of the net OPEB obligation was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the District's proportion was 0.1868%, which was an increase of 0.0034% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2018, the District recognized OPEB expense of \$178,542. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Changes in assumptions	\$ -	\$ 177,000
Difference between projected and actual investment earnings	4,000	-
Changes in proportion	63,000	-
Contributions made subsequent to the measurement date	206,672	-
	<u>\$ 273,672</u>	<u>\$ 177,000</u>

The \$206,672 reported as deferred outflows of resources related to OPEB resulting from District contributions made subsequent to the measurement date will be recognized as a reduction of the net OPEB obligation in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows for the years ending June 30:

2019	\$ (18,000)
2020	(18,000)
2021	(18,000)
2022	(18,000)
2023	(19,000)
Thereafter	<u>(19,000)</u>
	<u>\$ (110,000)</u>

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 10 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

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

Actuarial Assumptions

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

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

The following assumptions were used to determine the contribution rate:

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 10 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

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

Actuarial Assumptions - continued

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

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

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

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

Discount Rate

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 10 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

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

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

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

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

	1% Decrease (Between 4% to 7%)	Current Trend Rate (Between 5% to 8%)	1% Increase (Between 6% to 9%)
District's proportionate share of the net OPEB obligation	\$ 3,805,000	\$ 3,806,000	\$ 3,807,000

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 10 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

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

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

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

	<u>1% Decrease</u> 2.13%	<u>Current</u> Discount Rate 3.13%	<u>1% Increase</u> 4.13%
District's proportionate share of the net OPEB obligation	\$ 4,326,000	\$ 3,806,000	\$ 3,374,000

OPEB Plan Fiduciary Net Position

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

Payables Related to the Plan

At June 30, 2018, the District had an accrued balance due to PSERS of \$2,049,425, including balances related to pension and OPEB. This amount represents the District's contractually obligated contributions for wages earned in April 2018 through June 2018. The balance was paid in September 2018.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 11 - DISTRICT OTHER POSTEMPLOYMENT BENEFITS PLAN

Employee Defined Benefit Other Postemployment Benefits Plan

General Information About the OPEB Plan

Plan Description

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

Benefits Provided

The District classifies employees in the following categories: Executive Team, Administrators, Teachers, and All Other Employees. Contribution requirements are negotiated between the District and union representatives. Below is a summary of the postemployment benefits provided to each of these groups:

I. Executive Team

<i>ELIGIBILITY</i>	<i>COVERAGE AND PREMIUM SHARING</i>	<i>DURATION</i>
Must have 25 years of service with the district and be eligible for PSERS retirement.	<p><u>Coverage</u> Medical, Prescription Drug, Vision, Dental, Life Insurance, and Long-Term Care</p> <p><u>Premium Sharing</u> District pays full premium for Medical, Prescription Drug, Vision, and Dental. District also pays for \$50,000 in life insurance coverage and Long-Term Care (currently \$20/month) for member only.</p> <p><u>Dependents</u> Spouse included. Upon the death of a retiree, the spouse is able to continue equal coverage until the spouse is eligible for Medicare.</p>	<ul style="list-style-type: none"> • For Medical, Prescription Drug, Dental, and Vision, members are covered until eligible for Medicare. • For Life Insurance and Long-Term Care, members are covered until age 70. • Spouses are covered until eligible for Medicare. <p>Grandfathered Retiree: One retiree receives Medical, Prescription Drug, Dental, and Vision until age 72.</p>

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 11 - DISTRICT OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

General Information About the OPEB Plan - continued

II. Administrators

<i>ELIGIBILITY</i>	<i>COVERAGE AND PREMIUM SHARING</i>	<i>DURATION</i>
<p>Must have 25 years of service with the district and be eligible for PSERS retirement.</p>	<p><u>Coverage</u> Medical, Prescription Drug, Vision, and Dental</p> <p><u>Premium Sharing</u> Member must pay full premium for Vision and Dental. For Medical and Prescription Drug, district will pay 100% of the single coverage premium for the core plan. Member pays for the remainder of the premium.</p> <p>If the member does not meet the requirements for the district subsidy but requirements are met for the Act 110/43 benefit, the member and spouse may continue coverage by paying the full premium as determined for the purpose of COBRA.</p> <p><u>Dependents</u> Spouse and Family are included. Upon the death of a retiree, the spouse and any eligible dependents are able to continue coverage until the spouse is eligible for Medicare. In such case, the surviving spouse and any eligible dependents will pay 100% of the premiums.</p> <p>Grandfathered Retiree: One retiree receives fully paid life insurance in the amount of \$50,000 until age 70.</p>	<ul style="list-style-type: none"> • For Medical, Prescription Drug, Dental and Vision, members are covered until eligible for Medicare. • For Life Insurance and Long-Term Care, members are covered until eligible for Medicare. • Spouses are covered until eligible for Medicare. <p>Grandfathered Retiree: One retiree receives Medical, Prescription Drug, Dental, and Vision until age 70.</p>

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 11 - DISTRICT OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

General Information About the OPEB Plan - continued

III. Teachers

<i>ELIGIBILITY</i>	<i>COVERAGE AND PREMIUM SHARING</i>	<i>DURATION</i>
<p>A) Retired between September 1, 1996 and June 30, 2007</p> <p>N/A - Already Retired</p>	<p><u>Coverage</u> Medical, Prescription Drug, Vision, and Dental</p> <p><u>Premium Sharing</u> Member must pay full premium for Vision and Dental. For Medical and Prescription Drug, district will pay \$175 per month towards member's premium only for up to ten years. Member pays for the remainder of the premium. After 10 years, member pays full premium for Medical and Prescription Drug.</p> <p><u>Dependents</u> Spouse and Family are included. Upon the death of a retiree, the spouse and any eligible dependents are able to continue coverage until the spouse is eligible for Medicare. In such case, the surviving spouse and any eligible dependents will pay 100% of the premiums.</p>	<ul style="list-style-type: none"> • Members are covered until eligible for Medicare. • Spouses are covered until eligible for Medicare.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 11 - DISTRICT OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

General Information About the OPEB Plan - continued

III. Teachers - continued

<p>B) Retire between July 1, 2007 and June 30, 2008 or after July 1, 2009</p>	<p><u>Coverage</u> Medical, Prescription Drug, Vision, and Dental</p> <p><u>Premium Sharing</u> Member must pay full premium for Vision and Dental. For Medical and Prescription Drug, if the member reaches 20 years of PSERS service with 15 years at the district (20 years at the district if retired prior to July 1, 2016) and is eligible for PSERS retirement, district will pay 100% of the single coverage premium for the core plan up to \$5,500 per year (\$5,000 if retired prior to July 1, 2015) for up to ten years. Members pays for the remainder of the premium.</p> <p>If the member does not reach the requirements for the district subsidy but meets the requirements for Act 110/43, the member and spouse may continue coverage by paying the full premium as determined for the purpose of COBRA.</p> <p><u>Dependents</u> Spouse and Family are included. Upon the death of a retiree, the spouse and any eligible dependents are able to continue coverage until the spouse is eligible for Medicare. In such case, the surviving spouse and any eligible dependents will pay 100% of the premiums.</p>	<p>Same as IIIA</p>
<p>C) Retired between July 1, 2008 and June 30, 2009</p>	<p>Act 110/43</p>	<p>Same as IIIA</p>
<p>N/A - Already retired</p>		

IV. All Other Employees

<p>Same as IIIB</p>	<p>Same as IIIB</p>	<p>Same as II</p>
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POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 11 - DISTRICT OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

General Information About the OPEB Plan - continued

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

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

PSERS Retirement:

- 1) For individuals who are members of PSERS prior to July 1, 2011, an employee is eligible for PSERS retirement if he or she is eligible for either: a) PSERS early retirement with under 62 with 5 years of PSERS service or b) PSERS superannuation retirement upon reaching age 60 with 30 years of PSERS service, age 62 with 1 year of PSERS service or 35 years of PSERS service regardless of age.
- 2) For individuals who became members of PSERS on or after July 1, 2011, an employee is eligible for PSERS retirement if he or she is eligible for either: a) PSERS early retirement while under 65 with 10 years of PSERS service or b) PSERS superannuation retirement upon reaching age 65 with 3 years of PSERS service or upon attainment of a total combination of age plus service equal to or greater than 92 with a minimum of 35 years of PSERS service.
- 3) All individuals are eligible for a special early retirement upon reaching age 55 with 25 years of PSERS service.

Coordination with Medicare: District plan pays primary. Medicare pays secondary.

Employees Covered by Benefit Terms

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

Active participants	465
Retired participants	<u>29</u>
Total	<u><u>494</u></u>

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 11 - DISTRICT OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

General Information About the OPEB Plan - continued

OPEB Liability

Actuarial Assumptions and Other Inputs

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

- Actuarial cost method - Entry Age Normal.
- Salary increases - 2.50% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.75% to 0%.
- Discount rate - 3.13% - based on the Standards & Poors Municipal Bond 20 Year High Grade Rate Index at 7/1/17.
- Mortality rates - Separate rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation. Incorporated into the table are rates projected generationally by the Buck Modified 2016 projection scale to reflect mortality improvement.
- Healthcare cost trend rates - 6.0% in 2017, and 5.5% in 2018 through 2023. Rates gradually decrease from 5.4% in 2024 to 3.9% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.
- Participation rates - For Teachers, Administrators, and Executive Team, 100% are assumed to elect coverage if eligible for the district subsidy and 80% otherwise. For the Support Staff, 95% are assumed to elect coverage if eligible for the district subsidy, and 75% otherwise. For the Cafeteria Staff, 90% are assumed to elect coverage if eligible for the district subsidy, and 70% otherwise.

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 11 - DISTRICT OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

Changes in the Total OPEB Liability

	Total OPEB Obligation
Balance at July 1, 2017	\$ 6,974,205
Changes for the year:	
Service cost	490,888
Interest	181,978
Changes of assumptions or other inputs	338,753
Benefit payments	(289,318)
Net changes	722,301
Balance at June 30, 2018	\$ 7,696,506

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

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

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

	1% Decrease 2.13%	Current Discount Rate 3.13%	1% Increase 4.13%
OPEB Plan - Total OPEB Obligation	\$ 8,282,796	\$ 7,696,506	\$ 7,142,782

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 11 - DISTRICT OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

Changes in the Total OPEB Liability - continued

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

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

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
OPEB Plan - Total OPEB Obligation	\$ 7,015,902	\$ 7,696,506	\$ 8,515,005

At June 30, 2018, the District reported an OPEB obligation of \$7,696,506 related to the OPEB Plan. The net OPEB obligation was measured as of July 1, 2017, and was determined by rolling forward an actuarial valuation performed as of July 1, 2016 to July 1, 2017. The liability will be liquidated through future payments from the general and food service funds.

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$698,924. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ 312,695	\$ -
Benefit payments made subsequent to the measurement date	343,847	-
	<u>\$ 656,542</u>	<u>\$ -</u>

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 11 - DISTRICT OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

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

The \$343,847 reported as deferred outflows of resources related to OPEB liabilities resulting from benefit payments made subsequent to the measurement date will be recognized as a reduction of the total OPEB obligation in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows for the years ending June 30:

2019	\$	26,058
2020		26,058
2021		26,058
2022		26,058
2023		26,058
Thereafter		<u>182,405</u>
Total	\$	<u>312,695</u>

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, 2018, the District has coverage for claims in excess of \$200,000 per person.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 12 - RISK MANAGEMENT - CONTINUED

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

	<u>2018</u>	<u>2017</u>
Claims payable, beginning of year	\$ -	\$ -
Incurred claims	5,929,354	6,195,414
Claims paid	<u>(5,929,354)</u>	<u>(6,195,414)</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.

During the 2017/2018 year, the District awarded a contract for work related to the 2018 Building Repair Program totaling \$683,732. At June 30, 2018, a balance of \$504,325 remains outstanding on this commitment. The District plans to use existing resources in the general and capital projects funds to fulfill this commitment.

NOTE 14 - RESTATEMENT OF BEGINNING NET POSITION

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

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 14 - RESTATEMENT OF BEGINNING NET POSITION - CONTINUED

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

	Governmental Activities	Business-Type Activities Food Service Fund	Total
Net Position (Deficit) at June 30, 2017	\$ (51,047,457)	\$ (965,804)	\$ (52,013,261)
Restatement for:			
Deferred Outflow - HIPAP contributions made subsequent to the measurement date	208,328	4,214	212,542
Other postemployment benefit obligation - HIPAP	(3,871,790)	(78,210)	(3,950,000)
Deferred Outflow - benefit payments made subsequent to the measurement date	288,131	1,187	289,318
Other postemployment benefit obligation - District Plan	(5,630,818)	(56,223)	(5,687,041)
Net Position (Deficit) at July 1, 2017 - Restated	\$ (60,053,606)	\$ (1,094,836)	\$ (61,148,442)

NOTE 15 - FUND BALANCE

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

General Fund

The General Fund has nonspendable funds of \$117,854 related to inventories and prepaid expenses. Committed funds are \$3,799,409 for retirement rate increases. Assigned funds are \$432,874 for appropriations for the 2018/2019 budget. The remaining fund balance of \$4,808,077 is unassigned. The commitment was authorized by the board of school directors' motion to set aside resources to fund anticipated increases in PSERS contributions.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 15 - FUND BALANCE - CONTINUED

Capital Projects Fund

The capital projects fund has restricted funds of \$1,466,528 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 \$116,868 consisting of \$108,167 of spendable receipts that are received from donors for specific purposes and \$8,701 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.

NOTE 16 - NEW ACCOUNTING PRONOUNCEMENTS

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

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 16 - NEW ACCOUNTING PRONOUNCEMENTS - CONTINUED

- Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, have been issued to enhance reporting and disclosures for specific debt transactions. Statement No. 88 is effective for the District's fiscal year ending June 30, 2019.

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

REQUIRED SUPPLEMENTARY INFORMATION

POTTSTOWN SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

For the Year Ended June 30, 2018

	Budgeted Amount		Actual (GAAP) Basis	Variances Final to Actual
	Original	Final		
REVENUES				
Local Sources	\$ 34,253,869	\$ 34,253,869	\$ 34,568,235	\$ 314,366
State Sources	24,691,399	24,691,399	25,782,630	1,091,231
Federal Sources	2,286,973	2,286,973	2,380,413	93,440
TOTAL REVENUES	61,232,241	61,232,241	62,731,278	1,499,037
EXPENDITURES				
Instructional Services:				
Regular Programs - Elementary/Secondary	19,420,920	19,420,920	19,059,786	361,134
Special Programs - Elementary/Secondary	12,775,756	12,775,756	12,687,788	87,968
Vocational Education	1,406,693	1,406,693	1,187,501	219,192
Other Instructional Programs - Elementary/Secondary	2,266,269	2,266,269	2,173,204	93,065
Nonpublic School Programs	4,367	4,367	-	4,367
Pre-kindergarten	2,237,475	2,237,475	2,830,450	(592,975)
Total Instructional Services	38,111,480	38,111,480	37,938,729	172,751
Support Services:				
Students	2,125,949	2,125,949	2,025,151	100,798
Instructional Staff	2,426,744	2,426,744	2,230,778	195,966
Administration	3,633,487	3,633,487	3,462,938	170,549
Pupil Health	1,141,093	1,141,093	1,054,509	86,584
Business Services	1,178,246	1,178,246	964,243	214,003
Operation and Maintenance of Plant	4,986,101	4,986,101	4,761,816	224,285
Student Transportation	2,047,622	2,047,622	2,421,950	(374,328)
Central Support	414,268	414,268	380,444	33,824
Other Support	15,000	15,000	18,061	(3,061)
Total Support Services	17,968,510	17,968,510	17,319,890	648,620
Operation of Noninstructional Services:				
Student Activities	740,652	740,652	874,523	(133,871)
Community Services	60,597	60,597	154,835	(94,238)
Total Operation of Noninstructional Services	801,249	801,249	1,029,358	(228,109)
Capital Outlay	882,378	882,378	1,371,869	(489,491)
Debt Service	3,758,202	3,758,202	3,452,690	305,512
Refund of Prior Year Revenues	-	-	1,209,035	(1,209,035)
TOTAL EXPENDITURES	61,521,819	61,521,819	62,321,571	(799,752)
EXCESS OF REVENUES OVER EXPENDITURES	(289,578)	(289,578)	409,707	699,285
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	462,309	462,309
Budgetary Reserve	(360,423)	(360,423)	-	360,423
TOTAL OTHER FINANCING SOURCES (USES)	(360,423)	(360,423)	462,309	822,732
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (650,001)	\$ (650,001)	872,016	\$ 1,522,017
FUND BALANCE - BEGINNING OF YEAR			8,286,198	
FUND BALANCE - END OF YEAR			\$ 9,158,214	

See note to required supplementary information.

POTTSTOWN SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2018

BUDGETARY DATA

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

POTTSTOWN SCHOOL DISTRICT

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

LAST TEN FISCAL YEARS

	2018	2017	2016	2015	2014
District's proportion of the collective net pension liability	0.1868%	0.1834%	0.1829%	0.1848%	0.1846%
District's proportionate share of the collective net pension liability	\$ 92,258,000	\$ 90,887,000	\$ 79,224,000	\$ 73,145,000	\$ 75,568,000
District's covered employee payroll	\$ 24,876,388	\$ 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	370.87%	382.64%	336.72%	310.16%	318.97%
Plan fiduciary net position as a percentage of the total pension liability	51.84%	50.14%	54.36%	57.24%	54.50%

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

NOTES TO SCHEDULE

Changes of Benefit Terms

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

Changes of Assumptions

None.

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

POTTSTOWN SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - PENSION PLAN

LAST TEN FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually required contribution	\$ 7,903,347	\$ 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
Contributions in relation to the contractually required contribution	<u>7,903,347</u>	<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>
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	\$ 23,632,785	\$ 24,876,388	\$ 23,752,630	\$ 23,528,030	\$ 23,582,695	\$ 23,691,286				
Contributions as a percentage of covered employee payroll	33.44%	30.06%	24.56%	19.96%	15.83%	11.34%				

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

POTTSTOWN SCHOOL DISTRICT

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

LAST TEN FISCAL YEARS

	<u>2018</u>	<u>2017</u>
District's proportion of the collective HIPAP obligation	0.1868%	0.1834%
District's proportionate share of the collective net HIPAP obligation	\$ 3,806,000	\$ 3,950,000
District's covered employee payroll	\$ 24,876,388	\$ 23,752,630
District's proportionate share of the net HIPAP obligation as a percentage of its covered employee payroll	15.30%	16.63%
Plan fiduciary net position as a percentage of the total HIPAP obligation	5.73%	5.47%

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

NOTES TO SCHEDULE

Changes of Benefit Terms

None.

Changes of Assumptions

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

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

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

POTTSTOWN SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM

LAST TEN FISCAL YEARS

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 206,672	\$ 212,542	\$ 196,023	\$ 206,205	\$ 216,951	\$ 200,879	\$ 154,313	\$ 161,498	\$ 201,719	\$ 185,780
Contributions in relation to the contractually required contribution	<u>206,672</u>	<u>212,542</u>	<u>196,023</u>	<u>206,205</u>	<u>216,951</u>	<u>200,879</u>	<u>154,313</u>	<u>161,498</u>	<u>201,719</u>	<u>185,780</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	\$ 23,632,785	\$ 24,876,388	\$ 23,752,630	\$ 23,528,030	\$ 23,582,695	\$ 23,691,286				
Contributions as a percentage of covered employee payroll	0.87%	0.85%	0.83%	0.88%	0.92%	0.85%				

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

POTTSTOWN SCHOOL DISTRICT

SCHEDULE OF CHANGES IN NET OPEB OBLIGATION AND RELATED RATIOS -
DISTRICT OPEB PLAN

LAST TEN FISCAL YEARS

	<u>2018</u>
Total OPEB Obligation	
Service cost	\$ 490,888
Interest	181,978
Changes in assumptions	338,753
Benefit payments	<u>(289,318)</u>
Net change in total OPEB obligation	722,301
Total OPEB obligation, beginning	<u>6,974,205</u>
Total OPEB obligation, ending	<u><u>\$ 7,696,506</u></u>
Covered Employee Payroll	<u><u>\$ 23,349,759</u></u>
Total OPEB Obligation as a Percentage of Covered Employee Payroll	32.96%

NOTES TO SCHEDULE

Changes of Benefit Terms

None.

Changes of Assumptions

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

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

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

SUPPLEMENTARY INFORMATION

POTTSTOWN SCHOOL DISTRICT
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2018

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and Investments	\$ 111,444	\$ 8,701	\$ 120,145
TOTAL ASSETS	<u>\$ 111,444</u>	<u>\$ 8,701</u>	<u>\$ 120,145</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 3,277	\$ -	\$ 3,277
TOTAL LIABILITIES	3,277	-	3,277
FUND BALANCES			
Restricted Fund Balance	108,167	8,701	116,868
TOTAL FUND BALANCES	<u>108,167</u>	<u>8,701</u>	<u>116,868</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 111,444</u>	<u>\$ 8,701</u>	<u>\$ 120,145</u>

POTTSTOWN SCHOOL DISTRICT

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

For the Year Ended June 30, 2018

	Special Revenue	Debt Service	Total Governmental Funds
REVENUES			
Local Sources	\$ 66,038	\$ 10	\$ 66,048
TOTAL REVENUES	66,038	10	66,048
EXPENDITURES			
Current:			
Support Services	-	73,167	73,167
Operation of Noninstructional Services	54,664	-	54,664
Debt Service Interest	-	11,111	11,111
TOTAL EXPENDITURES	54,664	84,278	138,942
OTHER FINANCING SOURCES (USES)			
Issuance of Refunding Bonds	-	9,996,000	9,996,000
Payment to Refunded Bond Escrow Agent	-	(9,905,515)	(9,905,515)
Transfers Out	-	(6,207)	(6,207)
TOTAL OTHER FINANCING SOURCES (USES)	-	84,278	84,278
NET CHANGE IN FUND BALANCES	11,374	10	11,384
FUND BALANCES - BEGINNING OF YEAR	96,793	8,691	105,484
FUND BALANCES - END OF YEAR	<u>\$ 108,167</u>	<u>\$ 8,701</u>	<u>\$ 116,868</u>

POTTSTOWN SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2018

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, 2017	Revenue Recognized	Expenditures	Accrued or (Unearned) Revenue at June 30, 2018
U.S. DEPARTMENT OF DEFENSE										
Basic, Applied, and Advanced Research in Science and Engineering	D	12.630-297929	N/A	07/01/17-06/30/18	\$ 60,257	\$ 53,272	\$ -	\$ 60,257	\$ 60,257	\$ 6,985
U.S. DEPARTMENT OF EDUCATION										
Passed through the Pennsylvania Department of Education:										
Title I Grants to Local Educational Agencies	I	84.010	013-180348	08/17/17-09/30/18	1,184,545	862,474	-	935,931	935,931	73,457
Title I Grants to Local Educational Agencies	I	84.010	013-170348	07/01/16-09/30/17	1,264,403	295,461 [^]	39,347	256,114	256,114	-
Title I Subtotal						1,157,935	39,347	1,192,045	1,192,045	73,457
Career and Technical Training	I	84.048	380-180093	08/28/17-06/30/18	56,705	56,705	-	56,705	56,705	-
Supporting Effective Instruction State Grants	I	84.367	020-180348	08/17/17-09/30/18	171,881	172,728	-	171,881	171,881	(847)
Supporting Effective Instruction State Grants	I	84.367	020-170348	07/01/16-09/30/17	139,516	(1,003)	(1,003)	-	-	-
Supporting Effective Instruction State Grants Subtotal						171,725	(1,003)	171,881	171,881	(847)
Title IV Student Support and Academic Enrichment	I	84.424	144-180348	08/17/17-09/30/18	27,071	9,668	-	9,668	9,668	-
21st Century Community Learning Centers	I	84.287	4100068087	10/01/17-09/30/18	400,000	167,904	-	312,089	312,089	144,185
21st Century Community Learning Centers	I	84.287	4100068087	10/01/16-09/30/17	400,000	165,122	108,074	57,048	57,048	-
21st Century Community Learning Centers	I	84.287	4100060872	10/01/13-09/30/14	500,000	-	(17,440)	-	-	(17,440)
21st Century Community Learning Centers Subtotal						333,026	90,634	369,137	369,137	126,745
Passed through Berks County Intermediate Unit										
Community Innovation Zone	I	84.412	N/A	07/01/17-12/31/18	10,000	10,000	-	10,000	10,000	-
Passed through Northwest Tri-County Intermediate Unit										
Community Innovation Zone	I	84.412	N/A	07/01/17-06/30/18	6,000	6,000	-	6,000	6,000	-
Passed through the Montgomery County Intermediate Unit:										
English Language Acquisition State Grants	I	84.365	N/A	07/07/17-09/30/18	3,717	-	-	3,717	3,717	3,717
English Language Acquisition State Grants	I	84.365	N/A	07/17/16-09/30/17	4,084	2,490	3,144	-	-	654
English Language Acquisition State Grants Subtotal						2,490	3,144	3,717	3,717	4,371
Special Education Cluster:										
Special Education - Preschool Grants	I	84.173	N/A	07/01/17-09/30/18	2,865	2,865	-	2,865	2,865	-
Special Education - Grants to States	I	84.027	N/A	07/01/17-09/30/18	639,083	639,083	-	639,083	639,083	-
Special Education - Grants to States	I	84.027	N/A	07/01/16-09/30/17	670,696	670,696	670,696	-	-	-
Total Special Education Cluster						1,312,644	670,696	641,948	641,948	-
TOTAL U.S. DEPARTMENT OF EDUCATION						3,060,193	802,818	2,461,101	2,461,101	203,726
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES										
Medicaid Cluster										
Passed through PA Department of Human Services:										
Medical Assistance Program	I	93.778	N/A	07/01/17-06/30/18	N/A	18,090	9,968	20,718	20,718	12,596
U.S. DEPARTMENT OF AGRICULTURE										
Passed through Pennsylvania Department of Education:										
Child and Adult Care Food Program	I	10.558	N/A	07/01/17-06/30/18	N/A	1,286	-	1,286	1,286	-
Child Nutrition Cluster										
Passed through Pennsylvania Department of Education:										
National School Lunch Program	I	10.555	N/A	07/01/17-06/30/18	N/A	1,388,623	-	1,437,662	1,437,662	49,039
National School Lunch Program	I	10.555	N/A	07/01/16-06/30/17	N/A	45,507	45,507	-	-	-
School Breakfast Program	I	10.553	N/A	07/01/17-06/30/18	N/A	329,257	-	343,387	343,387	14,130
School Breakfast Program	I	10.553	N/A	07/01/16-06/30/17	N/A	12,287	12,287	-	-	-
Passed through the Pennsylvania Department of Agriculture:										
National School Lunch Program	I	10.555	N/A	07/01/17-06/30/18	N/A	122,784	(10,095)	131,962	131,962	(917)
Total Child Nutrition Cluster						1,898,458	47,699	1,913,011	1,913,011	62,252
TOTAL U.S. DEPARTMENT OF AGRICULTURE						1,899,744	47,699	1,914,297	1,914,297	62,252
TOTAL FEDERAL AWARDS						\$ 5,031,299	\$ 860,485	\$ 4,456,373	\$ 4,456,373	\$ 285,559

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

[^] \$327,324 received less \$31,863 returned to PDE

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

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, 2018

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, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the 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, 2018, the District had \$917 of food commodity inventory.



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

**To the Board of School Directors
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, 2018, 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 January 15, 2019.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2018-001 to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2018-002 to be significant deficiencies.

Compliance and Other Matters

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

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
January 15, 2019**



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

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

Report on Compliance for Each Major Federal Program

We have audited the 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, 2018. 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 the 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 the 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 opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Pottstown School District's compliance.

Opinion on Each Major Federal Program

In our opinion, 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 major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

Herbein + Company, Inc.

**Reading, Pennsylvania
January 15, 2019**

POTTSTOWN SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

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

Federal Awards

Internal Control over major programs:
Material weakness(es) identified? yes X no
Significant deficiency(ies) identified not considered to be
material weaknesses? yes X none reported
Type of auditor's report issued on compliance for major programs: Unmodified
Any audit findings disclosed that are required to be
reported in accordance with 2 CFR, Section 200.516(a)? yes X 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, 2018

Section II - Financial Statement Findings

2018-001 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

Recent turnover in the business office staff contributed to certain reconciliations not being performed timely or accurately.

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, 2018

Section II - Financial Statement Findings - continued

2018-002 GRANT ADMINISTRATION AND REPORTING – SIGNIFICANT DEFICIENCY

Criteria

The District uses separate funding source codes within the general ledger to identify expenses related to local, state, and federal programs. Reports from these funding source codes are used to generate required reports and other information related to awards, grants, and subsidies received.

Condition

The District uses separate funding sources to track activity for each grant. However, during the year there were instances where grant activity in the general ledger was not accurately reconciled to expense reports submitted or reviewed to ensure all allowable expenses and journal entries were properly coded to the funding source of the grant. Furthermore, the District was not tracking all grants adequately enough to ensure funds were spent within the applicable time period.

Cause

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, grant expenditures were not adequately reviewed to identify that all costs were being charged to the program, properly reported, and tracked to ensure all funds are spent within the grant period.

Effect

Without proper review and tracking of grant expenditure reporting, the District risks not completing reports accurately or drawdowns timely, which creates a risk of loss of current or future funding.

Recommendation

We recommend that the District re-evaluate its procedures for tracking grant activity, reconciling reports to the general ledger periodically throughout the year, and the review process of those reports to ensure all expenses are properly picked up and allowable. It is important to assign responsibility for grant activity, as well as accountability in the form of oversight and review by management. After reports are reviewed for accurate completion they should be signed off on.

Management Response

See corrective action plan included in this report package.

Section III - Federal Awards Findings and Questioned Costs

There were no federal awards findings or questioned costs.



POTTSTOWN SCHOOL DISTRICT

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Building a Better Tomorrow

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2018

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.

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 2018-01.

POTTSTOWN SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2018

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

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2018

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

This is no longer a finding in the current year.

POTTSTOWN SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2018

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

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2018

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

This is no longer a finding in the current year.



POTTSTOWN SCHOOL DISTRICT

www.pottstownschoools.org

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

Our Mission: *Prepare each student, by name, for success at every level.*

CORRECTIVE ACTION PLAN

Department of Education:

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

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

Audit period: Year ending June 30, 2018

The findings for the year ended June 30, 2018 schedule of findings are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Section II - Financial Statement Findings

2018-001 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

Recent turnover in the business office staff contributed to certain reconciliations not being performed timely or accurately.

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 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

The district is in agreement with the recommendation. The business office has documented account, grant and monthly balance sheet account reconciliation procedures. The business office has crossed trained staff members so more than one staff member is familiar with these procedures. Monthly close and reconciliation procedures have been established and reviewed with the business office staff. The assistant business manager will and business manager have taken initiative to reconcile the self insurance fund bi-annually.

Section II - Financial Statement Findings - continued **2018-002 GRANT ADMINISTRATION AND REPORTING – SIGNIFICANT DEFICIENCY**

Condition

The District uses separate funding sources to track activity for each grant. However, during the year there were instances where grant activity in the general ledger was not accurately reconciled to expense reports submitted or reviewed to ensure all allowable expenses and journal entries were properly coded to the funding source of the grant. Furthermore, the District was not tracking all grants adequately enough to ensure funds were spent within the applicable time period.

Cause

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, grant expenditures were not adequately reviewed to identify that all costs were being charged to the program, properly reported, and tracked to ensure all funds are spent within the grant period.

Recommendation

We recommend that the District re-evaluate its procedures for tracking grant activity, reconciling reports to the general ledger periodically throughout the year, and the review process of those reports to ensure all expenses are properly picked up and allowable. It is important to assign responsibility for grant activity, as well as accountability in the form of oversight and review by management. After reports are reviewed for accurate completion they should be signed off on.

Management Response

The district is in agreement with the recommendation. The business office has established and documented grant accounting policies and procedures. They include monthly meetings with the grant coordinator, District administrator that supervises the grant coordinator, Business or Assistant manager and the grant accountant. Each grant has been assigned a funding source in the financial system. 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 grant coordinator, reviewed by the assistant business manager. A second review and sign off by the Business Manager will be performed.

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 for the year ended June 30, 2018. The Pottstown School District’s management is responsible for 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, 2018, 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, 2018

- 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 or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the financial schedules and exhibits required by the Commonwealth of Pennsylvania. 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 information and 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

January 15, 2019

POTTSTOWN SCHOOL DISTRICT

PA PRE-K COUNTS SUPPLEMENTAL AUDIT SCHEDULE

For the Fiscal Year Ended June 30, 2018

	<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	\$ 469,244	\$ 441,034	\$ 446,423	\$ (5,389)
Total Salaries	469,244	441,034	446,423	(5,389)
Benefits (net of retirement and Social Security reimbursement)	264,875	197,010	200,344	(3,334)
Total Personnel	734,119	638,044	646,767	(8,723)
OPERATIONS				
Supplies for Program Purposes	17,545	49,086	43,096	5,990
Supplies for Management Purposes	4,310	11,000	8,253	2,747
Equipment	-	10,000	10,000	-
Nutritional Services	6,000	4,881	4,601	280
Amount Related to Parent Services	6,000	1,780	1,780	-
Space Related Costs	-	50,000	50,000	-
Building Maintenance/Repairs	6,075	1,169	1,169	-
Utilities and Telephone	1,531	-	-	-
Publications/Advertising/Printing	1,400	408	449	(41)
Substitutes	5,863	9,000	9,330	(330)
Non-Student Travel	4,675	450	495	(45)
Contracted Services	97,181	103,323	106,521	(3,198)
Training and Staff Development	6,801	13,265	11,732	1,533
Student Transportation	3,500	2,594	807	1,787
Total Operations	160,881	256,956	248,233	8,723
PROGRAMS				
Funds Passed Through to Partners	1,345,600	1,345,600	1,345,600	-
Total Programs	1,345,600	1,345,600	1,345,600	-
Total Budget	\$ 2,240,600	\$ 2,240,600	\$ 2,240,600	\$ -
	<u>Original Budgeted Revenues</u>	<u>Revised Budgeted Revenues</u>	<u>Actual Revenues</u>	<u>Differences</u>
Revenues				
Pennsylvania Pre-K Counts	\$ 2,240,600	\$ 2,240,600	\$ 2,240,600	\$ -