



***TULPEHOCKEN AREA SCHOOL DISTRICT***

**FINANCIAL AND COMPLIANCE REPORT**

**Year Ended June 30, 2017**

## TABLE OF CONTENTS

	Pages
<b>INDEPENDENT AUDITOR'S REPORT .....</b>	1 - 2
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS .....</b>	3 - 7
 <b>BASIC FINANCIAL STATEMENTS</b>	
 <b>Government-Wide Financial Statements</b>	
Statement of Net Position.....	8
Statement of Activities.....	9
 <b>Fund Financial Statements</b>	
Balance Sheet - Governmental Funds.....	10
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position.....	11
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds .....	12
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities .....	13
Statement of Net Position - Proprietary Fund .....	14
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund .....	15
Statement of Cash Flows - Proprietary Fund .....	16 - 17
Statement of Net Position - Fiduciary Funds .....	18
Statement of Changes in Net Position - Fiduciary Fund .....	19
 Notes to Basic Financial Statements.....	 20 - 56
 <b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budgetary Comparison Schedule for the General Fund .....	57 - 58
Schedule of the District's Proportionate Share of the Net Pension Liability and Related Ratios - Pension Plan .....	59
Schedule of District Contributions - Pension Plan.....	60
Schedule of Funding Progress - Other Postemployment Benefits Plan .....	61
Note to Required Supplementary Information .....	62

**SUPPLEMENTARY INFORMATION**

**Single Audit**

Schedule of Expenditures of Federal Awards .....	63
Notes to Schedule of Expenditures of Federal Awards.....	64

<b>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> .....</b>	<b>65 - 66</b>
--	----------------

<b>INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE .....</b>	<b>67 - 68</b>
---	----------------

<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....</b>	<b>69 - 70</b>
--	----------------

<b>STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS .....</b>	<b>71</b>
---	-----------

## **INDEPENDENT AUDITOR'S REPORT**

**To the Board of School Directors  
Tulpehocken Area School District  
Bethel, 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 Tulpehocken Area School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Tulpehocken Area School District, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule for the general fund, and pension and other postemployment benefits information on pages 59 through 61 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 Tulpehocken Area School District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Herbein + Company, Inc.*

**Reading, Pennsylvania  
November 13, 2017**

# ***TULPEHOCKEN AREA SCHOOL DISTRICT***

27 Rehrersburg Road, Bethel, PA 19507

Phone: 717-933-4611

Fax: 717-933-9724

*Office of the Superintendent*

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Unaudited

The Tulpehocken Area School District's (the "District") management discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the District's financial activity, (c) identify changes in the District's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

### **Highlights**

The District's net position increased by \$386,040 during the 2016-2017 fiscal year. The governmental net position increased by \$325,510 and the business-type (cafeteria) net position increased by \$60,530. The total net pension liability that was recognized for the first time in the 2014-2015 fiscal year is currently \$48,813,000 and is the reason the district's total net position stands at \$(19,608,158).

During the year, the District exceeded budgeted revenues by \$558,068 mainly due to continued real estate growth, higher earned income tax and real estate transfer tax collections that more than doubled and any recent year's collections. Expenditures were less than the budgeted amounts by \$632,143 due to lower cyber charter school tuition, heating oil prices and general expense control practices. This allowed the district to transfer \$770,000 to the Capital Projects fund and increase the General Fund balance by \$205,211, with the unassigned fund balance at \$2,442,234 which is slightly below the mandated 8% maximum limit.

The transfer to the Capital Projects fund was necessary to replenish reserves for deferred maintenance projects and emergency repairs. The fund has been decreasing in recent years with the renovation of the wastewater treatment plant requiring over \$1 million to complete. The Capital Projects fund balance was \$1,886,357 at June 30, 2017 after the transfer from the General Fund.

Healthcare and pension costs continue to be the most important expenses in future budgets. The District has committed \$1,000,000 to help defray these future benefit increases, \$200,000 for unanticipated special education costs, and \$65,000 for athletic facility deferred maintenance costs. The District has successfully managed the significant pension increases over the past few years without tapping this reserve. The 2017-2018 pension increase of 8.5% is higher than the projected increases over the next few years. The 2018-2019 projected rate of 34.18% reflects a 4.9% increase or just over \$100,000 net of state reimbursement.

The Berks 78 Business Park is flourishing with warehousing facilities for PetSmart Inc., Dollar General Corp. and Samsung, providing the district with a steady increase of tax revenue of approximately \$250,000 annually. The district approved a tax incentive plan for these properties offering tax abatement incrementally over a ten-year period. The additional annual tax revenue anticipated at the end of the ten-year period is over \$2 million. There are three new warehouses currently under construction along I-78 in our district. No tax incentives were granted for any of these projects so they will become fully taxable when completed in 2018.

## **Using this Annual Report**

In light of the fact that this is a very different presentation of the District's previous general-purpose financial statements, the primary focus of local government's financial statement in the past (summarized fund type information) has been discarded. The new (and clearly preferable) focus is on both the District as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the District's accountability.

## **Government-Wide Financial Statements**

The government-wide financial statements are designed to be corporate-like in that all governmental and business-type activities are consolidated into columns, which add to a total for the primary government. The focus of the Statement of Net Position (the "unrestricted net position") is designed to be similar to a bottom line for the District and its governmental and business-type activities. This statement, for the first time, combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations.

The Statement of Activities is focused on both the gross and net cost of various activities (including governmental, business-type and component unit), which are provided by the government's general tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services and/or subsidy to various business-type activities and/or component units.

The governmental activities reflect the District's basic service, including instruction, instructional support, administration, and transportation. Property taxes, earned income tax and state subsidies finance the majority of these services. The business-type activities reflect private sector type operations (Food service), where the fee for service typically covers all or most of the cost of operation including depreciation.

Over time, increases and decreases in the District's net position are an indication of whether its financial health is improving or deteriorating, respectively.

## **Fund Financial Statements**

Traditional users of governmental financial statements will find the fund financial statements presentation more familiar. The focus is now on major funds rather than fund types. The governmental major fund presentation is presented on a sources and uses of liquid resources basis. This is the manner in which the financial plan (the budget) is typically developed. The flow and availability of liquid resources is a clear and appropriate focus of any analysis of a government. Funds are established for various purposes and the fund financial statement allows the demonstration of sources and uses and/or budgeting compliance associated therewith.

The fund financial statements also allow the government to address its fiduciary (or trust funds) summarized by type (pension, investment and private-purpose trusts). While these funds represent trust responsibilities of the government, these assets are restricted in purpose and do not represent discretionary assets of the government. Therefore, these assets are not presented as part of the government-wide financial statements.

While the Food Service column on the proprietary fund financial statements is the same as the business-type column at the government-wide financial statement, the governmental major funds total column requires reconciliation because of the different measurement focus (current financial resources versus total economic resources) which is reflected on the page following each statement. The flow of current financial resources will reflect bond proceeds and interfund transfers as other financial sources as well as capital expenditures and bond principal payments as expenditures. The reconciliation will eliminate these transactions and incorporate the capital assets and long-term obligation (bonds and others) into the governmental activities column (in the government-wide statements). Adjustment between the business-type presentations (government-wide and major fund totals) will typically only occur if there is a need to redistribute excess income/loss for the Internal Service Funds to the customers (including business-type activities) and adjustments, if necessary, will be reflected on the bottom of the fund financial statements.

## Government-wide Statement

### Statement of Net Position

The following table reflects the condensed Statement of Net Position.

**Table 1**  
Condensed statement of net position  
Fiscal year ended June 30, 2017

	2017			2016		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
<b>Assets</b>						
Current and other assets	\$ 10,035,040	\$ 358,495	\$ 10,393,535	\$ 9,401,382	\$ 279,985	\$ 9,681,367
Capital assets	38,350,357	19,137	38,369,494	39,418,922	18,280	39,437,202
Total assets	<u>\$ 48,385,397</u>	<u>\$ 377,632</u>	<u>\$ 48,763,029</u>	<u>\$ 48,820,304</u>	<u>\$ 298,265</u>	<u>\$ 49,118,569</u>
Deferred outflow s of resources	\$ 8,693,366	\$ 155,555	\$ 8,848,921	\$ 3,740,078	\$ 66,970	\$ 3,807,048
<b>Liabilities</b>						
Current and other liabilities	\$ 5,966,152	\$ 13,929	\$ 5,980,081	\$ 5,780,494	\$ 11,513	\$ 5,792,007
Long-term liabilities	69,696,539	888,397	70,584,936	66,051,649	773,811	66,825,460
Total liabilities	<u>75,662,691</u>	<u>902,326</u>	<u>76,565,017</u>	<u>71,832,143</u>	<u>785,324</u>	<u>72,617,467</u>
Deferred inflow s of resources	\$ 617,581	\$ 37,510	\$ 655,091	255,258	47,090	\$ 302,348
<b>Net Position</b>						
Net Investment in						
Capital Assets	15,699,997	19,137	15,719,134	14,466,839	18,280	14,485,119
Restricted	1,941,160	-	1,941,160	1,622,927	-	1,622,927
Unrestricted	<u>(36,842,666)</u>	<u>(425,786)</u>	<u>(37,268,452)</u>	<u>(35,616,785)</u>	<u>(485,459)</u>	<u>(36,102,244)</u>
Total net position	<u>\$ (19,201,509)</u>	<u>\$ (406,649)</u>	<u>\$ (19,608,158)</u>	<u>\$ (19,527,019)</u>	<u>\$ (467,179)</u>	<u>\$ (19,994,198)</u>

Most of the District's net position is invested in capital assets (buildings, land, and equipment) but the majority of the capital assets were financed with debt. The restricted amounts are set aside to fund future purchases or capital projects as planned by the District. See the Statement of Net Position for more detailed information.



## Statement of Activities

The following table reflects the revenues and expenses for the current period.

**Table 2**  
Changes in Net Position  
for the year ended June 30, 2017

	2017			2016		
	Governmental Activities	Business-type activities	Total	Governmental Activities	Business-type activities	Total
<b>Revenues</b>						
Program revenues						
Charges for services	250,390	349,533	599,923	261,653	364,401	626,054
Operating grants and contributions	5,628,874	483,931	6,112,805	5,260,341	469,212	5,729,553
Capital grants and contributions	441,290		441,290	468,085		468,085
General revenues						
Taxes	19,820,680		19,820,680	19,111,973		19,111,973
Grants	4,083,029		4,083,029	3,957,943		3,957,943
Other	72,051	275	72,326	15,732	245	15,977
<b>Total revenues</b>	<b>30,296,314</b>	<b>833,739</b>	<b>31,130,053</b>	<b>29,075,727</b>	<b>833,858</b>	<b>29,909,585</b>
<b>Expenses</b>						
Instruction	18,105,480		18,105,480	17,162,357		17,162,357
Instructional student support	2,022,496		2,022,496	1,864,962		1,864,962
Administrative and financial support services	2,060,910		2,060,910	1,994,530		1,994,530
Operation and maintenance of plant services	2,271,063		2,271,063	2,320,318		2,320,318
Pupil transportation	1,504,120		1,504,120	1,375,866		1,375,866
Other support services	1,363,341		1,363,341	1,371,418		1,371,418
Non-instructional services	499,293	773,209	1,272,502	462,861	756,306	1,219,167
Unallocated Depreciation expense	1,589,436		1,589,436	1,585,624		1,585,624
Interest on long-term debt	554,665		554,665	587,280		587,280
<b>Total expenses</b>	<b>29,970,804</b>	<b>773,209</b>	<b>30,744,013</b>	<b>28,725,216</b>	<b>756,306</b>	<b>29,481,522</b>
<b>Increase in net position</b>	<b>325,510</b>	<b>60,530</b>	<b>386,040</b>	<b>350,511</b>	<b>77,552</b>	<b>428,063</b>

## The District Funds

### Governmental Funds

As of the year-end, the governmental funds reported a combined fund balance of \$6,168,676 which is an increase of \$523,444 from the prior year. The General Fund experienced a \$205,211 net increase in fund balance. The unassigned portion of the fund balance is \$2,442,234 or 7.9% of budgeted 2017-2018 expenditures. The District has committed \$1,265,000 for future benefit rate increases, special education and athletic facility improvements.

### Proprietary Fund

The cafeteria fund reported an increase in net position of \$60,530. This is the fifth year in a row with positive cash flow after many years of losses and remains one of the few school food service operations in the state to maintain this success.

## 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 confirmed at the time the annual audit is accepted, which is 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 the amounts actually incurred and recognized is provided on page 57 and 58.

Current real estate taxes exceeded budget by \$193,862 mainly due to increased assessments from new warehouse development along I-78 and higher than historical collection rates. Real estate transfer taxes exceeded budget by \$243,201. The amount collected of \$443,201 is more than double the \$197,000 average amount collected over the last ten years. State revenue exceeded budget by \$148,253 and federal revenue fell short of budget by \$56,385.

## **Capital Assets and Debt Administration**

### Capital Assets

As of year-end, the District had \$38,369,494 invested in a variety of capital assets, which represents a net decrease (additions less retirements and depreciation) of \$1,067,708 from the end of last year. Detailed information regarding capital asset activity is included in the notes to the basic financial statements.

### Debt Outstanding

As of year-end, the District had \$22,500,000 in debt (bonds) outstanding compared to \$24,760,000 last year. This represents a decrease of \$2,260,000. Detailed information regarding long-term debt activity is included in the notes to the basic financial statements.

## **Factors Expected to have an Effect on Future Operations**

The District negotiated a new collective bargaining agreement with the Tulpehocken Education Association in February 2017 that extends through the 2018-2019 school year.

Future pension and healthcare increases remain the most significant challenge in the long term budgeting process. Although the District has committed a significant amount of their reserves to prepare for the increases, a sustained revenue stream will be required to fund the increases in future years.

Revenue from the Berks 78 Business Park improvements will provide incremental tax revenue of approximately \$250,000 annually for the next seven years and three new warehouse construction projects will provide immediate real estate tax income for next fiscal year unless property taxes are eliminated by the state government. The school board and administration are working together effectively to analyze all expenditures, keeping the interest of the students and taxpayers in the forefront.

## **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, Tulpehocken Area School District, 27 Rehrersburg Road, Bethel, PA 19057.*

**TULPEHOCKEN AREA SCHOOL DISTRICT**

**STATEMENT OF NET POSITION**

**June 30, 2017**

	Governmental Activities	Business- Type Activities	Total
<b>ASSETS</b>			
Cash and Investments	\$ 7,590,240	\$ 326,736	\$ 7,916,976
Taxes Receivable, Net	810,848	-	810,848
Intergovernmental Receivables	1,617,367	8,624	1,625,991
Other Receivables	14,874	480	15,354
Inventories	-	22,655	22,655
Prepaid Expenses	1,711	-	1,711
Capital Asset Not Being Depreciated:			
Land	65,136	-	65,136
Construction in Progress	496,812	-	496,812
Capital Assets, Net of Accumulated Depreciation:			
Buildings and Building Improvements	32,886,326	-	32,886,326
Site Improvements	3,604,243	-	3,604,243
Furniture and Equipment	1,297,840	19,137	1,316,977
<b>TOTAL ASSETS</b>	<b>48,385,397</b>	<b>377,632</b>	<b>48,763,029</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Charge on Bond Refunding	110,795	-	110,795
Deferred Outflows of Resources for Pension	4,910,969	88,336	4,999,305
Pension Contributions Made Subsequent to the Measurement Date	3,671,602	67,219	3,738,821
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>8,693,366</b>	<b>155,555</b>	<b>8,848,921</b>
<b>LIABILITIES</b>			
Accounts Payable	320,685	79	320,764
Accrued Salaries and Benefits	1,986,482	-	1,986,482
Payroll Deductions and Withholdings	1,038,636	-	1,038,636
Accrued Interest	122,611	-	122,611
Unearned Revenues	11,693	13,850	25,543
Noncurrent Liabilities Due Within One Year	2,486,045	-	2,486,045
Noncurrent Liabilities:			
Bonds Payable, Net	20,326,833	-	20,326,833
Capital Lease Payable	17,471	-	17,471
Long-Term Portion of Compensated Absences	803,517	-	803,517
Net Pension Liability	47,924,603	888,397	48,813,000
Other Postemployment Benefits Obligation	624,115	-	624,115
<b>TOTAL LIABILITIES</b>	<b>75,662,691</b>	<b>902,326</b>	<b>76,565,017</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Inflows of Resources for Pension	617,581	37,510	655,091
<b>NET POSITION</b>			
Net Investment in Capital Assets	15,699,997	19,137	15,719,134
Restricted for Capital Projects	1,886,357	-	1,886,357
Restricted for Other Purposes	54,803	-	54,803
Unrestricted (Deficit)	(36,842,666)	(425,786)	(37,268,452)
<b>TOTAL NET POSITION (DEFICIT)</b>	<b>\$ (19,201,509)</b>	<b>\$ (406,649)</b>	<b>\$ (19,608,158)</b>

See accompanying notes.

TULPEHOCKEN AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
<b>Instructional Services:</b>							
Regular Programs - Elementary/Secondary	\$ 13,030,529	\$ -	\$ 2,224,643	\$ -	\$ (10,805,886)	\$ -	\$ (10,805,886)
Special Programs - Elementary/Secondary	4,128,068	163,372	1,639,021	-	(2,325,675)	-	(2,325,675)
Vocational Education	743,748	43,760	37,847	5,139	(657,002)	-	(657,002)
Other Instructional Programs - Elementary/Secondary	203,135	6,540	19,989	-	(176,606)	-	(176,606)
Total Instructional Services	18,105,480	213,672	3,921,500	5,139	(13,965,169)	-	(13,965,169)
<b>Support Services:</b>							
Students	1,008,059	-	174,963	-	(833,096)	-	(833,096)
Instructional Staff	1,014,437	-	104,231	-	(910,206)	-	(910,206)
Administration	1,600,524	-	141,865	-	(1,458,659)	-	(1,458,659)
Pupil Health	365,615	-	64,101	-	(301,514)	-	(301,514)
Business	460,386	-	41,026	-	(419,360)	-	(419,360)
Operation and Maintenance of Plant Services	2,271,063	17,336	129,668	-	(2,124,059)	-	(2,124,059)
Student Transportation Services	1,504,120	-	976,233	-	(527,887)	-	(527,887)
Central	974,933	-	38,052	-	(936,881)	-	(936,881)
Other Support Services	22,793	-	-	-	(22,793)	-	(22,793)
Total Support Services	9,221,930	17,336	1,670,139	-	(7,534,455)	-	(7,534,455)
<b>Noninstructional Services:</b>							
Student Activities	476,025	19,382	35,488	-	(421,155)	-	(421,155)
Community Services	23,268	-	1,747	-	(21,521)	-	(21,521)
Interest on Long-Term Debt	554,665	-	-	436,151	(118,514)	-	(118,514)
Unallocated Depreciation Expense	1,589,436	-	-	-	(1,589,436)	-	(1,589,436)
Total Noninstructional Services	2,643,394	19,382	37,235	436,151	(2,150,626)	-	(2,150,626)
<b>Total Governmental Activities</b>	29,970,804	250,390	5,628,874	441,290	(23,650,250)	-	(23,650,250)
<b>Business-Type Activities:</b>							
Food Services	773,209	349,533	483,931	-	-	60,255	60,255
<b>Total Primary Government</b>	<u>\$ 30,744,013</u>	<u>\$ 599,923</u>	<u>\$ 6,112,805</u>	<u>\$ 441,290</u>	(23,650,250)	60,255	(23,589,995)
<b>General Revenues:</b>							
Taxes:							
Property Taxes					17,751,770	-	17,751,770
Public Utility Realty, Earned Income, and Mercantile Tax					2,068,910	-	2,068,910
Grants, Subsidies, and Contributions Not Restricted for a Specific Program					4,083,029	-	4,083,029
Investment Earnings					50,849	275	51,124
Miscellaneous Income					21,202	-	21,202
<b>Total General Revenues</b>					23,975,760	275	23,976,035
<b>Change in Net Position</b>					325,510	60,530	386,040
<b>Net Position (Deficit) - Beginning of year</b>					(19,527,019)	(467,179)	(19,994,198)
<b>Net Position (Deficit) - End of year</b>					<u>\$ (19,201,509)</u>	<u>\$ (406,649)</u>	<u>\$ (19,608,158)</u>

See accompanying notes.

**TULPEHOCKEN AREA SCHOOL DISTRICT**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

**June 30, 2017**

	General	Capital Projects	Nonmajor Fund Special Revenue	Total Governmental Funds
<b>ASSETS</b>				
Cash and Investments	\$ 6,319,926	\$ 1,214,874	\$ 55,440	\$ 7,590,240
Interfund Receivables	288	770,000	-	770,288
Taxes Receivable	821,233	-	-	821,233
Intergovernmental Receivables	1,617,367	-	-	1,617,367
Other Receivables	14,874	-	-	14,874
Prepaid Expenditures	1,711	-	-	1,711
<b>TOTAL ASSETS</b>	<b>\$ 8,775,399</b>	<b>\$ 1,984,874</b>	<b>\$ 55,440</b>	<b>\$ 10,815,713</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Interfund Payables	\$ 770,000	\$ -	\$ 288	\$ 770,288
Accounts Payable	221,819	98,517	349	320,685
Accrued Salaries and Benefits	1,986,482	-	-	1,986,482
Payroll Deductions and Withholdings	1,038,636	-	-	1,038,636
Unearned Revenues	11,693	-	-	11,693
<b>TOTAL LIABILITIES</b>	<b>4,028,630</b>	<b>98,517</b>	<b>637</b>	<b>4,127,784</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue - Property Taxes	519,253	-	-	519,253
<b>FUND BALANCES</b>				
Nonspendable	1,711	-	-	1,711
Restricted	-	1,886,357	54,803	1,941,160
Committed:				
Athletic Facility Improvements	65,000	-	-	65,000
Benefits	1,000,000	-	-	1,000,000
Special Education Program	200,000	-	-	200,000
Assigned	518,571	-	-	518,571
Unassigned	2,442,234	-	-	2,442,234
<b>TOTAL FUND BALANCES</b>	<b>4,227,516</b>	<b>1,886,357</b>	<b>54,803</b>	<b>6,168,676</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 8,775,399</b>	<b>\$ 1,984,874</b>	<b>\$ 55,440</b>	<b>\$ 10,815,713</b>

See accompanying notes.

**TULPEHOCKEN AREA SCHOOL DISTRICT**

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

**June 30, 2017**

---

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

<b>TOTAL FUND BALANCES - GOVERNMENTAL FUNDS</b>	\$ 6,168,676
---	--------------

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 \$59,302,993 and the accumulated depreciation is \$20,952,636.	38,350,357
---	------------

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.	508,868
---	---------

The net pension and other postemployment benefits obligation are not reflected on the fund financial statements.	(48,548,718)
--	--------------

Deferred outflows and inflows of resources for pensions are recorded and amortized in the statement of net position.	7,964,990
--	-----------

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 Payable	\$ (22,500,000)	
Unamortized Bond Discount	20,713	
Unamortized Bond Premium	(247,546)	
Deferred Charge on Bond Refunding	110,795	
Accrued Interest on Bonds	(122,611)	
Capital Lease Payable	(34,322)	
Compensated Absences	(872,711)	(23,645,682)

<b>TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES</b>	<u><u>\$ (19,201,509)</u></u>
---	-------------------------------

**TULPEHOCKEN AREA SCHOOL DISTRICT**

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

**For the Year Ended June 30, 2017**

	General	Capital Projects	Nonmajor Fund Special Revenue	Total Governmental Funds
<b>REVENUES</b>				
Local Sources	\$ 19,740,288	\$ 5,601	\$ 18,110	\$ 19,763,999
State Sources	9,840,772	-	-	9,840,772
Federal Sources	647,008	-	-	647,008
<b>TOTAL REVENUES</b>	<b>30,228,068</b>	<b>5,601</b>	<b>18,110</b>	<b>30,251,779</b>
<b>EXPENDITURES</b>				
Current:				
Instructional Services	17,012,668	-	19,944	17,032,612
Support Services	8,879,927	22,961	-	8,902,888
Operation of Noninstructional Services	492,331	-	-	492,331
Capital Outlay	-	432,573	-	432,573
Debt Service:				
Principal	2,276,254	-	-	2,276,254
Interest	591,677	-	-	591,677
<b>TOTAL EXPENDITURES</b>	<b>29,252,857</b>	<b>455,534</b>	<b>19,944</b>	<b>29,728,335</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>975,211</b>	<b>(449,933)</b>	<b>(1,834)</b>	<b>523,444</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	-	770,000	-	770,000
Transfers Out	(770,000)	-	-	(770,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(770,000)</b>	<b>770,000</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>205,211</b>	<b>320,067</b>	<b>(1,834)</b>	<b>523,444</b>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<b>4,022,305</b>	<b>1,566,290</b>	<b>56,637</b>	<b>5,645,232</b>
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 4,227,516</b>	<b>\$ 1,886,357</b>	<b>\$ 54,803</b>	<b>\$ 6,168,676</b>

See accompanying notes.

**TULPEHOCKEN AREA SCHOOL DISTRICT**

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

**For the Year Ended June 30, 2017**

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

**NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS** **\$ 523,444**

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	\$ 520,871	
Less: Depreciation Expense	<u>(1,589,436)</u>	(1,068,565)

Because some 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.

44,535

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 Principal	2,260,000	
Amortization of Bond Discount	(1,674)	
Amortization of Bond Premium	50,948	
Amortization of Deferred Charge on Bond Refunding	(23,805)	
Repayment of Capital Lease	<u>16,254</u>	2,301,723

Interest expense incurred 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.

11,543

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

(26,499)

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

(1,460,671)

**CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES** **\$ 325,510**



**TULPEHOCKEN AREA SCHOOL DISTRICT**

**STATEMENT OF NET POSITION  
PROPRIETARY FUND**

**June 30, 2017**

	<u>Enterprise Fund Food Service</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and Investments	\$ 326,736
Intergovernmental Receivables	8,624
Other Receivables	480
Inventories	<u>22,655</u>
<b>TOTAL CURRENT ASSETS</b>	358,495
<b>NONCURRENT ASSETS</b>	
Machinery and Equipment, Net	<u>19,137</u>
<b>TOTAL ASSETS</b>	<u>377,632</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred Outflows of Resources for Pension	88,336
Pension Contributions Made Subsequent to the Measurement Date	<u>67,219</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>155,555</u>
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Accounts Payable	79
Unearned Revenues	<u>13,850</u>
<b>TOTAL CURRENT LIABILITIES</b>	13,929
<b>NONCURRENT LIABILITY</b>	
Net Pension Liability	<u>888,397</u>
<b>TOTAL LIABILITIES</b>	<u>902,326</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred Inflows of Resources for Pension	<u>37,510</u>
<b>NET POSITION (DEFICIT)</b>	
Net Investment in Capital Assets	19,137
Unrestricted (Deficit)	<u>(425,786)</u>
<b>TOTAL NET POSITION (DEFICIT)</b>	<u><u>\$ (406,649)</u></u>

See accompanying notes.

**TULPEHOCKEN AREA SCHOOL DISTRICT**

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

**For the Year Ended June 30, 2017**

	<u>Enterprise Fund Food Service</u>
<b>OPERATING REVENUES</b>	
Food Service Revenue	\$ 349,533
<b>OPERATING EXPENSES</b>	
Salaries	241,613
Employee Benefits	170,593
Supplies	350,714
Depreciation	2,365
Other Operating Expenses	<u>7,924</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>773,209</u>
<b>OPERATING LOSS</b>	(423,676)
<b>NONOPERATING REVENUES</b>	
Local Sources - Earnings on Investments	275
State Sources	67,565
Federal Sources	<u>416,366</u>
<b>TOTAL NONOPERATING REVENUES</b>	<u>484,206</u>
<b>CHANGE IN NET POSITION</b>	60,530
<b>NET POSITION (DEFICIT) - BEGINNING OF YEAR</b>	<u>(467,179)</u>
<b>NET POSITION (DEFICIT) - END OF YEAR</b>	<u><u>\$ (406,649)</u></u>

**TULPEHOCKEN AREA SCHOOL DISTRICT**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUND**

**For the Year Ended June 30, 2017**

	<u>Enterprise Fund Food Service</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from Users	\$ 354,480
Payments to Employees for Services	(420,409)
Payments to Suppliers for Goods and Services	(304,038)
Payments for Other Operating Expenses	<u>(7,924)</u>
<b>NET CASH USED FOR OPERATING ACTIVITIES</b>	(377,891)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State Sources	67,034
Federal Sources	<u>350,548</u>
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	417,582
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition of Capital Assets	(3,222)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Earnings on Investments	<u>275</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	36,744
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>289,992</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><u>\$ 326,736</u></u>

**TULPEHOCKEN AREA SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS - CONTINUED**  
**PROPRIETARY FUND**

**For the Year Ended June 30, 2017**

	<u>Enterprise Fund</u> <u>Food Service</u>
<b><u>Reconciliation of Operating Loss to Net Cash Used for Operating Activities:</u></b>	
Operating Loss	\$ (423,676)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	2,365
Donated Commodities Used	57,725
Changes in Assets, Deferred Outflows of Resources, Liabilities, and Deferred Inflows of Resources:	
Other Receivable	1,853
Inventories	(10,371)
Deferred Outflows of Resources for Pension	(79,558)
Pension Contributions Made Subsequent to the Measurement Date	(9,027)
Interfund Balances	(24,624)
Accounts Payable	(678)
Unearned Revenues	3,094
Net Pension Liability	114,586
Deferred Inflows of Resources for Pension	(9,580)
	<u>45,785</u>
<b>TOTAL ADJUSTMENTS</b>	<u>45,785</u>
<b>NET CASH USED FOR OPERATING ACTIVITIES</b>	<u><u>\$ (377,891)</u></u>

**NONCASH NONCAPITAL FINANCING ACTIVITIES**

During the year, the District used \$57,725 of commodities from the Department of Agriculture.

**TULPEHOCKEN AREA SCHOOL DISTRICT**

**STATEMENT OF NET POSITION  
FIDUCIARY FUNDS**

**June 30, 2017**

	Private Purpose Trust Funds (Scholarships)	Agency Fund (Student Activities)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Investments	\$ 15,046	\$ 70,180
<b>TOTAL ASSETS</b>	15,046	<u>\$ 70,180</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Other Current Liabilities	-	\$ 70,180
<b>TOTAL LIABILITIES</b>	-	<u>\$ 70,180</u>
<b>NET POSITION HELD IN TRUST FOR SCHOLARSHIPS</b>	<u>\$ 15,046</u>	

*See accompanying notes.*

**TULPEHOCKEN AREA SCHOOL DISTRICT**  
**STATEMENT OF CHANGES IN NET POSITION**  
**FIDUCIARY FUND**

**For the Year Ended June 30, 2017**

	Private Purpose Trust Funds (Scholarships)
<b>ADDITIONS</b>	
Contributions	\$ 3,563
Earnings on Investments	<u>8</u>
<b>TOTAL ADDITIONS</b>	3,571
<b>DEDUCTIONS</b>	
Scholarships	<u>2,994</u>
<b>CHANGE IN NET POSITION</b>	577
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>14,469</u>
<b>NET POSITION - END OF YEAR</b>	<u><u>\$ 15,046</u></u>

## **TULPEHOCKEN AREA SCHOOL DISTRICT**

### **NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

Tulpehocken Area School District ("School District" or the "District") is located in Berks County, Pennsylvania. The District tax base consists of the Borough of Bernville and the Townships of Bethel, Jefferson, Penn, and Tulpehocken.

The Tulpehocken Area School District is a unit established, organized, and empowered by the Commonwealth of Pennsylvania for the express purpose of carrying out, on the local level, the Commonwealth's obligation of public education, as established by the constitution of the Commonwealth and by the school law code of the same (Article II; Act 150, July 8, 1968).

The Tulpehocken Area School District is governed by a board of nine school directors who are residents of the school district and who are elected every two years, on a staggered basis, for a four-year term.

The board of school directors has the power and duty to establish, equip, furnish, and maintain a sufficient number of elementary, secondary, and other schools necessary to educate every person, residing in such district, between the ages of six and 21 years, who may attend.

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

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

---

##### **A. Reporting Entity**

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

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

- Organizations that make up the legal District entity.

**TULPEHOCKEN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

---

**A. Reporting Entity - continued**

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

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

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

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

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

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

**Joint Venture:** The District is a participating member of the Berks Career & Technology Center. See Note 12 for details of involvement and financial information of the joint venture.

**Jointly Governed Organizations:** The District is a participating member of the Berks County Intermediate Unit (BCIU). The BCIU 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 BCIU's annual operating budget.

The BCIU 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 BCIU. The BCIU contracts with participating districts to supply special education services, computer services, and to act as a conduit for certain federal programs.



## TULPEHOCKEN AREA SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

---

##### **B. Basis of Presentation - Government-Wide Financial Statements**

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.

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 transfers between governmental funds and business-type and fiduciary funds. Elimination of these transfers would distort the direct costs and program revenues reported for the various functions concerned.

##### **C. Basis of Presentation - Fund Financial Statements**

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

##### **The District Reports the Following Major Governmental Funds:**

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

**TULPEHOCKEN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

---

**C. Basis of Presentation - Fund Financial Statements - continued**

**The District Reports the Following Major Governmental Funds - continued:**

***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 Type:**

***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, therefore, are not available to support the District's own programs. The District's only trust funds are the private-purpose trusts (scholarships). 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.

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

---

**D. Measurement Focus and Basis of Accounting**

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

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

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

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

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

**TULPEHOCKEN AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

---

**E. Budgetary Process**

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

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

**Accelerated Budget Process Option**

Under this option, a preliminary budget must be prepared 110 days prior to the primary election. Also, under this option, the preliminary budget must be available for public inspection at least 20 days prior to the preliminary budget adoption. The board shall give public notice of its intent to adopt the preliminary budget at least 10 days prior to the adoption. The adoption must occur at least 90 days prior to the primary election.

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 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.

**TULPEHOCKEN AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

---

**E. Budgetary Process - continued**

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

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

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

**1. Cash and Investments**

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

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

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

**2. Receivables/Payables**

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

**TULPEHOCKEN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

---

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

**3. Inventories and Prepaid Expenses/Expenditures**

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

Inventories of the governmental funds, consisting principally of textbooks and instructional supplies, are not valued since it is the policy of the District to charge these items to expense upon acquisition.

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

Purchased food and supplies	\$ 3,185
Supplies	3,265
Donated commodities	<u>16,205</u>
	<u>\$ 22,655</u>

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

**4. Capital Assets, Depreciation, and Amortization**

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

**TULPEHOCKEN AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

---

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

**4. Capital Assets, Depreciation, and Amortization - continued**

The District generally capitalizes assets with cost of \$5,000 or more as purchase and construction outlays occur. Management has elected to include certain homogeneous asset categories with individual assets less than \$5,000 as composite groups for financial reporting purposes. Assets purchased or constructed with long-term debt may be capitalized regardless of the threshold established. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

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

Assets	Years
Buildings	20 - 50
Building improvements	15 - 25
Site improvements	15 - 20
Furniture and equipment	3 - 20

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

**TULPEHOCKEN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

---

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

**5. Deferred Outflows/Inflows of Resources**

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

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



**TULPEHOCKEN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

---

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

**6. Unearned Revenues**

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

**7. Net Position**

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

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

**8. Fund Balance Policies and Flow Assumptions**

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

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

**TULPEHOCKEN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

---

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

**8. Fund Balance Policies and Flow Assumptions - continued**

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

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

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

**G. Revenues and Expenditures/Expenses**

**1. Program Revenues**

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

**2. Compensated Absences**

**Early Retirement Incentive**

The District pays severance pay to certain long-term employees based on years of service and employee classification. This compensation is determined by eligible employee classification and paid per year of service. Administrators and professional employees receive \$350 per year of service after 15 years of service. Support staff receives \$150 per year of service after 20 years of service.

**TULPEHOCKEN AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

---

**G. Revenues and Expenditures/Expenses - continued**

**2. Compensated Absences - continued**

**Unused Sick Leave**

The District reimburses certain employees for unused accumulated sick leave. Reimbursement varies from \$25 - \$100 per day depending upon employment classification.

**3. Proprietary Funds Operating and Nonoperating Revenues and Expenses**

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

**H. Other Use of Estimates**

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

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

---

**A. Compliance with Finance Related Legal and Contractual provisions**

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

**B. Deficit Fund Balance or Net Position of Individual Funds**

**Deficit Net Position - Proprietary Fund**

For the year ended June 30, 2017, the accounting under GASB No. 68, *Accounting and Financial Reporting for Pensions*, and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, created a deficiency in net position at year end of \$406,649. 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.

**TULPEHOCKEN AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - CONTINUED**

---

**C. Excess of Expenditures Over Appropriations in Individual Funds**

No individual fund, which had a legally adopted budget, had an excess of expenditures over appropriations.

**D. Budgetary Compliance**

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

**NOTE 3 - CASH AND INVESTMENTS**

---

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

The carrying amount of cash and investments at June 30, 2017, consists of the following:

Petty cash	\$ 471
Cash	605,380
Pooled cash and investments	<u>7,396,351</u>
	<u><u>\$ 8,002,202</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 to it. The District does have a policy for custodial credit risk on deposits. At June 30, 2017, the carrying amount of the District's deposits was \$605,380 and the bank balance was \$610,553. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$360,553 was exposed to custodial credit risk but was covered by collateralization requirements in accordance with Act 72 of the 1971 Session of the General Assembly.

**TULPEHOCKEN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE 3 - CASH AND INVESTMENTS - CONTINUED**

---

**Investments**

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

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

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

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

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

	<u>Maturities</u>	<u>Fair Value</u>	<u>Carrying Value</u>
PA School District Liquid Asset Fund:			
MAX Account Balance		\$ 7,699,402	\$ 7,699,402
Total			7,699,402
Less: Reconciling Items			(303,051)
Total Pooled Cash			<u>\$ 7,396,351</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 \$7,699,402 (PSDLAF) at amortized cost. There are no limitations or restrictions on withdrawals from these accounts.

**TULPEHOCKEN AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE 3 - CASH AND INVESTMENTS - CONTINUED**

---

A portion of the District's deposits are in the Pennsylvania School District Liquid Asset Fund (PSDLAF). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, the fund acts like a money market mutual fund in that its objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized statistical rating organization, and is subject to an independent annual audit.

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

As of June 30, 2017, the entire PSDLAF book balance of \$7,396,351 is considered to be a cash equivalent for presentation on the government-wide and fund financial statements.

**Interest Rate Risk**

The District does have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2017, the District does not have any investments subject to this risk.

**Credit Risk**

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

Investments	Standard & Poor's
PA School District Liquid Asset Fund	AAA

**Concentration of Credit Risk**

The District does have a policy that limits the amount they may invest in any one issue. All of the District's investments are issued or guaranteed by the U.S. Government and investments in mutual pools and excluded from this risk.

**Custodial Credit Risk**

For an investment, custodial credit 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 investment subject to custodial credit risk.

**TULPEHOCKEN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE 4 - TAXES RECEIVABLE AND UNAVAILABLE REVENUE**

The District has five independently elected tax collectors who are responsible for the collection of real estate taxes. Assessed values are established by the County Board of Assessment. All taxable real property was assessed at \$635,061,800. In accordance with Act 1 of 2006, the District received \$645,754 in property tax reduction funds for the 2016/2017 fiscal year. The District's tax rate for the year ended June 30, 2017, was 27.70 mills (\$27.70 per \$1,000 of assessed valuation) as levied by the board of school directors. The schedule for real estate taxes levied for each fiscal year is as follows:

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

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

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

	Gross Taxes Receivable	Allowance for Uncollectible Taxes	Net Estimated To be Collectible	Tax Revenue Recognized	Unavailable Revenue Taxes
Real estate	\$ 583,276	\$ 10,385	\$ 572,891	\$ 64,023	\$ 519,253
Interims	15,849	-	15,849	15,849	-
Earned income	126,462	-	126,462	126,462	-
Other taxes	95,646	-	95,646	65,646	-
	<u>\$ 821,233</u>	<u>\$ 10,385</u>	<u>\$ 810,848</u>	<u>\$ 271,980</u>	<u>\$ 519,253</u>

**TULPEHOCKEN AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE 5 - TAX ABATEMENTS**

---

The District negotiates property tax abatement agreements on an individual basis. The District has one Local Economic Revitalization Tax Assistance Act (LERTA) agreement as of June 30, 2017. The LERTA program authorized local taxing authorities to exempt property taxes of new construction in deteriorated areas of economically depressed communities and improvements to certain deteriorated individual, commercial, and other business property. The LERTA was negotiated in accordance with Pennsylvania Assembly Act No. 76 of 1977, as amended, and exempts from real property taxation the assessed valuation of improvements to deteriorated properties and the assessed valuation of new construction within the Township of Bethel's designated deteriorated area. Any property owner undertaking improvements within a deteriorated area may apply and receive from the District an exemption from School District real property taxes due to the increased or additional assessed valuation attributable to those improvements.

The exemption is limited to a period of 10 years using the following schedule:

Year	% of Eligible Assessment Abated
1	100%
2	90%
3	80%
4	70%
5	60%
6	50%
7	40%
8	30%
9	20%
10	10%

As of June 30, 2017, the District has tax abatement agreements with three entities under the LERTA program. The purpose of the abatement was to enhance the economic use of the tax parcel and create other positive impacts on the business prosperity and economic welfare of the District, such as business expansion, economic development, and stimulated employment. The abatements may be granted to businesses completing property alterations or new construction within the designated deteriorated area. Additionally, a business must create at least one hundred jobs or spend at least \$10 million for the improvement to be eligible for the program. For the year ended June 30, 2017, the foregone real estate tax revenue as a result of the LERTA tax abatement was \$1,703,461.

The District has not made any commitments as part of the agreement other than to reduce taxes.



**TULPEHOCKEN AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE 6 - INTERGOVERNMENTAL RECEIVABLES**

---

The following amounts were intergovernmental receivables as of June 30, 2017:

<u>Name of Governmental Unit</u>	<u>General Fund</u>	<u>Enterprise Food Service</u>
Federal Subsidies:		
Title I Grants to Local Education Agencies	\$ 16,360	\$ -
ACCESS Medical Assistance Program (Admin)	2,279	-
ACCESS Medical Assistance Program	148,042	-
School Lunch and Breakfast Programs	-	8,093
Pennsylvania Department of Education:		
Retirement	675,283	-
Social Security	168,667	-
Transportation	84,219	-
Health Reimbursement	27,088	-
Food Service Program	-	531
BCIU - Special Education - Grants to States	288,296	-
Tuition Due from Other LEAs	207,133	-
	<u>          </u>	<u>          </u>
TOTAL	<u>\$ 1,617,367</u>	<u>\$ 8,624</u>

**TULPEHOCKEN AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE 7 - CHANGES IN CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2017, was as follows:

**Governmental Activities**

	Beginning Balance	Increase	(Reclass) Decrease	Ending Balance
Capital assets not being depreciated:				
Land	\$ 65,136	\$ -	\$ -	\$ 65,136
Construction in progress	103,806	393,006	-	496,812
Total not being depreciated	168,942	393,006	-	561,948
Capital assets being depreciated:				
Buildings and building improvements	50,320,590	-	-	50,320,590
Site improvements	4,507,627	28,360	-	4,535,987
Furniture and equipment	3,843,653	99,505	(58,690)	3,884,468
Total being depreciated	58,671,870	127,865	(58,690)	58,741,045
Less accumulated depreciation for:				
Buildings and building improvements	16,275,870	1,158,394	-	17,434,264
Site improvements	811,110	120,634	-	931,744
Furniture and equipment	2,334,910	310,408	(58,690)	2,586,628
Total accumulated depreciation	19,421,890	1,589,436	(58,690)	20,952,636
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET</b>	<b>39,249,980</b>	<b>(1,461,571)</b>	<b>-</b>	<b>37,788,409</b>
<b>GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET</b>	<b>\$ 39,418,922</b>	<b>\$ (1,068,565)</b>	<b>\$ -</b>	<b>\$ 38,350,357</b>

**Business-Type Activities**

Capital assets being depreciated:				
Machinery and Equipment	\$ 42,219	\$ 3,222	\$ -	\$ 45,441
Accumulated depreciation for:				
Machinery and Equipment	23,939	2,365	-	26,304
<b>BUSINESS-TYPE ACTIVITIES, CAPITAL ASSETS, NET</b>	<b>\$ 18,280</b>	<b>\$ 857</b>	<b>\$ -</b>	<b>\$ 19,137</b>

Depreciation expense for the year ended June 30, 2017, was charged as follows:

Unallocated Depreciation Expense - Governmental Activities	<u>\$ 1,589,436</u>
---	---------------------

**TULPEHOCKEN AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE 8 - LONG-TERM LIABILITIES**

---

Bonds payable are as follows at June 30, 2017:

General Obligation Bond - Series of 2015A:

The District is liable for general obligation bonds dated June 3, 2015, in the original amount of \$3,525,000. The bonds were used to currently refund General Obligation Bonds, Series A of 2010. Principal maturities occur on September 1, 2015, through the year 2019. Interest is payable semi-annually on March 1 and September 1. Interest rates vary from 0.30% to 3.25%. The District realized savings of \$63,680 as a result of the refunding. \$ 2,550,000

General Obligation Bond - Series of 2015:

The District is liable for general obligation bonds dated June 3, 2015, in the original amount of \$5,270,000. The bonds were used to currently refund General Obligation Bonds, Series of 2010. Principal maturities occur on September 1, 2015, through the year 2023. Interest is payable semi-annually on March 1 and September 1. Interest rates vary from 0.30% to 2.125%. The District realized savings of \$467,119 as a result of the refunding. 5,150,000

General Obligation Bond - Series of 2014:

The District is liable for general obligation bonds dated May 28, 2014, in the original amount of \$8,300,000. The bonds were used to currently refund General Obligation Bonds, Series of 2009. Principal maturities occur on November 15, 2014, through the year 2029. Interest is payable semi-annually on May 15 and November 15. Interest rates vary from 0.25% to 4.00%. The District realized cash flow savings of \$743,540 and economic savings of \$605,220 as a result of the refunding. 7,050,000

General Obligation Bond - Series of 2013A:

The District is liable for general obligation bonds dated July 23, 2013, in the original amount of \$5,985,000. The bonds were used to currently refund General Obligation Bonds, Series A of 2008. Principal maturities occur on August 15, 2013, through the year 2020. Interest is payable semi-annually on February 15 and August 15. Interest rates vary from 0.25% to 2.00%. The District realized cash flow savings of \$252,825 and economic savings of \$243,074 as a result of the refunding. 2,545,000

General Obligation Bond - Series of 2013:

The District is liable for general obligation bonds dated February 21, 2013, in the original amount of \$7,350,000. The bonds were used to currently refund the General Obligation Bonds, Series of 2007. Principal maturities occur on November 15, 2013, through the year 2029. Interest is payable semi-annually on May 15 and November 15. Interest rates vary from 0.35% to 2.875%. The District realized cash flow savings of \$925,299 and economic savings of \$749,695 as a result of the refunding. 5,205,000

Total Bonds Payable \$ 22,500,000

**TULPEHOCKEN AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2017**

**NOTE 8 - LONG-TERM LIABILITIES - CONTINUED**

---

Capital lease payable was as follows at June 30, 2017:

Capitalized lease payable for certain technology equipment, with annual payments of \$18,114, with final payment due in September 2018. The lease has an effective interest rate of 3.68%.	\$ 34,322
Total Capital Lease Payable	<u>\$ 34,322</u>

The amount of capitalized lease equipment included on the statement of net position is:

Cost	\$ 68,690
Accumulated Depreciation	<u>(6,869)</u>
Net Book Value	<u>\$ 61,821</u>

Minimum future lease payments under capital leases are as follows:

Payments	\$ 36,227
Amount representing interest	<u>(1,905)</u>
Present value of net minimum lease payments	<u>\$ 34,322</u>

**TULPEHOCKEN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE 8 - LONG-TERM LIABILITIES - CONTINUED**

The future annual payments required to amortize all bonds payable and capital lease payable for the years ending June 30 are as follows:

	General Obligation Bonds - Series of 2015A	General Obligation Bonds - Series of 2015	General Obligation Bonds - Series of 2014	General Obligation Bonds - Series of 2013A
2018	\$ 925,000	\$ 70,000	\$ 440,000	\$ 610,000
2019	800,000	45,000	465,000	780,000
2020	825,000	40,000	480,000	805,000
2021	-	1,135,000	500,000	350,000
2022	-	1,515,000	510,000	-
2023-2027	-	2,345,000	2,780,000	-
2028-2030	-	-	1,875,000	-
	<u>\$ 2,550,000</u>	<u>\$ 5,150,000</u>	<u>\$ 7,050,000</u>	<u>\$ 2,545,000</u>
	General Obligation Bonds - Series of 2013	Total General Long-Term Debt	Capital Lease	Interest
2018	\$ 355,000	\$ 2,400,000	\$ 16,851	\$ 540,780
2019	360,000	2,450,000	17,471	475,605
2020	365,000	2,515,000	-	407,800
2021	375,000	2,360,000	-	348,688
2022	375,000	2,400,000	-	297,950
2023-2027	2,030,000	7,155,000	-	874,053
2028-2030	1,345,000	3,220,000	-	153,859
	<u>\$ 5,205,000</u>	<u>\$ 22,500,000</u>	<u>\$ 34,322</u>	<u>\$ 3,098,735</u>

**TULPEHOCKEN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE 8 - LONG-TERM LIABILITIES - CONTINUED**

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>Governmental Activities:</b>					
General Obligation Debt:					
Bonds payable	\$ 24,760,000	\$ -	\$ 2,260,000	\$ 22,500,000	\$ 2,400,000
Deferred Amounts:					
Discounts	(22,387)	-	(1,674)	(20,713)	-
Premiums	298,494	-	50,948	247,546	-
Subtotal	25,036,107	-	2,309,274	22,726,833	2,400,000
Other Liabilities:					
Capital Leases	50,576	-	16,254	34,322	16,851
Compensated Absences	846,212	325,896	299,397	872,711	69,194
Total Governmental Long-Term Liabilities	<u>\$ 25,932,895</u>	<u>\$ 325,896</u>	<u>\$ 2,624,925</u>	<u>\$ 23,633,866</u>	<u>\$ 2,486,045</u>

Payments on bonds payable and capital leases payable are to be funded by the General Fund. The compensated absence liabilities will also be liquidated by the General Fund. Total interest expense paid during the year ended June 30, 2017, was \$591,677.

**NOTE 9 - EMPLOYEE RETIREMENT PLANS**

**Employee Defined Benefit Pension Plan**

***Summary of Significant Accounting Policies***

Pension Plan

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

## TULPEHOCKEN AREA SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

#### NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

---

##### Employee Defined Benefit Pension Plan - continued

##### *General Information about the Pension Plan*

###### Plan Description

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

###### Benefits Provided

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

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

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

**TULPEHOCKEN AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED**

---

**Employee Defined Benefit Pension Plan - continued**

***General Information about the Pension Plan - continued***

Contributions

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

**Member Contributions:**

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

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

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

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

**Employer Contributions:**

The District's contractually required contribution rate for fiscal year ended June 30, 2017, was 29.20 percent of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The rate was certified by the PSERS board of trustees. Contributions to the pension plan from the District were \$3,738,821 for the year ended June 30, 2017.

The District is also required to contribute a percentage of covered payroll to PSERS for healthcare insurance premium assistance. For the year ended June 30, 2017, the contribution rate was 0.83 percent of covered payroll and the District contributed \$106,275.



**TULPEHOCKEN AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED**

**Employee Defined Benefit Pension Plan - continued**

***General Information about the Pension Plan - continued***

Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for no less than one-half of the employer contributions made, including contributions related to pension and healthcare. This arrangement does not meet the criteria of a special funding situation in accordance with GASB standards. Therefore, the net pension liabilities and related pension expense represent 100 percent of the District's share of those amounts. The total reimbursement recognized by the District for the year ended June 30, 2017, was \$1,921,333.

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

At June 30, 2017, the District reported a liability of \$48,813,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2015, to June 30, 2016. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2016, the District's proportion was 0.0985 percent, which was a decrease of 0.0002 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$5,086,886. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Outflows of Resources	Inflows of Resources
Net difference between projected and actual investment earnings	\$ 2,721,000	\$ -
Difference between expected and actual experience	-	407,000
Changes in proportions - plan level	376,000	222,000
Changes in proportions - internal	26,091	26,091
Changes of assumptions	1,762,000	-
Difference between employer contributions and proportionate share of total contributions	114,214	-
Contributions made subsequent to the measurement date	3,738,821	-
	<u>\$ 8,738,126</u>	<u>\$ 655,091</u>

**TULPEHOCKEN AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED**

---

**Employee Defined Benefit Pension Plan - continued**

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

The \$3,738,821 reported as deferred outflows of resources related to pensions resulting from District pension contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the years ending June 30:

2018	\$ 928,886
2019	928,886
2020	1,467,451
2021	<u>1,018,991</u>
	<u>\$ 4,344,214</u>

Actuarial Assumptions

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

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

- The investment rate of return was adjusted from 7.50% to 7.25%.
- The inflation assumption was decreased from 3.0% to 2.75%.
- Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

**TULPEHOCKEN AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2017

**NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED**

**Employee Defined Benefit Pension Plan - continued**

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

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

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

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

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

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

**TULPEHOCKEN AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED**

---

**Employee Defined Benefit Pension Plan - continued**

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

Discount Rate

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

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

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

	<u>1% Decrease 6.25%</u>	<u>Discount Rate 7.25%</u>	<u>1% Increase 8.25%</u>
District's proportionate share of the net pension liability	\$ 59,712,000	\$ 48,813,000	\$ 39,655,000

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

At June 30, 2017, the District had an accrued balance due to PSERS of \$1,344,436. This amount represents the District's contractually obligated contributions for wages earned in April 2017 through June 2017. The balance will be paid in September 2017.

**TULPEHOCKEN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED**

---

**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.

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS**

---

**Plan Description**

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

**Funding Policy**

Contribution requirements are negotiated between the District and union representatives. The required contribution is based on pay as you go financing. The District currently provides medical and prescription drug coverage to the former superintendent and dental coverage to the former superintendent and spouse. The retiree contributes the PSERS premium assistance amount (currently \$100 per month) and the District pays the remainder of the cost and continues until the retiree reaches the age of 65. The District also pays for \$475,000 in whole life insurance coverage for the former superintendent, which continues until the retiree's death.

Under Act 110/43, any employee who is eligible, age 60 with 30 years of service, age 62 with one year of service, or 35 years of service regardless of age, is allowed to continue coverage for themselves and their dependents until the member reaches Medicare age. The retiree is responsible for payment equal to the premium determined for the purposes of COBRA. For the fiscal year ended June 30, 2017, the District contributed \$99,357 to the Plan related to retirees.

**TULPEHOCKEN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED**

**Annual OPEB Cost and Net OPEB Obligation**

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

Annual required contribution	\$ 236,499
Interest on net OPEB obligation	22,279
Adjustment to annual required contribution	<u>(30,394)</u>
Annual OPEB Cost	228,384
Contributions made (estimated)	<u>(99,357)</u>
Estimated increase in net OPEB obligation	129,027
Net OPEB obligation - beginning of year	<u>495,088</u>
Net OPEB obligation - end of year	<u><u>\$ 624,115</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2017	\$ 228,384	43.5%	\$ 624,115
6/30/2016	198,292	56.2%	495,088
6/30/2015	199,686	57.4%	408,143

**Funded Status and Funding Progress**

As of July 1, 2016, the most recent actuarial valuation date, the Plan was unfunded. The actuarial accrued liability for benefits was \$1,774,104 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,774,104. The covered payroll (annual payroll of active employees covered by the Plan) was \$11,707,710, and the ratio of the UAAL to the covered payroll was 15.15 percent.

**TULPEHOCKEN AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED**

---

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

**Actuarial Methods and Assumptions**

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

In the July 1, 2016 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5 percent in 2016, decreasing 0.5 percent per year to 5.5 percent in 2018 through 2020. Rates gradually decrease from 5.4 percent in 2021 to 3.8 percent in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. The unfunded actuarial accrued liability is being amortized using single period amortization as of the end of the year based on level dollar, 30-year open period.

**NOTE 11 - INTERFUND BALANCES AND TRANSFERS**

---

The following is a summary of interfund receivables and payables at June 30, 2017:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 288	\$ 770,000
Capital Projects Fund	770,000	-
Nonmajor Fund - Special Revenue	-	288
	<u>\$ 770,288</u>	<u>\$ 770,288</u>

**TULPEHOCKEN AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE 11 - INTERFUND BALANCES AND TRANSFERS - CONTINUED**

---

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

Interfund transfers are summarized as follows at June 30, 2017:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 770,000
Capital Projects	<u>770,000</u>	<u>-</u>
	<u><u>\$ 770,000</u></u>	<u><u>\$ 770,000</u></u>

Transfers were made to move funds to the capital projects fund for future capital needs.

**NOTE 12 - JOINT VENTURE**

---

The District is a participating member of the Berks Career & Technology Center. The Berks Career & Technology Center is controlled and governed by a joint board, which is composed of representative school board members of the participating schools. Direct oversight of Berks Career & Technology Center's operations is the responsibility of the joint board. The board of directors of each participating district must approve the Center's annual operating budget. The District's share of the annual operating and capital costs for Berks Career & Technology Center fluctuates based on the percentage of enrollment. The District's share for the 2016/2017 year was \$575,360.

During the year ended June 30, 1998, Berks Career Vocational Technical School Authority issued \$34,850,000 of General Obligation Bonds and lent the proceeds to Berks Career & Technology Center. The proceeds were used to renovate and build an addition to Berks Career & Technology Center's facilities. Each member district adopted a resolution approving the project and the project's maximum cost. Under the amended Articles of Agreement, each member district is required to pay from current revenues its annual share of the sublease rental based on the District's share of taxable real estate to the total market valuation of the taxable real estate of all participating school districts. The District's share for the 2016/2017 year was \$89,158.



**TULPEHOCKEN AREA SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE 12 - JOINT VENTURE - CONTINUED**

---

Summary financial information as of June 30, 2016, (most recent available) was as follows:

<u>Berks Career &amp; Technology Center (Governmental Activities)</u>	
Total Assets and Deferred Outflows of Resources	\$ 31,220,549
Total Liabilities and Deferred Inflows of Resources	<u>30,687,936</u>
Total Net Position (Deficit)	<u><u>\$ 532,613</u></u>

Separate financial statements of the Berks Career & Technology Center have been prepared and are available.

**NOTE 13 - 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. The District's Worker's Compensation policy is a retrospectively rated policy; the final total premium is based on the actual payroll for the policy year and is determined by the insurance carrier. For insured programs, there were no significant reductions in insurance coverages for the 2016/2017 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

**NOTE 14 - LEASE COMMITMENT**

---

In July 2014 and again in August 2015, the District entered into an operating-type lease agreement with a company to lease computer equipment.

Future annual minimum lease payments under the noncancelable operating leases are as follows for the years ending June 30:

2018	\$ 145,278
2019	<u>83,184</u>
	<u><u>\$ 228,462</u></u>

Operating lease payments for the General Fund for the year ended June 30, 2017, totaled \$145,278.

## **TULPEHOCKEN AREA SCHOOL DISTRICT**

### **NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

#### **NOTE 15 - CONTINGENT LIABILITIES 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 has awarded several contracts for the wastewater treatment plant renovations totaling \$955,546. Costs to date related to these contracts in the capital project funds are \$363,061, leaving a commitment remaining of \$592,485. The District plans to use existing resources in the capital projects fund and fund balance in the general fund committed for future capital projects to fulfill the above commitments.

#### **NOTE 16 - FUND BALANCE**

---

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

##### **General Fund**

The general fund has nonspendable funds of \$1,711 for prepaid expenditures; committed funds of \$65,000 for athletic facility improvements; \$1,000,000 for retirement rate and other benefit cost increases; and \$200,000 for special education program; assigned funds of \$518,571 for balancing the 2017/2018 budget; and unassigned funds of \$2,442,234. The commitments were authorized by the school board of directors' motion to set aside resources to fund anticipated athletic facility improvements, increases in retirement contributions and other benefits costs, and for special education settlements.

##### **Capital Projects**

The capital projects fund has restricted funds of \$1,886,357 comprised of surplus moneys transferred from the general fund for the acquisition or construction of capital facilities and qualifying capital assets as authorized by Municipal Code P.L. 145 Act of April 30, 1943.

##### **Nonmajor Funds**

The special revenue fund has restricted funds of \$54,803, consisting of receipts that are received from sources to be used for specific purposes.

**TULPEHOCKEN AREA SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

**NOTE 17 - NEW ACCOUNTING PRONOUNCEMENTS**

---

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

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

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

## **REQUIRED SUPPLEMENTARY INFORMATION**

**TULPEHOCKEN AREA SCHOOL DISTRICT**

**BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND**

**For the Year Ended June 30, 2017**

	BUDGET		ACTUAL	VARIANCE
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES				
Local Sources:				
Real Estate Taxes	\$ 16,313,371	\$ 16,313,371	\$ 16,507,233	\$ 193,862
Other Taxes	2,438,700	2,438,700	2,626,936	188,236
Earnings on Investments	7,000	7,000	45,248	38,248
Revenue from Student Activities	26,900	26,900	25,922	(978)
Revenue from Intermediate Sources	261,617	261,617	289,278	27,661
Tuition	210,000	210,000	207,132	(2,868)
Other Revenue	16,500	16,500	38,539	22,039
State Sources	9,692,519	9,692,519	9,840,772	148,253
Federal Sources	703,393	703,393	647,008	(56,385)
TOTAL REVENUES	29,670,000	29,670,000	30,228,068	558,068
EXPENDITURES				
INSTRUCTIONAL SERVICES				
Regular Programs - Elementary/Secondary	12,809,034	12,809,034	12,176,060	632,974
Special Programs - Elementary/Secondary	3,884,520	3,884,520	3,932,268	(47,748)
Vocational Education	726,584	726,584	736,898	(10,314)
Other Instructional Programs -				
Elementary/Secondary	290,548	290,548	167,442	123,106
Nonpublic School Programs	1,599	1,599	-	1,599
TOTAL INSTRUCTIONAL SERVICES	17,712,285	17,712,285	17,012,668	699,617
SUPPORT SERVICES				
Students	939,548	939,548	944,321	(4,773)
Instructional Staff	1,000,505	1,000,505	945,699	54,806
Administration	1,516,502	1,516,502	1,511,842	4,660
Pupil Health	385,438	385,438	346,730	38,708
Business	433,309	433,309	437,890	(4,581)
Operation and Maintenance of Plant Services	2,317,385	2,317,385	2,197,617	119,768
Student Transportation Services	1,247,577	1,247,577	1,501,761	(254,184)
Central	1,002,085	1,002,085	971,274	30,811
Other Support Services	22,650	22,650	22,793	(143)
TOTAL SUPPORT SERVICES	8,864,999	8,864,999	8,879,927	(14,928)

**TULPEHOCKEN AREA SCHOOL DISTRICT**

**BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND - CONTINUED**

**For the Year Ended June 30, 2017**

	BUDGET		ACTUAL	VARIANCE
	Original	Final	(GAAP Basis)	Final to Actual
<b>OPERATION OF NONINSTRUCTIONAL SERVICES</b>				
Student Activities	439,062	439,062	470,122	(31,060)
Community Services	18,836	18,836	22,209	(3,373)
<b>TOTAL OPERATION OF NONINSTRUCTIONAL SERVICES</b>	457,898	457,898	492,331	(34,433)
<b>DEBT SERVICE</b>				
Principal	2,260,000	2,260,000	2,276,254	(16,254)
Interest	589,818	589,818	591,677	(1,859)
<b>TOTAL EXPENDITURES</b>	29,885,000	29,885,000	29,252,857	632,143
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(215,000)	(215,000)	975,211	1,190,211
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers Out	(15,000)	(15,000)	(770,000)	(755,000)
Budgetary Reserve	(175,000)	(175,000)	-	175,000
<b>TOTAL OTHER FINANCING USES</b>	(190,000)	(190,000)	(770,000)	(580,000)
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<u>\$ (405,000)</u>	<u>\$ (405,000)</u>	205,211	<u>\$ 610,211</u>
<b>FUND BALANCE - BEGINNING OF YEAR</b>			4,022,305	
<b>FUND BALANCE - END OF YEAR</b>			<u>\$ 4,227,516</u>	

**TULPEHOCKEN AREA SCHOOL DISTRICT**

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

**June 30, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.0985%	0.0987%	0.0993%	0.0971%
District's proportionate share of the net pension liability	\$ 48,813,000	\$ 42,752,000	\$ 39,304,000	\$ 39,749,000
District's covered-employee payroll	\$ 12,755,004	\$ 12,693,060	\$ 12,670,891	\$ 12,460,944
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	382.70%	336.81%	310.19%	318.99%
Plan fiduciary net position as a percentage of the total pension liability	50.14%	54.36%	57.24%	54.50%

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

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

**TULPEHOCKEN AREA SCHOOL DISTRICT**  
**SCHEDULE OF DISTRICT CONTRIBUTIONS - PENSION PLAN**

**LAST 10 FISCAL YEARS**

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 3,738,821	\$ 3,188,959	\$ 2,631,295	\$ 2,030,178	\$ 1,432,889	\$ 999,405	\$ 617,656	\$ 481,376	\$ 473,266	\$ 742,428
Contributions in relation to the contractually required contribution	<u>3,738,821</u>	<u>3,188,959</u>	<u>2,631,295</u>	<u>2,030,178</u>	<u>1,432,889</u>	<u>999,405</u>	<u>617,656</u>	<u>481,376</u>	<u>473,266</u>	<u>742,428</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	\$ 12,765,843	\$ 12,755,004	\$ 12,693,060	\$ 12,670,891	\$ 12,460,944					
Contributions as a percentage of covered-employee payroll	29.29%	25.00%	20.73%	16.02%	11.50%					

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



**TULPEHOCKEN AREA SCHOOL DISTRICT**

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN**

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
Eligible Employees	7/1/2016	\$ -	\$ 1,774,104	\$ 1,774,104	0.00%	\$ 11,707,710	15.15%
Eligible Employees	4/1/2014	-	1,553,268	1,553,268	0.00%	11,621,357	13.37%
Eligible Employees	4/1/2012	-	1,507,749	1,507,749	0.00%	11,307,954	13.33%

**TULPEHOCKEN AREA SCHOOL DISTRICT**

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION**

**For the Year Ended June 30, 2017**

**BUDGETARY DATA**

---

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

## **SUPPLEMENTARY INFORMATION**

**TULPEHOCKEN AREA SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the Year Ended June 30, 2017**

Federal Grantor/ Pass-Through Grantor/Program Title	Source Code	Federal CFDA Number	Federal Pass-Through Grantor's Number	Grant Period Beginning/Ending Date	Program or Award Amount	Total Received for Year	Accrued or (Unearned) Revenue at July 1, 2016	Revenue Recognized	Expenditures	Accrued or (Unearned) Revenue at June 30, 2017
<b><u>U.S. Department of Education</u></b>										
<b>Passed through the Pennsylvania Department of Education:</b>										
Title I - Grants to Local Educational Agencies	I	84.010	013-170434	07/01/16 - 09/30/17	\$ 430,242	\$ 346,023	\$ -	\$ 362,383	\$ 362,383	\$ 16,360
Title I - Grants to Local Educational Agencies	I	84.010	013-160434	07/29/15 - 09/30/16	381,806	100,834	50,678	50,156	50,156	-
Subtotal						446,857	50,678	412,539	412,539	16,360
Supporting Effective Instruction State Grant	I	84.367	020-170434	07/01/16 - 09/30/17	79,917	80,347	-	79,917	79,917	(430)
Supporting Effective Instruction State Grant	I	84.367	020-160434	07/29/15 - 09/30/16	81,226	5,384	5,384	-	-	(0)
Subtotal						85,731	5,384	79,917	79,917	(430)
English Language Acquisition State Grants	I	84.365	010-170434	07/01/16 - 09/30/17	11,546	6,598	-	1,819	1,819	(4,779)
English Language Acquisition State Grants	I	84.365	010-160434	07/29/15 - 09/30/16	11,184	-	(7,358)	875	875	(6,483)
English Language Acquisition State Grants	I	84.365	010-150434	07/01/14 - 09/30/15	13,687	(4,205)	(4,205)	-	-	-
Subtotal						2,393	(11,563)	2,694	2,694	(11,262)
<b>Passed through the Berks County Intermediate Unit:</b>										
<b>Special Education Cluster (IDEA)</b>										
Special Education - Preschool Grants	I	84.173	N/A	07/01/16 - 09/30/17	982	982	-	982	982	-
Special Education - Preschool Grants	I	84.173	N/A	07/01/15 - 06/30/16	1,381	1,381	1,381	-	-	-
Special Education - Grants to States	I	84.027	N/A	07/01/16 - 09/30/17	288,296	-	-	288,296	288,296	288,296
Special Education - Grants to States	I	84.027	N/A	07/01/15 - 09/30/16	271,429	135,714	135,714	-	-	-
Total Special Education Cluster (IDEA)						138,077	137,095	289,278	289,278	288,296
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>						673,058	181,594	784,428	784,428	292,964
<b><u>U.S. Department of Health and Human Services</u></b>										
<b>Passed through the Pennsylvania Department of Human Services:</b>										
Medical Assistance Reimbursement for Administration, Revenue Code 8820	I	93.778	N/A	07/01/16 - 09/30/17	3,816	1,537	-	3,816	3,816	2,279
Medical Assistance Reimbursement for Administration, Revenue Code 8820	I	93.778	N/A	07/01/15 - 06/30/16	5,397	2,710	2,710	-	-	-
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>						4,247	2,710	3,816	3,816	2,279
<b><u>U.S. Department of Agriculture</u></b>										
<b>Child Nutrition Cluster</b>										
<b>Passed through the Pennsylvania Department of Education:</b>										
National School Lunch Program	I	10.555	N/A	07/01/16 - 09/30/17	278,810	272,528	-	278,810	278,810	6,282
School Breakfast program	I	10.553	N/A	07/01/16 - 09/30/17	79,832	78,021	-	79,832	79,832	1,811
<b>Passed through the Pennsylvania Department of Agriculture:</b>										
National School Lunch Program - Donated Commodities	I	10.555	N/A	07/01/16 - 06/30/17	57,725	65,786	(8,144)	57,725	57,725	(16,205)
<b>TOTAL CHILD NUTRITION CLUSTER AND TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>						416,335	(8,144)	416,367	416,367	(8,112)
<b><u>U.S. Department of Homeland Security</u></b>										
<b>Passed through the Pennsylvania Emergency Management Agency:</b>										
Disaster Grants - Public Assistance	I	97.036	N/A	03/23/16 - 09/23/16	6,225	6,225	6,225	-	-	-
<b>TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY</b>						6,225	6,225	-	-	-
<b>TOTAL FEDERAL AWARDS</b>						\$ 1,099,865	\$ 182,385	\$ 1,204,611	\$ 1,204,611	\$ 287,131

I = Indirect Source of Funding

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

See notes to schedule of expenditures of federal awards.

**TULPEHOCKEN AREA SCHOOL DISTRICT**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the Year Ended June 30, 2017**

**NOTE 1 - BASIS OF PRESENTATION**

---

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

**NOTE 3 - DE MINIMUS RATE FOR INDIRECT COSTS**

---

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

**NOTE 4 - FOOD COMMODITIES**

---

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. At June 30, 2017, the District has \$16,205 of food commodity inventory.

**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  
Tulpehocken Area School District  
Bethel, Pennsylvania**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Tulpehocken Area School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Tulpehocken Area School District's basic financial statements, and have issued our report thereon dated November 13, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Tulpehocken Area 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 Tulpehocken Area School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Tulpehocken Area 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 Tulpehocken Area School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Herbein + Company, Inc.*

**Reading, Pennsylvania**  
**November 13, 2017**



**Herbein + Company, Inc.**  
2763 Century Boulevard  
Reading, PA 19610  
P: 610.378.1175  
F: 610.378.0999  
[www.herbein.com](http://www.herbein.com)

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

**To the Board of School Directors  
Tulpehocken Area School District  
Bethel, Pennsylvania**

**Report on Compliance for Each Major Federal Program**

We have audited Tulpehocken Area 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 Tulpehocken Area School District's major federal programs for the year ended June 30, 2017. Tulpehocken Area 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 Tulpehocken Area 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 Tulpehocken Area 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 Tulpehocken Area School District's compliance.



### **Opinion on Each Major Federal Program**

In our opinion, Tulpehocken Area School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

### **Report on Internal Control Over Compliance**

Management of Tulpehocken Area 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 Tulpehocken Area 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 Tulpehocken Area School District's internal control over compliance.

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

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

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

*Herbein + Company, Inc.*

**Reading, Pennsylvania  
November 13, 2017**

**TULPEHOCKEN AREA SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For the Year Ended June 30, 2017**

---

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?        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>
<u>Special Education Cluster</u>	
84.173	Special Education - Preschool Grants
84.027	Special Education - Grants to States

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

Auditee qualified as low-risk auditee?   X   yes        no

**TULPEHOCKEN AREA SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For the Year Ended June 30, 2017**

---

**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 reported.

**TULPEHOCKEN AREA SCHOOL DISTRICT**

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

**For the Year Ended June 30, 2017**

---

**Section II - Financial Statement Findings**

There were no financial statements findings reported.

**Section III - Federal Awards Findings and Questioned Costs**

There were no federal awards findings or questioned costs reported.

