



POTTSTOWN SCHOOL DISTRICT

FINANCIAL AND COMPLIANCE REPORT

Year Ended June 30, 2019

TABLE OF CONTENTS

	Pages
INDEPENDENT AUDITOR'S REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 17
 BASIC FINANCIAL STATEMENTS	
 Government-Wide Financial Statements	
Statement of Net Position	18
Statement of Activities.....	19
 Fund Financial Statements	
Balance Sheet - Governmental Funds.....	20
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position	21
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.	22
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities.....	23
Statement of Net Position - Proprietary Fund	24
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund	25
Statement of Cash Flows - Proprietary Fund	26 - 27
Statement of Net Position - Fiduciary Fund.....	28
Statement of Changes in Net Position - Fiduciary Fund.....	29
 Notes to Basic Financial Statements	
Note 1 - Summary of Significant Accounting Policies	30
Note 2 - Stewardship, Compliance, and Accountability	43
Note 3 - Cash and Investments.....	44
Note 4 - Taxes Receivable and Unavailable Revenue	48
Note 5 - Intergovernmental Receivables	49
Note 6 - Interfund Receivables/Payables and Transfers.....	50
Note 7 - Changes in Capital Assets.....	51
Note 8 - Long-Term Liabilities	52
Note 9 - Employee Retirement Plans.....	56
Note 10 - Other Postemployment Benefit Plans	63
Note 11 - Risk Management	78
Note 12 - Contingencies and Commitments.....	79
Note 13 - Fund Balance/Restatement	80
Note 14 - New Accounting Pronouncements	80

REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule for the General Fund	82
Note to Required Supplementary Information.....	83
Schedule of the District's Proportionate Share of the Net Pension	
Liability and Related Ratios - Pension Plan.....	84
Schedule of District Contributions - Pension Plan	85
Schedule of the District's Proportionate Share of the Net OPEB	
Liability and Related Ratios - PSERS OPEB Plan	86
Schedule of District Contributions - PSERS OPEB Plan.....	87
Schedule of Changes in Total OPEB Liability and Related Ratios - District OPEB Plan.....	88
SUPPLEMENTARY INFORMATION	
Nonmajor Governmental Funds	
Combining Balance Sheet - Nonmajor Governmental Funds	89
Combining Statement of Revenues, Expenditures, and Changes in Fund Fund Balances - Nonmajor Governmental Funds	90
Single Audit	
Schedule of Expenditures of Federal Awards	91
Notes to Schedule of Expenditures of Federal Awards.....	92
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>.....	
	93 - 94
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	
	95 - 96
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	97 - 98
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS	99 - 100
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES.....	101 - 102
PA PRE-K COUNTS SUPPLEMENTAL AUDIT SCHEDULE FOR THE FISCAL YEAR ENDED JUNE 30, 2019	103



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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, 2019, 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, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison schedule for the general fund, and pension and other postemployment benefit information on pages 84 through 88 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 7, 2020, 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 7, 2020**



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POTTSTOWN SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

June 30, 2019

The following is a discussion and analysis of the Pottstown School District's annual financial performance during the fiscal year ended June 30, 2019. 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, a Pre K Learning Center and two (2) maintenance buildings. Renovations to Barth Elementary School were substantially completed during the 2012-13 school year. Edgewood Elementary School was closed at the end of the 2012-13 school year, but housed the Rupert Elementary School students and staff during 2013-14 and up to November 10th, 2014 when additions and renovations were completed at the Rupert Elementary School building. Work on additions and renovations to Franklin and Lincoln Elementary Schools also took place during the 2013-14 year and were completed in time for the opening of the 2014-15 school year. The District's enrollment, including out placed students was 3,413 students. The District employed approximately 224 professionals, 238 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 \$285,944. In 2018-19 the District's Food Service participated, for the fifth 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.

Fund Level

- Total Governmental Fund revenues exceeded expenditures by \$1,010,685. This resulted from unexpected grant carryover revenue. The net surplus for the fiscal year 2018-19 is \$1,579,407.
- Total General Fund revenues and other financing exceeded expenditures and other financing uses budgeted by \$875,422 bringing the General Fund balance to \$10,810,047. Revenues were \$2,706,262 greater than anticipated due to the uncertainty of available state grant revenues. Expenditures were \$1,249,453 greater than anticipated due to additional grant revenues, higher special education costs, tuition costs and transportation costs.
- Total General Fund revenues were \$2,706,262 greater than anticipated. Local revenue exceeded the budget by \$1,011,567. Local Taxes were over collected by approximately \$391,988. State funding was \$1,312,377 more than budgeted due to increased state grant funding, the Pre K Counts Grant and additional funding from the PSERS and social security reimbursements. Federal revenue was \$382,318 more than budgeted as a result of additional funding received for the Title I Grant and Medical Access Program.
- Total General Fund expenditures were more than budgeted by \$1,249,453. This was significantly offset by the additional revenues received above what was budgeted. Total Instructional Expenditures were over budget by \$1,103,013 primarily because of regular and special education programs. Total Support Services expenditures were over budget by \$920,427. This was primarily a result of Student transportation actual expenditures were more than budgeted by \$870,311 due to special education transportation costs.

- The trends of prior years indicated that during the fiscal year 2018-2019 the Pottstown School District would experience another year of significant increases in the costs for special education instruction along with benefits for our employees. Further, with the down turn in the economy, anticipated increases in the employer contribution to PSERS will continue to cause an additional drain on the financial resources of all schools in Pennsylvania, this was further complicated by the loss of the Top Taxpayer in 2017-2018, 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 \$875,422 to \$10,810,047 of which \$5,144,225 is unassigned. The remaining General Fund balance is comprised of funds committed for PSERS of \$3,799,409; nonspendable fund balance of \$47,463 and an assigned fund balance of \$1,361,626 for capital projects and \$457,324 which is appropriated in the 2019-20 budget. The Capital Projects ending fund balance increased \$692,851 to a balance of \$2,159,379 as a result of a transfer from the general fund. This is also observed in the Total Governmental fund balance increase of \$1,579,407 to \$13,097,428 from \$11,518,021.
- 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 \$3,769,002. This represents a decrease of \$133,887. These funds were a combination of the funds reserved in prior years for medical costs and better experience over the last two years than anticipated in actual medical costs.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

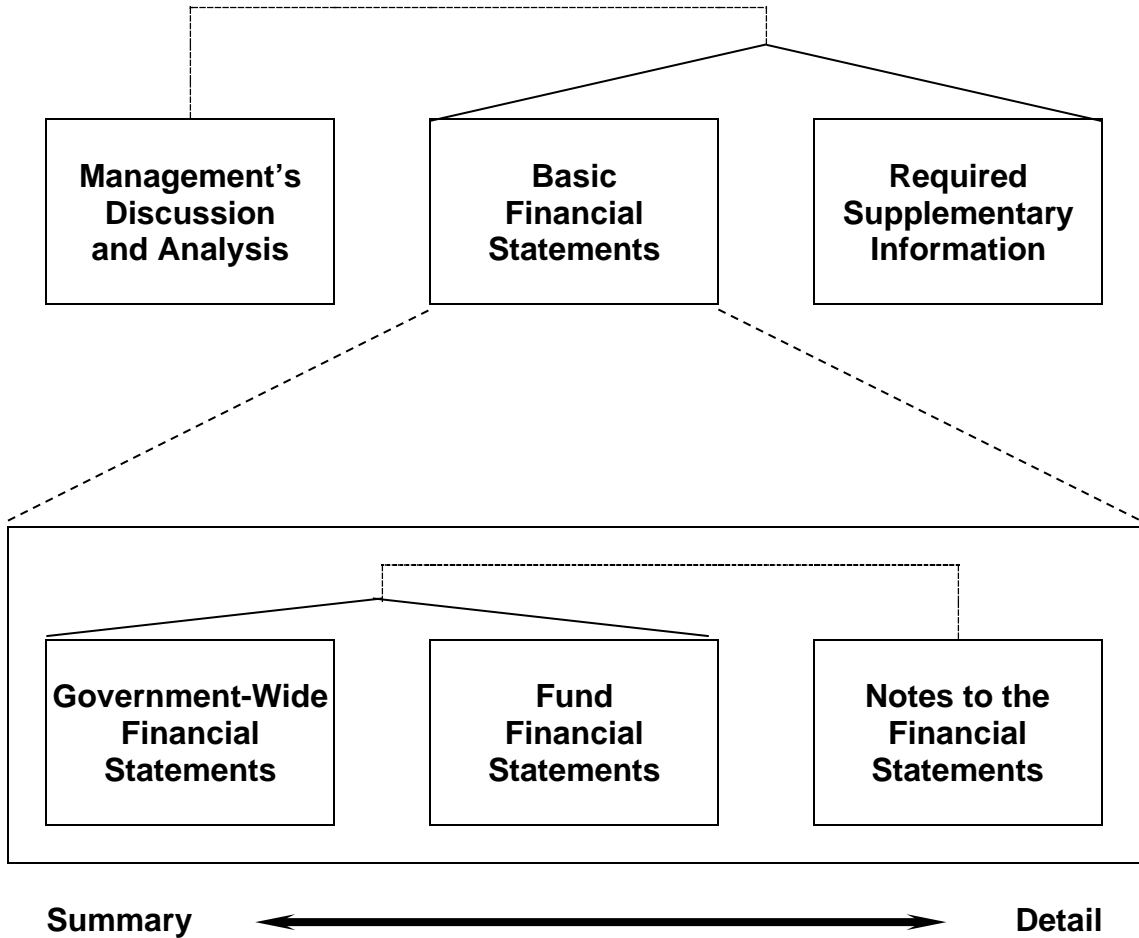


Figure A-2 summarizes the major features of the District's statements. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

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

Government-Wide Statements

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

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

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

Both statements report two activities:

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

Fund Financial Statements

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

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

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

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

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

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net position increased \$1,192,561 over the course of the fiscal year's operations for total combined net deficit at June 30, 2019, of (\$59,743,363). The net pension liability decrease 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 increased \$906,617 to (\$59,171,121). The net deficit of the District's business-type activities increased \$285,944 to (\$572,242).

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

	Governmental		Business-Type		Total	
	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18
<u>Assets</u>						
Current and other	\$ 28	\$ 25	\$ 1	\$ 1	\$ 29	\$ 26
Capital assets	56	59	-	-	56	59
TOTAL ASSETS	84	84	1	1	85	85
Deferred outflows of resources	13	16	-	-	13	16
<u>Liabilities</u>						
Current and other	11	11	-	-	11	11
Long-term	139	149	2	2	141	151
TOTAL LIABILITIES	150	160	2	2	152	162
Deferred inflow of resources	6	1	-	-	6	1
<u>Net Position (Deficit)</u>						
Net investment in capital assets	9	10	-	-	9	10
Restricted net assets	5	4	-	-	5	4
Unrestricted net assets	(73)	(75)	(1)	(1)	(74)	(76)
TOTAL NET POSITION (DEFICIT)	(59)	(61)	(1)	(1)	(60)	(62)
Restatement	-	1	-	-	-	1
TOTAL NET POSITION (DEFICIT)	(59)	(60)	(1)	(1)	(60)	(61)

The governmental activities beginning net position (deficit) was restated from (\$59,892,308) to (\$59,171,121). This restatement reflects the accrual for the state subsidy receivable for social security and retirement on accrued summer pays. This receivable had not historically been recorded.

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

The District's net position increased by \$1,192,561. The increase is comprised of a decrease in Net Pension Liability of \$8 million as Accounts Payable increased \$544,118 along with Bonds and Notes Payable decreasing \$2.2 million while the Southeastern Pennsylvania Schools Trust decreased \$133,887. This is offset by a decrease in Capital Assets of \$2.2 million primarily as a result of depreciation exceeding capital improvements as building renovations have been completed. In addition, the deferred outflows of resources decreased \$2.9 million due to the accounting under GASB No. 68, *Accounting and Financial Reporting for Pensions* and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Deferred inflows of resources increased \$5 million which was offset by total liabilities decreasing \$10 million. The decrease in liabilities is a direct result of the decreased Net Pension Liability which is offset by a reduction in Net Bonds and Notes Payable of \$2.2 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 (112%).

A major portion (93.04%) 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 2019 and 2018.

Figure A-4 - Changes in Net Position from Operating Results (In Millions of Dollars)

	Governmental Activities		Business-Type Activities		Total District	
	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18
REVENUES						
Program Revenues						
Charges for Services	\$ 0.5	\$ 0.3	\$ 0.2	\$ 0.2	\$ 0.7	\$ 0.5
Operating grants and contributions	16.9	15.3	2.1	2.1	19.0	17.4
Capital grants and contributions	0.8	1.2	-	-	0.8	1.2
General Revenues						
Property taxes	29.2	28.3	-	-	29.2	28.3
State aid	13.6	13.0	-	-	13.6	13.0
Other taxes and miscellaneous	4.0	3.8	-	-	4.0	3.8
TOTAL REVENUES	65.0	61.9	2.3	2.3	67.3	64.2
EXPENSES						
Instruction	40.9	39.8	-	-	40.9	39.8
Pupil and instructional services	5.6	5.0	-	-	5.6	5.0
Administration and business	5.4	4.9	-	-	5.4	4.9
Maintenance and operations	6.7	6.5	-	-	6.7	6.5
Transportation	3	2.5	-	-	3.0	2.5
Other	2.4	4.0	2.0	2.0	4.4	6.0
TOTAL EXPENSES	64	62.7	2.0	2.0	66.0	64.7
CHANGE IN NET POSITION	\$ 1	\$ -0.8	\$ 0.25	\$ 0.25	\$ 1.25	\$ -0.55
Net Position (Deficit) - Beginning	(60.0)	(60.0)	(0.85)	(1.10)	(60.85)	(61.10)
Restatement	-	0.8	-	-	-	0.80
Net Position (Deficit) - Ending	\$ (59.0)	\$ (60.0)	\$ (0.60)	\$ (0.85)	\$ (59.60)	\$ (60.85)

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	2019		2018	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$ 40,913,980	\$ 27,193,666	\$ 39,831,148	\$ 27,238,671
Pupil and instructional services	5,594,644	4,444,706	4,992,697	4,348,383
Administration and business	5,446,826	4,792,295	4,915,895	4,366,752
Maintenance and operations	6,692,114	5,721,985	6,437,257	5,441,666
Transportation	3,010,552	2,372,334	2,526,695	1,824,953
Pupil Health Services/Other Student activities and community services	1,048,308	837,458	1,179,686	974,525
Interest on long-term debt	1,381,358	597,251	1,256,122	378,599
TOTAL GOVERNMENTAL ACTIVITIES	\$ 64,087,782	45,959,695	\$ 62,712,599	45,876,046
Less unrestricted grants, subsidies		<u>13,596,887</u>		<u>13,033,376</u>
TOTAL NEEDS FROM LOCAL TAXES AND OTHER REVENUES		\$ 32,362,808		\$ 32,842,670
Business-Type Activities				
Food Service	\$ 2,049,435	\$ (268,112)	\$ 2,017,603	\$ (230,268)

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 2018-2019 fiscal year, Governmental Funds had a total year-end fund balance of \$13,097,428, a \$1,579,407 increase from the prior fiscal year’s balance of \$11,518,021. The General Fund increased \$875,422 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 \$692,851 as a result of a \$650,000 transfer from the General Fund as well as 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 2018-2019 anticipated expenditures exceeding revenue by \$432,874; however, the actual results for the year produced an excess of revenues over expenditures and other financing uses of \$875,422. Total revenues received were \$2,706,262 over budget. Local revenue collected exceeded the budget by \$1,011,567. This was a direct result of additional grant funding received which were not included in the budget along with higher than anticipated collections of Interest earnings, Real Estate Transfer Taxes and Delinquent Taxes. Funds received from State revenue exceeded the budget by \$1,312,377 as a result of additional grant funding, State Social Security and PSERS reimbursements being greater than originally indicated. Federal revenues were \$382,318 more than anticipated as a result of additional funding for the Medical Access program.

Total expenditures were over budget by \$1,249,453. Instructional expenditures were \$1,103,013 over spent. Support services were over spent by \$920,427 this was primarily a result of student transportation. These over expenditures were offset by under expenditures for Capital Outlay, debt service and refund of prior year expenditures of \$1,056,946 as a direct result of the reduced debt service.

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 under spent 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, 2019, the District had \$56,396,516 (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 \$3,311,846 for governmental activities and \$7,207 for business type activities. Additions were made to governmental activities in the amount of \$1,016,374. With the Elementary Schools projects completed, capital assets will continue to decrease as depreciation will normally exceed the annual improvements. More detailed information about our capital assets are included in Note 7 to the financial statements.

Figure A-6
Capital Assets (Net of Depreciation, in Millions of Dollars)

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total District</u>	
	<u>2018-19</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2017-18</u>
Land and Constr. In Proc.	\$ 0.5	\$ 0.5	\$ -	\$ -	\$ 0.5	\$ 0.5
Site improvements	1.7	1.7	-	-	1.7	1.7
Buildings and building improvements	53.4	55.6	-	-	53.4	55.6
Furniture and equipment	0.7	0.8	-	-	0.7	0.8
Vehicles	-	0.1	-	-	-	0.1
	<u>\$ 56.3</u>	<u>\$ 58.7</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 56.3</u>	<u>\$ 58.7</u>

Long-Term Debt

At year-end, the District had \$47,664,821 of general obligation bonds and notes payable, net of discounts and premiums. This is a decrease of \$2,007,754 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 Note 8 to the financial statements.

Figure A-7
Outstanding Long-Term Debt (In Millions of Dollars)

	<u>2018-19</u>	<u>2017-18</u>
General obligation bonds and notes	\$ 47.6	\$ 49.6
Other general obligation debt (compensated absences)	<u>0.4</u>	<u>0.6</u>
	<u>\$ 48.0</u>	<u>\$ 50.2</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District has completed the Elementary Schools Project. The decision has been made to maintain the Administration Building & Edgewood Elementary. Improvements will be necessary in the not too distant future to maintain both buildings for the long term. Necessary improvements may include items such as HVAC repair, mechanical upgrades, plumbing repairs, 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 is 34.29% - an increase of 2.57%
 - 2020-21 projected to be 34.51% - an increase of .64%
 - 2021-22 projected to be 34.95% - an increase of 1.27%
 - 2022-23 projected to be 35.62%- an increase of 1.92%
 - 2023-24 projected to be 36.12%- an increase of 1.40%

Starting with 2010-2011 through 2018-2019 the rate increases from 5.64% to 33.43%, an increase of 477.4% over the last seven years. Over the next five years, 2019-20 through 2023-24 the rate increases from 34.29% to 36.12%, an increase of 1.83%. From 2010-11 to 2023-24 the rate increases from 5.64% to 36.12% or 640% over this 14 year period. (Based on PSERS projections from 12/6/2019.)

- 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 2027-28. Current projections were not available beyond the 2027-2028 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 40.62 in 2018-2019 and raised taxes to the adjusted index 3.3% for a millage rate of 41.96 in 2019-2020.
- 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, 2019 through September 1, 2022.
- 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, 2019

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and investments	\$ 18,127,347	\$ 1,141,092	\$ 19,268,439
Taxes receivable, net	2,865,642	-	2,865,642
Internal balances	133,558	(133,558)	-
Intergovernmental receivables	4,017,285	60,758	4,078,043
Other receivables	359,608	71	359,679
Inventories	23,780	18,531	42,311
Prepaid expenses	154,683	-	154,683
Funds held by Southeastern Pennsylvania Schools Trust	2,173,053	-	2,173,053
Capital assets not being depreciated	487,773	-	487,773
Capital assets, net of accumulated depreciation	55,839,197	69,546	55,908,743
TOTAL ASSETS	84,181,926	1,156,440	85,338,366
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on bond refunding	594,540	-	594,540
Deferred outflows of resources for pension	11,804,197	291,908	12,096,105
Deferred outflows of resources for other postemployment benefits	969,221	141,869	1,111,090
TOTAL DEFERRED OUTFLOWS OF RESOURCES	13,367,958	433,777	13,801,735
LIABILITIES			
Accounts payable	2,148,046	1,324	2,149,370
Accrued interest	173,192	-	173,192
Payroll accruals and withholdings	6,300,295	21,092	6,321,387
Unearned revenues	212,051	2,126	214,177
Noncurrent liabilities, due within one year	2,512,000	-	2,512,000
Noncurrent liabilities:			
Bonds and notes payable, net	45,152,821	-	45,152,821
Long-term portion of compensated absences	412,698	24,499	437,197
Net pension liability	82,662,943	1,730,057	84,393,000
Net other postemployment benefit liabilities	11,164,050	266,955	11,431,005
TOTAL LIABILITIES	150,738,096	2,046,053	152,784,149
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources for pension	5,217,673	109,351	5,327,024
Deferred inflows of resources for other postemployment benefits	765,236	7,055	772,291
TOTAL DEFERRED INFLOWS OF RESOURCES	5,982,909	116,406	6,099,315
NET POSITION			
Net investment in capital assets	9,256,689	69,546	9,326,235
Restricted for:			
Capital projects	2,159,379	-	2,159,379
Health claims	2,304,053	-	2,304,053
Other	128,002	-	128,002
Unrestricted (deficit)	(73,019,244)	(641,788)	(73,661,032)
TOTAL NET POSITION (DEFICIT)	\$ (59,171,121)	\$ (572,242)	\$ (59,743,363)

See accompanying notes.

POTTSTOWN SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2019

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							
Instruction	\$ 40,913,980	\$ -	\$ 13,720,314	\$ -	\$ (27,193,666)	\$ -	\$ (27,193,666)
Instructional student support	5,594,644	-	1,149,938	-	(4,444,706)	-	(4,444,706)
Administrative and financial support services	5,446,826	-	654,531	-	(4,792,295)	-	(4,792,295)
Operation and maintenance of plant services	6,692,114	381,136	588,993	-	(5,721,985)	-	(5,721,985)
Pupil transportation	3,010,552	37,556	600,662	-	(2,372,334)	-	(2,372,334)
Student activities	1,015,585	73,464	137,386	-	(804,735)	-	(804,735)
Community services	32,723	-	-	-	(32,723)	-	(32,723)
Interest on long-term debt	1,381,358	-	-	784,107	(597,251)	-	(597,251)
Total Governmental Activities	64,087,782	492,156	16,851,824	784,107	(45,959,695)	-	(45,959,695)
Business-Type Activities							
Food service	2,049,435	95,518	2,222,029	-	-	268,112	268,112
Total Primary Government	<u>\$ 66,137,217</u>	<u>\$ 587,674</u>	<u>\$ 19,073,853</u>	<u>\$ 784,107</u>	(45,959,695)	268,112	(45,691,583)
General Revenues							
Taxes:							
Property taxes					29,277,634	-	29,277,634
Public utility realty, earned income, local service and mercantile taxes					3,247,498	-	3,247,498
Grants, subsidies, and contributions not restricted to specific programs					13,596,887	-	13,596,887
Investment earnings					581,104	17,832	598,936
Miscellaneous income					163,189	-	163,189
Total General Revenues					46,866,312	17,832	46,884,144
Change in Net Position					906,617	285,944	1,192,561
Net Position (Deficit) - Beginning of Year - Restated					(60,077,738)	(858,186)	(60,935,924)
Net Position (Deficit) - End of Year					<u>\$ (59,171,121)</u>	<u>\$ (572,242)</u>	<u>\$ (59,743,363)</u>

POTTSTOWN SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2019

	General	Capital Projects	Nonmajor Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 17,148,387	\$ 846,891	\$ 132,069	\$ 18,127,347
Interfund receivables	8,398	1,405,898	-	1,414,296
Taxes receivable	2,913,155	-	-	2,913,155
Intergovernmental receivables	4,017,285	-	-	4,017,285
Other receivables	142,596	-	-	142,596
Inventories	23,780	-	-	23,780
Prepaid expenditures	23,683	-	-	23,683
TOTAL ASSETS	\$ 24,277,284	\$ 2,252,789	\$ 132,069	\$ 26,662,142
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Interfund payable	\$ 2,435,265	\$ 93,410	\$ -	\$ 2,528,675
Accounts payable	2,143,979	-	4,067	2,148,046
Accrued salaries and benefits	6,016,122	-	-	6,016,122
Payroll deductions and withholdings	284,173	-	-	284,173
Unearned revenues	212,051	-	-	212,051
TOTAL LIABILITIES	11,091,590	93,410	4,067	11,189,067
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	2,375,647	-	-	2,375,647
FUND BALANCES				
Nonspendable	47,463	-	-	47,463
Restricted	-	2,159,379	128,002	2,287,381
Committed:				
PSERS increase	3,799,409	-	-	3,799,409
Assigned:				
Capital projects	1,361,626	-	-	1,361,626
Appropriated 2019/2020 budget	457,324	-	-	457,324
Unassigned	5,144,225	-	-	5,144,225
TOTAL FUND BALANCES	10,810,047	2,159,379	128,002	13,097,428
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 24,277,284	\$ 2,252,789	\$ 132,069	\$ 26,662,142

POTTSTOWN SCHOOL DISTRICT

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

June 30, 2019

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

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 13,097,428

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 \$106,029,898 and the accumulated depreciation is \$49,702,928. 56,326,970

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. 2,328,134

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	\$ (47,676,000)	
Accrued interest on bonds	(173,192)	
Unamortized bond premium	(52,947)	
Unamortized bond discount	64,126	
Deferred charge on bond refunding	594,540	
Long-term portion of compensated absences	<u>(412,698)</u>	(47,656,171)

The net pension liability and related deferred outflows and inflows of resources of pensions are not reflected on the fund financial statements. (76,076,419)

The net other postemployment benefit liabilities and related deferred outflows and inflows of resources for other postemployment benefits are not reflected on the fund financial statements. (10,960,065)

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. 3,769,002

TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES \$ (59,171,121)

POTTSTOWN SCHOOL DISTRICT

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

For the Year Ended June 30, 2019

	General	Capital Projects	Nonmajor Funds	Total Governmental Funds
REVENUES				
Local sources	\$ 34,888,329	\$ 42,851	\$ 51,920	\$ 34,983,100
State sources	27,448,466	-	-	27,448,466
Federal sources	2,614,520	-	-	2,614,520
TOTAL REVENUES	64,951,315	42,851	51,920	65,046,086
EXPENDITURES				
Current:				
Instructional services	39,967,612	-	-	39,967,612
Support services	18,196,036	-	316,883	18,512,919
Operation of noninstructional services	980,487	-	47,173	1,027,660
Capital outlay	796,033	-	-	796,033
Debt service:				
Principal	2,418,000	-	-	2,418,000
Interest	1,203,432	-	104,389	1,307,821
Refund of prior year revenues	5,356	-	-	5,356
TOTAL EXPENDITURES	63,566,956	-	468,445	64,035,401
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,384,359	42,851	(416,525)	1,010,685
OTHER FINANCING SOURCES (USES)				
Current refunding debt service principal	-	-	(15,892,000)	(15,892,000)
Bond discount	-	-	(60,349)	(60,349)
Transfers out	(650,000)	-	(2,507)	(652,507)
Issuance of refunding bonds	-	-	16,355,000	16,355,000
Bond premium	-	-	27,515	27,515
Sale of capital assets	138,556	-	-	138,556
Transfers in	2,507	650,000	-	652,507
TOTAL OTHER FINANCING SOURCES (USES)	(508,937)	650,000	427,659	568,722
NET CHANGE IN FUND BALANCES	875,422	692,851	11,134	1,579,407
FUND BALANCES - BEGINNING OF YEAR - RESTATED	9,934,625	1,466,528	116,868	11,518,021
FUND BALANCES - END OF YEAR	\$ 10,810,047	\$ 2,159,379	\$ 128,002	\$ 13,097,428

See accompanying notes.

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, 2019

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

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 1,579,407

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	\$ 1,016,374	
Less: depreciation expense	(3,311,846)	
Net loss on disposal of capital assets	(21,967)	(2,317,439)

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. (217,293)

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.

Repayment of bond and note principal	2,418,000	
Current refunding debt service principal	15,892,000	
Issuance of refunding bonds	(16,355,000)	
Bond premium incurred	(27,515)	
Bond discount incurred	60,349	
Amortization of bond premium	21,636	
Amortization of bond discount	(1,716)	
Amortization of deferred charge on bond refunding	(59,522)	1,948,232

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. (33,935)

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. The difference in the amount incurred and amount paid of these activities is:

Compensated absences	86,669	
Net pension liability and related deferred outflows and inflows	338,646	
Net OPEB liability and related deferred outflows and inflows	(343,783)	81,532

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. (133,887)

CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES \$ 906,617

See accompanying notes.

POTTSTOWN SCHOOL DISTRICT

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS

June 30, 2019

	Enterprise Fund Food Service	Internal Service Fund	Totals
ASSETS			
CURRENT ASSETS			
Cash and investments	\$ 1,141,092	\$ -	\$ 1,141,092
Interfund receivables	9,165	1,247,937	1,257,102
Intergovernmental receivables	60,758	-	60,758
Other receivables	71	217,012	217,083
Inventories	18,531	-	18,531
Funds held by Southeastern Pennsylvania Schools Trust	-	2,173,053	2,173,053
TOTAL CURRENT ASSETS	1,229,617	3,638,002	4,867,619
NONCURRENT ASSETS			
Long-term deposit	-	131,000	131,000
Furniture and equipment, net	69,546	-	69,546
TOTAL ASSETS	1,299,163	3,769,002	5,068,165
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources for pension	291,908	-	291,908
Deferred outflows of resources for other postemployment benefits	141,869	-	141,869
TOTAL DEFERRED OUTFLOWS OF RESOURCES	433,777	-	433,777
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	1,324	-	1,324
Interfund payable	142,723	-	142,723
Accrued salaries and benefits	21,092	-	21,092
Unearned revenues	2,126	-	2,126
TOTAL CURRENT LIABILITIES	167,265	-	167,265
NONCURRENT LIABILITIES			
Compensated absences	24,499	-	24,499
Net pension liability	1,730,057	-	1,730,057
Net other postemployment benefit liabilities	266,955	-	266,955
TOTAL LIABILITIES	2,188,776	-	2,188,776
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources for pension	109,351	-	109,351
Deferred inflows of resources for other postemployment benefits	7,055	-	7,055
TOTAL DEFERRED INFLOWS OF RESOURCES	116,406	-	116,406
NET POSITION (DEFICIT)			
Net investment in capital assets	69,546	-	69,546
Restricted for health claims	-	2,173,053	2,173,053
Restricted terminal liability reserve	-	131,000	131,000
Unrestricted (deficit)	(641,788)	1,464,949	823,161
TOTAL NET POSITION (DEFICIT)	\$ (572,242)	\$ 3,769,002	\$ 3,196,760

See accompanying notes.

POTTSTOWN SCHOOL DISTRICT

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

For the Year Ended June 30, 2019

	Enterprise Fund <u>Food Service</u>	Internal <u>Service Fund</u>	<u>Totals</u>
OPERATING REVENUES			
Food service revenue	\$ 95,518	\$ -	\$ 95,518
Charges for services	-	5,952,345	5,952,345
TOTAL OPERATING REVENUES	95,518	5,952,345	6,047,863
OPERATING EXPENSES			
Salaries	571,233	-	571,233
Employee benefits	401,117	-	401,117
Pension and OPEB valuation adjustments	(16,896)	-	(16,896)
Purchased property services	12,260	-	12,260
Supplies	1,058,740	-	1,058,740
Depreciation	7,207	-	7,207
Other operating costs	15,774	-	15,774
Health claims and administrative expenses	-	6,135,249	6,135,249
TOTAL OPERATING EXPENSES	2,049,435	6,135,249	8,184,684
OPERATING INCOME (LOSS)	(1,953,917)	(182,904)	(2,136,821)
NONOPERATING REVENUES			
Earnings on investments	17,832	49,017	66,849
State sources	188,485	-	188,485
Federal sources	2,033,544	-	2,033,544
TOTAL NONOPERATING REVENUES	2,239,861	49,017	2,288,878
CHANGE IN NET POSITION	285,944	(133,887)	152,057
NET POSITION (DEFICIT) - BEGINNING OF YEAR	(858,186)	3,902,889	3,044,703
NET POSITION (DEFICIT) - END OF YEAR	\$ (572,242)	\$ 3,769,002	\$ 3,196,760

POTTSTOWN SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS

For the Year Ended June 30, 2019

	Enterprise Fund Food Service	Internal Service Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from users	\$ 118,092	\$ 5,735,333	\$ 5,853,425
Cash payments to employees for services	(821,746)	-	(821,746)
Cash payments for supplies and other operating expenses	(983,837)	-	(983,837)
Cash payments for health claims and administrative expenses	-	(5,784,350)	(5,784,350)
	<u> </u>	<u> </u>	<u> </u>
NET CASH USED FOR OPERATING ACTIVITIES	(1,687,491)	(49,017)	(1,736,508)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
State sources	188,730	-	188,730
Federal sources	1,930,151	-	1,930,151
	<u> </u>	<u> </u>	<u> </u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	2,118,881	-	2,118,881
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(62,875)	-	(62,875)
CASH FLOWS FROM INVESTING ACTIVITIES			
Earnings on investments	17,832	49,017	66,849
	<u> </u>	<u> </u>	<u> </u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	386,347	-	386,347
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>754,745</u>	<u>-</u>	<u>754,745</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,141,092</u>	<u>\$ -</u>	<u>\$ 1,141,092</u>

POTTSTOWN SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS - CONTINUED

For the Year Ended June 30, 2019

	Enterprise Fund Food Service	Internal Service Fund	Totals
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:</u>			
Operating income (loss)	\$ (1,953,917)	\$ (182,904)	\$ (2,136,821)
Adjustments to reconcile operating income (loss) to net cash used for operating activities:			
Depreciation	7,207	-	7,207
Donated commodities used	108,166	-	108,166
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:			
Other receivables	(27)	172,966	172,939
Inventories	630	-	630
Funds held by Southeastern Pennsylvania Schools Trust	-	329,899	329,899
Interfund balances	165,805	(389,978)	(224,173)
Long-term deposit	-	21,000	21,000
Deferred outflows of resources for pension	31,178	-	31,178
Deferred outflows of resources for other postemployment benefits	(119,997)	-	(119,997)
Accounts payable	(5,479)	-	(5,479)
Accrued salaries and benefits	7,699	-	7,699
Unearned revenues	(861)	-	(861)
Compensated absences	182	-	182
Net pension liability	(96,651)	-	(96,651)
Net other postemployment benefit liabilities	115,578	-	115,578
Deferred Inflows of resources for pension	49,446	-	49,446
Deferred inflows of resources for other postemployment benefits	3,550	-	3,550
Total adjustments	266,426	133,887	400,313
NET CASH USED FOR OPERATING ACTIVITIES	\$ (1,687,491)	\$ (49,017)	\$ (1,736,508)

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the District used \$108,166 of commodities from the U.S. Department of Agriculture.

POTTSTOWN SCHOOL DISTRICT

**STATEMENT OF NET POSITION
FIDUCIARY FUNDS**

June 30, 2019

	<u>Private Purpose Trust Fund</u>	<u>Agency Funds (Student Activities)</u>
ASSETS		
CURRENT ASSETS		
Cash and investments	<u>\$ 81,634</u>	<u>\$ 158,764</u>
TOTAL ASSETS	<u>81,634</u>	<u>158,764</u>
LIABILITIES		
CURRENT LIABILITIES		
Other current liabilities	<u>-</u>	<u>\$ 158,764</u>
NET POSITION HELD IN TRUST	<u>\$ 81,634</u>	

POTTSTOWN SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS

For the Year Ended June 30, 2019

	Private Purpose Trust Fund
ADDITIONS	
Contributions	\$ 41,105
Earnings on investments	1,967
TOTAL ADDITIONS	43,072
DEDUCTIONS	
Purchased services	54,363
CHANGE IN NET POSITION	(11,291)
NET POSITION - BEGINNING OF YEAR	92,925
NET POSITION - END OF YEAR	\$ 81,634

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

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, 2019

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, 2019

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. Fiduciary funds are reported by fund type.

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, 2019

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, 2019

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*. 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. Federal and state subsidies are considered non-operating revenues as no exchange transaction occurs.

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.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Budgetary Process - continued

Accelerated Budget Process Option

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

If the primary budget exceeds the increase authorized by the Index, an application for an exception may be filed with 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.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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, 2019, consisted of the following:

Paper supplies	<u>\$ 23,780</u>
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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, 2019, consisted of the following:

Purchased food and supplies	\$ 17,994
Donated commodities	<u>537</u>
	<u>\$ 18,531</u>

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

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 are recorded at their estimated fair value at the date of donation.

The District generally capitalizes assets with a cost of \$2,500 or more as purchase and construction outlays occur. Assets purchased or constructed with long-term debt may be capitalized regardless of the threshold established. 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. Construction in progress is stated at cost and consists primarily of costs incurred on construction projects. No provision for depreciation is made on construction in progress until the assets are complete and placed into service. 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 for depreciable assets are as follows:

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

6. Unearned Revenues

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

7. Compensated Absences

District policies permit employees to accumulate earned but unused vacation and sick days based on employment agreements. Payments for vacation and sick pay are expensed as paid in the governmental fund statements. Accumulated vacation and sick leave that is expected to be liquidated with expendable available financial resources and that has matured is reported as an expenditure and a fund liability in the governmental fund that will pay it. Accumulated vacation or sick leave that is not expected to be liquidated with expendable available financial resources and that has not matured is reported as a long-term liability in the proprietary funds and the government-wide financial statements and is expensed as incurred.

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activity columns in the statement of net position. This same treatment also applies to proprietary fund financial statements. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Other bond issuance costs are expensed at the time the debt is issued.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued and original issue discounts or premiums are reported as other financing sources and uses. Issuance costs and underwriter's discount, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Pension

The District contributes to the Public School Employees Retirement System (PSERS), a cost-sharing multiple-employer defined benefit pension plan. The District accounts for the plan under the provisions of GASB Statement No. 68, which establishes standards for the measurement, recognition, and display of pension expense and related liabilities, deferred outflows and deferred inflows of resources related to pension, certain required supplementary information, and note disclosures.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

9. Pension - continued

For the purpose of measuring net pension liability, deferred outflows of resources, and deferred inflows of resources related to pension 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 refund of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

10. Other Postemployment Benefits (OPEB)

The District's other postemployment benefit plans are accounted for under the provisions of GASB Statement No. 75, which establishes standards for the measurement, recognition, and display of other postemployment benefit expense and related liabilities, deferred outflows and deferred inflows of resources related to other postemployment benefits, certain required supplementary information, and note disclosures. The District provides OPEB under the following two plans:

PSERS OPEB Plan

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the PSERS plan and additions to/deductions from PSERS' 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.

District OPEB Plan

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

11. 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 liabilities relate to the District's liability 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 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 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 liability in the following year.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

11. 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 liabilities relate to the District's liability 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 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. 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, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

12. 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.

13. 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.

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.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

13. Fund Balance Policies and Flow Assumptions - continued

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. In any fiscal year where the school district is unable to maintain this minimum reservation of fund balance, the school district shall not budget any amount of unassigned fund balance for the purpose of balancing the general fund budget until this level is achieved.

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. 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.

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.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - CONTINUED

B. Deficit Fund Balance or Net Position of Individual Funds

Deficit Net Position - Proprietary Fund (Food Service Fund)

For the year ended June 30, 2019, the accounting under GASB No. 68, *Accounting and Financial Reporting for Pensions*, GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, created a deficiency in net position at year end of \$572,242. 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, 2019, the General Fund had an excess of expenditures over appropriations of \$889,029. 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, 2019. 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.

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.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

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, 2019, consists of the following:

Petty cash	\$	1,087
Cash		7,982,158
Pooled cash and investments		<u>11,525,592</u>
	\$	<u><u>19,508,837</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, 2019, the carrying amount of the District's deposits was \$7,982,158 and the bank balance was \$7,984,687. Of the bank balance, \$469,630 was covered by federal depository insurance, and \$7,515,057 was exposed to custodial credit risk but covered by collateralization requirements in accordance with Act 72 of the 1971 Session of the Pennsylvania 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, 2019

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Investments

As of June 30, 2019, 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	\$ 6,000,000	\$ 6,000,000
MAX Account Balance		6,095,985	6,095,985
PA Local Government Investment Trust:			
PLGIT - Class		11,288	11,288
PLGIT/PLUS - Class		44,546	44,546
PA State Treasury INVEST Daily Pool:			
U.S. Government Agencies and Money Market Funds		<u>629</u>	<u>629</u>
	Total		12,152,448
Less: reconciling items			<u>(626,856)</u>
	Total investments		<u>\$ 11,525,592</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 \$12,152,448 (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, 2019

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 invests 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, 2019, the entire PSDLAF, PLGIT, and INVEST book balance of \$11,525,592 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, 2019, the District's investments were rated as:

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

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 \$767,134,319. In accordance with Act 1 of 2006, the District received \$1,622,646 in property tax reduction funds for the 2018/2019 fiscal year. The District tax rate for the year ended June 30, 2019, was 40.626 mills (\$40.626 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, 2019

NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE - CONTINUED

The balances at June 30, 2019, were as follows:

	Gross Taxes Receivable	Allowance for Uncollectible Taxes	Net Estimated to be Collectible	Tax Revenue Recognized	Unavailable Revenue
Real estate	\$ 2,770,950	\$ 47,513	\$ 2,723,437	\$ 395,303	\$ 2,375,647
Real estate transfer tax	79,780	-	79,780	79,780	-
Earned income tax	23,869	-	23,869	23,869	-
Other	38,556	-	38,556	38,556	-
	<u>\$ 2,913,155</u>	<u>\$ 47,513</u>	<u>\$ 2,865,642</u>	<u>\$ 537,508</u>	<u>\$ 2,375,647</u>

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES

The following schedule represents intergovernmental receivables at June 30, 2019:

Name of Government Unit	General Fund	Enterprise Food Service
Commonwealth of PA:		
Job training and education	\$ 20,000	\$ -
Pre-K Counts	199,750	-
Retirement	2,085,355	-
Rental subsidy	748,236	-
Social Security	463,738	-
Transportation subsidy	73,989	-
National School Lunch / Breakfast Programs	-	2,362
Federal Subsidies:		
Title I Grants to local educational agencies	283,438	-
21st Century Community Learning Centers	131,928	-
Medical assistance program	10,851	-
National School Lunch / Breakfast Programs	-	58,396
	<u>\$ 4,017,285</u>	<u>\$ 60,758</u>

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 6 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The District had the following interfund receivables/payables at June 30, 2019:

	Interfund Receivables	Interfund Payables
General Fund	\$ 8,398	\$ 2,435,265
Capital Projects Fund	1,405,898	93,410
Food Service Fund	9,165	142,723
Internal Service Fund	1,247,937	-
	\$ 2,671,398	\$ 2,671,398

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	\$ 2,507	\$ 650,000
Capital Projects Fund	650,000	-
Nonmajor fund - Debt Service Fund	-	2,507
	\$ 652,507	\$ 652,507

Transfers were made from the Debt Service Fund to the General Fund to apply excess funds from debt refunding to future debt payments made from the General Fund and from the General Fund to the Capital Projects Fund to reserve for future capital needs.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 7 - CHANGES IN CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2019, 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	179,407	710,644	(700,500)	189,551
Total not being depreciated	<u>477,629</u>	<u>710,644</u>	<u>(700,500)</u>	<u>487,773</u>
Capital assets being depreciated:				
Buildings and building improvements	90,514,940	41,225	700,500	91,256,665
Site improvements	3,943,474	80,364	-	4,023,838
Furniture and equipment	9,845,978	140,836	(6,413)	9,980,401
Vehicles	795,717	43,305	(557,801)	281,221
Total being depreciated	<u>105,100,109</u>	<u>305,730</u>	<u>136,286</u>	<u>105,542,125</u>
Less accumulated depreciation for:				
Buildings and building improvements	34,936,985	2,880,567	34,563	37,852,115
Site improvements	2,258,817	134,913	(34,563)	2,359,167
Furniture and equipment	9,029,943	241,826	(6,413)	9,265,356
Vehicles	707,584	54,540	(535,834)	226,290
Total accumulated depreciation	<u>46,933,329</u>	<u>3,311,846</u>	<u>(542,247)</u>	<u>49,702,928</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	<u>58,166,780</u>	<u>(3,006,116)</u>	<u>678,533</u>	<u>55,839,197</u>
GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET	<u>\$ 58,644,409</u>	<u>\$ (2,295,472)</u>	<u>\$ (21,967)</u>	<u>\$ 56,326,970</u>

Business-Type Activities

Capital assets being depreciated:				
Furniture and equipment	\$ 866,378	\$ 62,875	\$ -	\$ 929,253
Less accumulated depreciation for:				
Furniture and equipment	<u>852,500</u>	<u>7,207</u>	<u>-</u>	<u>859,707</u>
BUSINESS-TYPE ACTIVITIES, CAPITAL ASSETS, NET	<u>\$ 13,878</u>	<u>\$ 55,668</u>	<u>\$ -</u>	<u>\$ 69,546</u>

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 7 - CHANGES IN CAPITAL ASSETS - CONTINUED

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

Instruction	\$ 830,259
Instructional student support	505,254
Administration and financial support services	176,779
Operation and maintenance of plant services	1,687,604
Pupil transportation	65,194
Student activities	35,698
Community services	<u>11,058</u>
TOTAL DEPRECIATION EXPENSE - GOVERNMENTAL ACTIVITIES	<u>\$ 3,311,846</u>

NOTE 8 - LONG-TERM LIABILITIES

Bonds and notes payable are as follows:

General Obligation Bonds, Series of 2019: The General Obligation Bonds, Series of 2019, aggregate principal of \$7,040,000, were issued on March 13, 2019, for the purpose of currently refunding the outstanding General Obligation Bonds, Series of 2014. The bonds mature from December 1, 2019, to December 1, 2034. Interest rates range from 1.75% to 3.3%. Total cash flow savings was \$702,097 related to the current refunding. \$ 7,040,000

General Obligation Bonds, Series of 2018: The General Obligation Bonds, Series of 2018, aggregate principal of \$9,315,000, were issued on December 11, 2018, for the purpose of currently refunding the outstanding General Obligation Note, Series of 2000. The bonds mature from April 1, 2019, to October 1, 2027. Interest rates range from 2.0% to 3.0%. 9,230,000

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%. 9,995,000

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 8 - LONG-TERM LIABILITIES - CONTINUED

<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.	9,750,000
<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.	9,630,000
<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%.	1,415,000
<u>General Obligation Bonds, Series B of 2010</u> : 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%.	220,000
<u>General Obligation Notes, Series of 2002</u> : 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.	396,000
Total bonds and notes payable	<u>\$ 47,676,000</u>

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 8 - LONG-TERM LIABILITIES - CONTINUED

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

	Principal	Interest *
2020	\$ 2,512,000	\$ 1,248,872
2021	2,574,000	1,187,591
2022	2,640,000	1,122,148
2023	2,714,000	1,050,665
2024	2,788,000	977,225
2025 - 2029	14,801,000	3,731,012
2030 - 2034	16,537,000	1,759,975
2035	3,110,000	51,315
	\$ 47,676,000	\$ 11,128,803

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

General Obligation Bonds - Series of 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, 2019, swap agreements relative to the General Obligation Bonds had a positive market value of \$61,433. The market value is the estimated price that DelVal would receive if the agreements were terminated as of June 30, 2019, and are not reflected on the District's statement of net position (deficit).

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 8 - LONG-TERM LIABILITIES - CONTINUED

Long-term liability balances and activity for the year ended June 30, 2019, are 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	\$ 49,631,000	\$ 16,355,000	\$ 18,310,000	\$ 47,676,000	\$ 2,512,000
Less deferred amounts:					
For issuance discounts	(5,493)	(60,349)	(1,716)	(64,126)	-
For issuance premiums	47,068	27,515	21,636	52,947	-
Subtotal	<u>49,672,575</u>	<u>16,322,166</u>	<u>18,329,920</u>	<u>47,664,821</u>	<u>2,512,000</u>
Other Liabilities:					
Compensated absences	575,444	428,742	591,488	412,698	-
Net pension liability	90,431,292	-	7,768,349	82,662,943	-
Net other postemployment benefit liabilities	<u>11,351,129</u>	<u>356,562</u>	<u>543,641</u>	<u>11,164,050</u>	<u>-</u>
Total Governmental Long-term Liabilities	<u>\$ 152,030,440</u>	<u>\$ 17,107,470</u>	<u>\$ 27,233,398</u>	<u>\$ 141,904,512</u>	<u>\$ 2,512,000</u>
Business-Type Activities					
Other Liabilities:					
Compensated absences	\$ 24,317	\$ 7,426	\$ 7,244	\$ 24,499	\$ -
Net pension liability	1,826,708	65,105	161,756	1,730,057	-
Net other postemployment benefit liabilities	<u>151,377</u>	<u>122,456</u>	<u>6,878</u>	<u>266,955</u>	<u>-</u>
Total Business-Type Long-term Liabilities	<u>\$ 2,002,402</u>	<u>\$ 194,987</u>	<u>\$ 175,878</u>	<u>\$ 2,021,511</u>	<u>\$ -</u>

Funds to repay outstanding bonds and notes will be provided from future taxes or other general revenues of the general fund. The compensated absence liabilities will be liquidated by the general fund and the food service fund. Total interest expense paid during the year was \$1,307,821. The net pension and PSERS OPEB Plan portion of the OPEB liability will be liquidated through future contributions to PSERS at the statutory rates; contributions will be made from the general and food service funds. The District OPEB Plan portion of the OPEB liability will be liquidated through future payments from the general and food service funds.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 9 - EMPLOYEE RETIREMENT PLANS

Employee Defined Benefit Pension Plan

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, 2019

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, 2019, was 32.60% 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 \$7,858,587 for the year ended June 30, 2019.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information About the Pension Plan - continued

Contributions - continued

Employer Contributions - continued:

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, 2019, for pension and OPEB benefits was \$5,362,573.

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

At June 30, 2019, the District reported a liability of \$84,393,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2017 to June 30, 2018. 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, 2019, the District's proportion was 0.1758%, which was a decrease of 0.0110% from its proportion measured as of June 30, 2018.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

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, 2019, the District recognized pension expense of \$7,503,914. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 679,000	\$ 1,306,000
Changes of assumptions	1,572,000	-
Net difference between projected and actual investment earnings	414,000	-
Changes in proportion - plan level	1,016,000	4,013,000
Changes in proportion - internal	8,024	8,024
Difference between employer contributions and proportionate share of total contributions	548,494	-
Contributions made subsequent to the measurement date	<u>7,858,587</u>	<u>-</u>
	<u>\$ 12,096,105</u>	<u>\$ 5,327,024</u>

The \$7,858,587 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 ending June 30, 2020. 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:

2020	\$ 773,725
2021	121,949
2022	(1,750,851)
2023	<u>(234,329)</u>
	<u>\$ (1,089,506)</u>

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

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, 2018, was determined by rolling forward the System's total pension liability at June 30, 2017 to June 30, 2018, 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 actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study that was performed for the five year period ending June 30, 2015.

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

The 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.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

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 Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2018 is:

	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global public equity	20.0%	5.2%
Fixed income	36.0%	2.2%
Commodities	8.0%	3.2%
Absolute return	10.0%	3.5%
Risk parity	10.0%	3.9%
Infrastructure/MLPs	8.0%	5.2%
Real estate	10.0%	4.2%
Alternative investments	15.0%	6.7%
Cash	3.0%	0.4%
Financing (LIBOR)	<u>(20.0%)</u>	0.9%
	<u>100.0%</u>	

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, 2019

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</u> 6.25%	<u>Current</u> Discount Rate 7.25%	<u>1% Increase</u> 8.25%
District's proportionate share of the net pension liability	\$ 104,611,000	\$ 84,393,000	\$ 67,298,000

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, 2019, the District had an accrued balance due to PSERS, including contributions related to pension and OPEB of \$3,141,691. This amount represents the District's contractually obligated contributions for wages earned in April 2019 through June 2019. The balance was paid in September 2019.

Pension Reform

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

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, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS

Employee Defined Benefit Other Postemployment Benefit Plans

The District has other postemployment benefits (OPEB) under 2 different plans: (1) a cost-sharing, multiple employer, employee defined benefit other postemployment benefits plan administered through PSERS (PSERS OPEB Plan) and (2) a single employer defined benefit healthcare plan (District OPEB Plan). The District's aggregate net OPEB liability and deferred outflows and inflows of resources related to OPEB at June 30, 2019, are as follows:

<u>Plan</u>	<u>Net OPEB Liability</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
PSERS OPEB Plan	\$ 3,665,000	\$ 339,081	\$ 340,000
District OPEB Plan	<u>7,766,005</u>	<u>772,009</u>	<u>432,291</u>
Total	<u>\$ 11,431,005</u>	<u>\$ 1,111,090</u>	<u>\$ 772,291</u>

PSERS OPEB Plan

General Information About the PSERS OPEB Plan

Health Insurance Premium Assistance Program

PSERS (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, 2018, there were no assumed future benefit increases to participating eligible retirees.

Premium Assistance Eligibility Criteria

Retirees of the System can participate in the Premium Assistance Program if they satisfy the following criteria:

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

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

General Information About the PSERS OPEB Plan - 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, 2018, 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, 2019, 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 \$200,081 for the year ended June 30, 2019.

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 PSERS OPEB Plan liability 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, 2019, for pension and OPEB benefits was \$5,362,573.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

PSERS OPEB Plan Liability, Expense, and Deferred Outflows and Inflows of Resources Related to OPEB

At June 30, 2019, the District reported a liability of \$3,665,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System's total OPEB liability as of June 30, 2017 to June 30, 2018. The District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2019, the District's proportion was 0.1758%, which was a decrease of 0.0110% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2019, the District recognized OPEB expense of \$156,672. At June 30, 2019, 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
Difference between expected and actual experience	\$ 23,000	\$ -
Changes of assumptions	58,000	139,000
Difference between projected and actual investment earnings	6,000	-
Changes in proportion	52,000	201,000
Contributions made subsequent to the measurement date	200,081	-
	<u>\$ 339,081</u>	<u>\$ 340,000</u>

The \$200,081 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 liability in the year ended June 30, 2020. 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:

2020	\$ (36,000)
2021	(36,000)
2022	(36,000)
2023	(37,000)
2023	(37,000)
Thereafter	<u>(19,000)</u>
	<u>\$ (201,000)</u>

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

PSERS OPEB Plan Liability, Expense, and Deferred Outflows and Inflows of Resources Related to OPEB - continued

Actuarial Assumptions

The total OPEB liability as of June 30, 2018, was determined by rolling forward the System's total OPEB liability as of June 30, 2017 to June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 2.98% - 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 actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study that was performed for the five year period ended June 30, 2015.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2016 determined the employer contribution rate for fiscal year 2018.
- 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 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.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

PSERS OPEB Plan Liability, Expense, and Deferred Outflows and 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.

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, 2018, is:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.9%	0.03%
US Core Fixed Income	92.8%	1.20%
Non-US Developed Fixed	1.3%	0.40%
	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total OPEB liability was 2.98%. 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 2.98% which represents the S&P 20-year Municipal Bond Rate at June 30, 2018, was applied to all projected benefit payments to measure the total OPEB liability.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

PSERS OPEB Plan Liability, Expense, and Deferred Outflows and Inflows of Resources Related to OPEB - continued

Sensitivity of the District's Proportionate Share of the Net OPEB Liability 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, 2018, 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, 2017, 93,380 retirees were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2017, 1,077 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 liability for the June 30, 2018 measurement date, calculated using current Healthcare cost trends as well as what the District's proportionate share of the net OPEB liability 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 6.75%)	Current Trend Rate (Between 5% to 7.75%)	1% Increase (Between 6% to 8.75%)
District's proportionate share of the net OPEB liability	\$ 3,665,000	\$ 3,665,000	\$ 3,666,000

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

PSERS OPEB Plan - continued

PSERS OPEB Plan Liability, Expense, and Deferred Outflows and Inflows of Resources Related to OPEB - continued

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

The following presents the net OPEB liability, calculated using the discount rate of 2.98%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one-percentage point lower (1.98%) or one-percentage point higher (3.98%) than the current rate:

	1% Decrease 1.98%	Current Discount Rate 2.98%	1% Increase 3.98%
District's proportionate share of the net OPEB liability	\$ 4,168,000	\$ 3,665,000	\$ 3,248,000

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, 2019, the District had an accrued balance due to PSERS of \$3,141,691, including balances related to pension and OPEB. This amount represents the District's contractually obligated contributions for wages earned in April 2019 through June 2019. The balance was paid in September 2019.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan

General Information About the District 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, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

General Information About the District OPEB Plan - continued

Benefits Provided - continued

II. Administrators

<i>ELIGIBILITY</i>	<i>COVERAGE AND PREMIUM SHARING</i>	<i>DURATION</i>
<p>Must have 15 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, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

General Information About the District OPEB Plan - continued

Benefits Provided - 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, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

General Information About the District OPEB Plan - continued

Benefits Provided - continued

III. Teachers - continued

<p>B) Retire between July 1, 2007 and June 30, 2008 or after July 1, 2009</p> <p>Must have 15 years of service with the district (20 years of district service prior to July 1, 2016), 20 years of PSERS service 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, 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>N/A - Already retired</p>	<p>Act 110/43</p>	<p>Same as IIIA</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, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

General Information About the District OPEB Plan - continued

Benefits Provided - 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, 2018, the date of the most recent actuary valuation, the following employees were covered by the benefit terms:

Active participants	436
Retired participants	<u>32</u>
Total	<u><u>468</u></u>

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

OPEB Liability

Actuarial Assumptions and Other Inputs

The total OPEB liability as of July 1, 2018, was determined by rolling forward the District's total OPEB liability as of July 1, 2017 to July 1, 2018, 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 - 2.98% - based on the Standards & Poors Municipal Bond 20 Year High Grade Rate Index at 7/1/18.
- 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 2018, and 5.5% in 2019 through 2021. Rates gradually decrease from 5.4% in 2022 to 3.8% 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, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at July 1, 2018	<u>\$ 7,696,506</u>
Changes for the year:	
Service cost	517,275
Interest	251,262
Changes of benefit terms	1,357
Differences between expected and actual experience	(189,916)
Changes of assumptions or other inputs	(166,632)
Benefit payments	<u>(343,847)</u>
Net changes	<u>69,499</u>
Balance at June 30, 2019	<u><u>\$ 7,766,005</u></u>

Changes of assumptions or other inputs reflect the following changes: (1) the discount rate changed from 3.13% to 2.98%; (2) the trend assumption was updated; (3) assumptions for salary, mortality, withdrawal, and retirement were updated based on new PSERS assumptions; (4) the percent married at retirement assumption was lowered from 33% to 20% due to plan experience.

Changes of benefit terms reflect the following change: (1) administrators are now able to receive subsidized benefits upon reaching 15 years of district service. Previously they were required to reach 25 years of district service.

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

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one-percentage point lower (1.98%) or one-percentage point higher (3.98%) than the current discount rate:

	<u>1% Decrease 1.98%</u>	<u>Current Discount Rate 2.98%</u>	<u>1% Increase 3.98%</u>
OPEB Plan - Total OPEB Liability	\$ 8,316,833	\$ 7,766,005	\$ 7,243,205

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

Changes in the Total OPEB Liability - continued

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

The following presents total OPEB liability of the District, as well as what the District's total OPEB liability 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 Liability	\$ 7,173,851	\$ 7,766,005	\$ 8,467,318

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

For the year ended June 30, 2019, the District recognized OPEB expense of \$768,525. At June 30, 2019, 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>
Differences between expected and actual experience	\$ 103,170	\$ 278,477
Changes of assumptions	286,637	153,814
Benefit payments made subsequent to the measurement date	<u>382,202</u>	<u>-</u>
	<u>\$ 772,009</u>	<u>\$ 432,291</u>

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 10 - OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

District OPEB Plan - continued

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

The \$382,202 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 liability in the year ended June 30, 2020. 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:

2020	\$	(1,369)
2021		(1,369)
2022		(1,369)
2023		(1,369)
2024		(1,369)
Thereafter		<u>(35,639)</u>
Total	\$	<u><u>(42,484)</u></u>

NOTE 11 - 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.

Currently, the District is self-insured for medical and prescription insurance for employees and their dependents. The District is a member of the Southeastern Pennsylvania Schools Trust (SEPaST), a healthcare benefits consortium geared toward generating cost savings for participating school districts. The District uses SEPaST to provide consulting and administrative services to process claims within the self-insurance fund. For the year ended June 30, 2019, the District has coverage for claims in excess of \$200,000 per person with no annual aggregate limit.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 11 - RISK MANAGEMENT - CONTINUED

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

	<u>2019</u>	<u>2018</u>
Claims payable, beginning of year	\$ -	\$ -
Incurred claims	5,784,350	5,929,354
Claims paid	<u>(5,784,350)</u>	<u>(5,929,354)</u>
Claims payable, end of year	<u>\$ -</u>	<u>\$ -</u>

As of June 30, 2019, the District maintains a balance of \$2,173,053 in an escrow account held for future healthcare claims in compliance with the rating and funding policy of the Southeastern Pennsylvania Schools Trust (SEPaST).

NOTE 12 - 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 2018/2019 year, the District awarded two contracts for work related to the 2019 Building Repair Program and Pottstown High School roof repairs totaling \$555,270. At June 30, 2019, a balance of \$365,719 remains outstanding on these commitments. The District plans to use existing resources in the general and capital projects fund to fulfill these commitments.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 13 - FUND BALANCE/RESTATEMENT

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, 2019, were as follows:

General Fund

The General Fund has nonspendable funds of \$47,463 related to inventories and prepaid expenditures. Committed funds are \$3,799,409 for retirement rate increases. Assigned funds are \$457,324 for appropriations for the 2019/2020 budget and \$1,361,626 for future capital needs. The remaining fund balance of \$5,144,225 is unassigned. The commitment was authorized by the board of school directors' motion to set aside resources to fund anticipated increases in PSERS contributions.

Capital Projects Fund

The capital projects fund has restricted funds of \$2,159,379 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 \$128,002 consisting of \$112,910 of spendable receipts that are received from donors for specific purposes and \$15,092 of sinking fund deposits that will be used to pay future interest expenses.

Restatement of Beginning Fund Balance and Net Position (Deficit)

The general fund beginning fund balance was restated from \$9,158,214 to \$9,934,625 and the governmental activities beginning net position (deficit) was restated from (\$60,854,149) to (\$60,077,738). This restatement reflects the accrual for the state subsidy receivable for social security and retirement on accrued summer pays. This receivable had not historically been recorded.

NOTE 14 - 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.

POTTSTOWN SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2019

NOTE 14 - NEW ACCOUNTING PRONOUNCEMENTS - CONTINUED

- 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.
- Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* - This statement establishes accounting requirements for interest cost incurred before the end of a construction period. Under this statement, interest cost incurred before the end of a construction period must be recognized as an expense in the period in which the costs are incurred for financial statements prepared using the economic resources measurement focus. This statement is effective for the District's fiscal year ending June 30, 2021.
- Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61* - This statement modifies previous guidance for reporting a government's majority equity interest in a legally separate organization and provides guidance for reporting a component unit if a government acquires a 100% equity interest in that component unit. This statement is effective for the District's fiscal year ending June 30, 2020.

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, 2019

	Budgeted Amount		Actual (GAAP) Basis	Variances Final to Actual
	Original	Final		
REVENUES				
Local sources	\$ 33,876,762	\$ 33,876,762	\$ 34,888,329	\$ 1,011,567
State sources	26,136,089	26,136,089	27,448,466	1,312,377
Federal sources	2,232,202	2,232,202	2,614,520	382,318
TOTAL REVENUES	62,245,053	62,245,053	64,951,315	2,706,262
EXPENDITURES				
INSTRUCTIONAL SERVICES:				
Regular programs - elementary/secondary	20,196,269	20,196,269	19,867,383	328,886
Special programs - elementary/secondary	12,728,802	12,728,802	13,725,996	(997,194)
Vocational education	1,262,257	1,262,257	1,192,374	69,883
Other instructional programs - elementary/secondary	1,764,256	1,764,256	2,392,830	(628,574)
Pre-kindergarten	2,913,015	2,913,015	2,789,029	123,986
TOTAL INSTRUCTIONAL SERVICES	38,864,599	38,864,599	39,967,612	(1,103,013)
SUPPORT SERVICES:				
Students	2,073,760	2,073,760	1,995,318	78,442
Instructional staff	1,945,790	1,945,790	2,184,605	(238,815)
Administration	3,595,396	3,595,396	3,747,239	(151,843)
Pupil health	1,126,031	1,126,031	958,372	167,659
Business services	1,068,869	1,068,869	880,038	188,831
Operation and maintenance of plant	5,066,720	5,066,720	5,138,206	(71,486)
Student transportation	1,999,434	1,999,434	2,869,745	(870,311)
Central	379,609	379,609	405,143	(25,534)
Other	20,000	20,000	17,370	2,630
TOTAL SUPPORT SERVICES	17,275,609	17,275,609	18,196,036	(920,427)
OPERATION OF NONINSTRUCTIONAL SERVICES				
Student activities	656,849	656,849	959,004	(302,155)
Community services	40,679	40,679	21,483	19,196
TOTAL OPERATION OF NONINSTRUCTIONAL SERVICES	697,528	697,528	980,487	(282,959)
CAPITAL OUTLAY	843,569	843,569	796,033	47,536
DEBT SERVICE	4,636,198	4,636,198	3,621,432	1,014,766
REFUND OF PRIOR YEAR REVENUES	-	-	5,356	(5,356)
TOTAL EXPENDITURES	62,317,503	62,317,503	63,566,956	(1,249,453)
EXCESS OF REVENUES OVER EXPENDITURES	(72,450)	(72,450)	1,384,359	1,456,809
OTHER FINANCING SOURCES (USES)				
Transfers out	-	-	(650,000)	(650,000)
Budgetary reserve	(360,424)	(360,424)	-	360,424
Sale of capital assets	-	-	138,556	138,556
Transfers in	-	-	2,507	2,507
TOTAL OTHER FINANCING SOURCES (USES)	(360,424)	(360,424)	(508,937)	(148,513)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (432,874)	\$ (432,874)	875,422	\$ 1,308,296
FUND BALANCE - BEGINNING OF YEAR - RESTATED			9,934,625	
FUND BALANCE - END OF YEAR			\$ 10,810,047	

See note to required supplementary information.

POTTSTOWN SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2019

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.

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 2018/2019 budget transfers.

POTTSTOWN SCHOOL DISTRICT

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

LAST TEN FISCAL YEARS

	2019	2018	2017	2016	2015	2014
District's proportion of the collective net pension liability	0.1758%	0.1868%	0.1834%	0.1829%	0.1848%	0.1846%
District's proportionate share of the collective net pension liability	\$ 84,393,000	\$ 92,258,000	\$ 90,887,000	\$ 79,224,000	\$ 73,145,000	\$ 75,568,000
District's covered employee payroll	\$ 23,671,230	\$ 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	356.52%	370.87%	382.64%	336.72%	310.16%	318.97%
Plan fiduciary net position as a percentage of the total pension liability	54.00%	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, which is one year prior to the fiscal year end.

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>2019</u>	<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>
Contractually required contribution	\$ 7,858,587	\$ 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
Contributions in relation to the contractually required contribution	<u>7,858,587</u>	<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>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 24,398,890	\$ 23,671,230	\$ 24,876,388	\$ 23,752,630	\$ 23,528,030	\$ 23,582,695	\$ 23,691,286			
Contributions as a percentage of covered employee payroll	32.21%	33.39%	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 LIABILITY AND RELATED RATIOS -
PSERS OPEB PLAN

LAST TEN FISCAL YEARS

	2019	2018	2017
District's proportion of the collective PSERS OPEB liability	0.1758%	0.1868%	0.1834%
District's proportionate share of the collective net PSERS OPEB liability	\$ 3,665,000	\$ 3,806,000	\$ 3,950,000
District's covered employee payroll	\$ 23,671,230	\$ 24,876,388	\$ 23,752,630
District's proportionate share of the net PSERS OPEB liability as a percentage of its covered employee payroll	15.48%	15.30%	16.63%
Plan fiduciary net position as a percentage of the total PSERS OPEB liability	5.56%	5.73%	5.47%

The District's covered employee payroll noted above is as of the measurement date of the net PSERS OPEB liability, which is one year prior to the fiscal year end.

NOTES TO SCHEDULE

Changes of Benefit Terms

None.

Changes of Assumptions

Significant changes of assumptions for the June 30, 2018 measurement date are as follows:

- The discount rate changed from 3.13% to 2.98%.

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 - PSERS OPEB PLAN

LAST TEN FISCAL YEARS

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually required contribution	\$ 200,081	\$ 206,672	\$ 212,542	\$ 196,023	\$ 206,205	\$ 216,951	\$ 200,879	\$ 154,313	\$ 161,498	\$ 201,719
Contributions in relation to the contractually required contribution	200,081	206,672	212,542	196,023	206,205	216,951	200,879	154,313	161,498	201,719
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered employee payroll	\$ 24,398,890	\$ 23,671,230	\$ 24,876,388	\$ 23,752,630	\$ 23,528,030	\$ 23,582,695	\$ 23,691,286			
Contributions as a percentage of covered employee payroll	0.82%	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 TOTAL OPEB LIABILITY AND RELATED RATIOS -
DISTRICT OPEB PLAN**

LAST TEN FISCAL YEARS

	<u>2019</u>	<u>2018</u>
Total OPEB liability:		
Service cost	\$ 517,275	\$ 490,888
Interest	251,262	181,978
Changes in benefit terms	1,357	-
Differences between expected and actual experience	(189,916)	-
Changes in assumptions	(166,632)	338,753
Benefit payments	<u>(343,847)</u>	<u>(289,318)</u>
Net change in total OPEB liability	69,499	722,301
Total OPEB liability, beginning	<u>7,696,506</u>	<u>6,974,205</u>
Total OPEB liability, ending	<u><u>\$ 7,766,005</u></u>	<u><u>\$ 7,696,506</u></u>
Covered employee payroll	<u><u>\$ 23,812,469</u></u>	<u><u>\$ 23,349,759</u></u>
Total OPEB liability as a Percentage of Covered Employee Payroll	32.61%	32.96%

NOTES TO SCHEDULE

Changes of Benefit Terms

Administrators are now able to receive subsidized benefits upon reaching 15 years of district service. Previously, they were required to reach 25 years of district service.

Changes of Assumptions

Significant changes in assumptions for the July 1, 2018 measurement date are as follows:

- The discount rate changed from 3.13% to 2.98%.
- The trend assumption was updated.
- Assumptions for salary, mortality, withdrawal and retirement were updated based on new PSERS assumptions.
- The percent married at retirement assumption was lowered from 33% to 20% due to plan experience.

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, 2019

	Special Revenue	Debt Service	Total Governmental Funds
ASSETS			
Cash and investments	\$ 116,977	\$ 15,092	\$ 132,069
TOTAL ASSETS	<u>\$ 116,977</u>	<u>\$ 15,092</u>	<u>\$ 132,069</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 4,067	\$ -	\$ 4,067
TOTAL LIABILITIES	4,067	-	4,067
FUND BALANCES			
Restricted fund balance	112,910	15,092	128,002
TOTAL FUND BALANCES	<u>112,910</u>	<u>15,092</u>	<u>128,002</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 116,977</u>	<u>\$ 15,092</u>	<u>\$ 132,069</u>

POTTSTOWN SCHOOL DISTRICT

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

For the Year Ended June 30, 2019

	Special Revenue	Debt Service	Total Governmental Funds
REVENUES			
Local sources	\$ 51,916	\$ 4	\$ 51,920
TOTAL REVENUES	51,916	4	51,920
EXPENDITURES			
Current:			
Support services	-	316,883	316,883
Operation of noninstructional services	47,173	-	47,173
Debt service interest	-	104,389	104,389
TOTAL EXPENDITURES	47,173	421,272	468,445
OTHER FINANCING SOURCES (USES)			
Current refunding debt service principal	-	(15,892,000)	(15,892,000)
Bond discount	-	(60,349)	(60,349)
Transfers out	-	(2,507)	(2,507)
Issuance of refunding bonds	-	16,355,000	16,355,000
Bond premium	-	27,515	27,515
TOTAL OTHER FINANCING SOURCES (USES)	-	427,659	427,659
NET CHANGE IN FUND BALANCES	4,743	6,391	11,134
FUND BALANCES - BEGINNING OF YEAR	108,167	8,701	116,868
FUND BALANCES - END OF YEAR	<u>\$ 112,910</u>	<u>\$ 15,092</u>	<u>\$ 128,002</u>

POTTSTOWN SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2019

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, 2018	Revenue Recognized/Expenditures	Accrued or (Unearned) Revenue at June 30, 2019
U.S. DEPARTMENT OF DEFENSE									
Basic, Applied, and Advanced Research in Science and Engineering	D	12.630-297929	N/A	07/01/18-06/30/19	\$ 43,321	\$ 50,306	\$ 6,985	\$ 43,321	\$ -
U.S. DEPARTMENT OF EDUCATION									
Passed through the Pennsylvania Department of Education:									
Title I Grants to Local Educational Agencies	I	84.010	013-190348	09/04/18-09/30/19	1,343,794	854,956	-	1,138,394	283,438
Title I Grants to Local Educational Agencies	I	84.010	013-180348	08/17/17-09/30/18	1,184,545	322,071	73,457	248,614	-
Subtotal - CFDA 84.010						1,177,027	73,457	1,387,008	283,438
Career and Technical Training	I	84.048	380-190085	08/08/18-06/30/19	63,751	63,751	-	63,751	-
Supporting Effective Instruction State Grants	I	84.367	020-190348	09/04/18-09/30/19	179,455	184,067	-	179,455	(4,612)
Supporting Effective Instruction State Grants	I	84.367	020-180348	08/17/17-09/30/18	171,881	(847)	(847)	-	-
Subtotal - CFDA 84.367						183,220	(847)	179,455	(4,612)
Title IV Student Support and Academic Enrichment	I	84.424	144-190348	09/04/18-09/30/19	85,530	26,317	-	26,317	-
21st Century Community Learning Centers	I	84.287	4100068087	10/01/18-09/30/19	475,000	170,444	-	302,372	131,928
21st Century Community Learning Centers	I	84.287	4100068087	10/01/17-09/30/18	400,000	234,288	144,185	90,103	-
21st Century Community Learning Centers	I	84.287	4100060872	10/01/13-09/30/14	500,000	-	(17,440)	-	(17,440)
Subtotal - CFDA 84.287						404,732	126,745	392,475	114,488
Passed through the Montgomery County Intermediate Unit:									
English Language Acquisition State Grants	I	84.365	N/A	07/07/18-09/30/19	3,691	1,082	-	1,082	-
English Language Acquisition State Grants	I	84.365	N/A	07/07/17-09/30/18	3,717	3,717	3,717	-	-
English Language Acquisition State Grants	I	84.365	N/A	07/17/16-09/30/17	4,084	654	654	-	-
Subtotal - CFDA 84.365						5,453	4,371	1,082	-
Special Education Cluster:									
Special Education - Grants to States	I	84.027	N/A	07/01/18-09/30/19	656,662	656,662	-	656,662	-
Special Education - Preschool Grants	I	84.173	N/A	07/01/18-09/30/19	3,179	3,179	-	3,179	-
Subtotal Special Education Cluster						659,841	-	659,841	-
TOTAL U.S. DEPARTMENT OF EDUCATION						2,520,341	203,726	2,709,929	393,314
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	07/01/18-06/30/19	N/A	23,938	12,596	22,193	10,851
U.S. DEPARTMENT OF AGRICULTURE									
Child Nutrition Cluster									
Passed through Pennsylvania Department of Education:									
School Breakfast Program	I	10.553	N/A	07/01/18-06/30/19	N/A	394,922	-	410,007	15,085
School Breakfast Program	I	10.553	N/A	07/01/17-06/30/18	N/A	14,130	14,130	-	-
Subtotal - CFDA 10.553						409,052	14,130	410,007	15,085
National School Lunch Program	I	10.555	N/A	07/01/18-06/30/19	N/A	1,472,060	-	1,515,371	43,311
National School Lunch Program	I	10.555	N/A	07/01/17-06/30/18	N/A	49,039	49,039	-	-
Passed through the Pennsylvania Department of Agriculture:									
National School Lunch Program	I	10.555	N/A	07/01/18-06/30/19	N/A	107,786	(917)	108,166	(537)
Subtotal - CFDA 10.555						1,628,885	48,122	1,623,537	42,774
TOTAL CHILD NUTRITION CLUSTER AND U.S. DEPARTMENT OF AGRICULTURE						2,037,937	62,252	2,033,544	57,859
TOTAL FEDERAL AWARDS						\$ 4,632,522	\$ 285,559	\$ 4,808,987	\$ 462,024

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

NOTE: No funds were passed through to subrecipients in the year ended June 30, 2019.

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, 2019

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, 2019. 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 - ACCESS PROGRAM

The District participates in the ACCESS Program which is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding classified as fee-for-service and recognized for the year ended June 30, 2019 was \$500,000.

NOTE 5 - FOOD COMMODITIES

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. At June 30, 2019, the District had \$537 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, 2019, 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 7, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

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 7, 2020**



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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, 2019. 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, 2019.

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 7, 2020**

POTTSTOWN SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2019

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? _____ yes X no
Significant deficiency(ies) identified not considered to be
material weaknesses? _____ yes X none reported
Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal Control over major programs:
Material weakness(es) identified? _____ 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>
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, 2019

Section II - Financial Statement Findings

There were no financial statement findings.

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, 2019

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

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

Effect

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

Recommendation

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

Management Response

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, 2019

Section III - Federal Awards Findings and Questioned Costs

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

This is no longer a finding in the current year.



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**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, 2019. 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, 2019, 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, 2019

- 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 7, 2020

POTTSTOWN SCHOOL DISTRICT

PA PRE-K COUNTS SUPPLEMENTAL AUDIT SCHEDULE

For the Fiscal Year Ended June 30, 2019

	Original Budgeted Expenditures	Final Approved Revised Budget	Actual Expenditures	Differences
PERSONNEL				
Salaries/wages:				
Child health and development	\$ 574,131	\$ 571,436	\$ 525,294	\$ 46,142
Total salaries	574,131	571,436	525,294	46,142
Benefits (net of retirement and Social Security reimbursement)	361,240	261,500	258,036	3,464
TOTAL PERSONNEL	935,371	832,936	783,330	49,606
OPERATIONS				
Supplies for program purposes	46,625	69,460	76,406	(6,946)
Supplies for management purposes	7,000	8,606	9,466	(860)
Amount related to parent services	2,000	2,834	3,117	(283)
Space related costs	20,000	90,000	99,000	(9,000)
Building maintenance/repairs	7,500	68,500	75,350	(6,850)
Utilities and telephone	3,375	43,540	47,894	(4,354)
Publications/advertising/printing	2,000	500	500	-
Substitutes	44,100	51,064	56,170	(5,106)
Non-student travel	2,000	2,000	2,200	(200)
Contracted services	134,281	182,760	198,417	(15,657)
Training and staff development	4,000	3,500	3,850	(350)
Student transportation	4,748	5,300	5,300	-
TOTAL OPERATIONS	277,629	528,064	577,670	(49,606)
PROGRAMS				
Funds passed through to partners	1,184,000	1,036,000	1,036,000	-
TOTAL PROGRAMS	1,184,000	1,036,000	1,036,000	-
TOTAL BUDGET	<u>\$ 2,397,000</u>	<u>\$ 2,397,000</u>	<u>\$ 2,397,000</u>	<u>\$ -</u>
	Original Budgeted Revenues	Revised Budgeted Revenues	Actual Revenues	Differences
REVENUES				
Pennsylvania Pre-K Counts	<u>\$ 2,397,000</u>	<u>\$ 2,397,000</u>	<u>\$ 2,397,000</u>	<u>\$ -</u>