



TULPEHOCKEN AREA SCHOOL DISTRICT

FINANCIAL AND COMPLIANCE REPORT

Year Ended June 30, 2018



TABLE OF CONTENTS

	Pages
INDEPENDENT AUDITOR'S REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 7
 BASIC FINANCIAL STATEMENTS	
 Government-Wide Financial Statements	
Statement of Net Position	8
Statement of Activities.....	9
 Fund Financial Statements	
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 Fund.....	18
Statement of Changes in Net Position - Fiduciary Fund.....	19
 Notes to Basic Financial Statements	
Note 1 - Summary of Significant Accounting Policies	20
Note 2 - Stewardship, Compliance, and Accountability	32
Note 3 - Cash and Investments.....	33
Note 4 - Taxes Receivable and Unavailable Revenue	36
Note 5 - Tax Abatements	37
Note 6 - Intergovernmental Receivables	38
Note 7 - Changes in Capital Assets.....	39
Note 8 - Long-Term Liabilities	40
Note 9 - Employee Retirement Plans.....	43
Note 10 - Health Insurance Premium Assistance Program.....	51
Note 11 - District Other Postemployment Benefits Plan	58
Note 12 - Interfund Receivables/Payables and Transfers.....	63
Note 13 - Joint Venture.....	63
Note 14 - Risk Management	64
Note 15 - Contingent Liabilities and Commitments.....	64
Note 16 - Restatement of Beginning Net Position.....	65
Note 17 - Fund Balance.....	66
Note 18 - New Accounting Pronouncements	66

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule for the General Fund	68 - 89
Note to Required Supplementary Information.....	70
Schedule of the District's Proportionate Share of the Net Pension	
Liability and Related Ratios - Pension Plan.....	71
Schedule of District Contributions - Pension Plan	72
Schedule of the District's Proportionate Share of the Net OPEB	
Obligation and Related Ratios - Health Insurance Premium Assistance Program	73
Schedule of District Contributions - Health Insurance Premium Assistance Program	74
Schedule of Changes of Total OPEB Obligation and Related Ratios - District OPEB Plan.....	75

SUPPLEMENTARY INFORMATION

Single Audit

Schedule of Expenditures of Federal Awards	76
Notes to Schedule of Expenditures of Federal Awards	77

**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*.....**

78 - 79

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

80 - 81

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

82 - 83

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

84

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Change in Accounting Principle

As described in Note 16 to the financial statements, effective July 1, 2017, Tulpehocken Area School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule for the general fund, and pension and other postemployment benefits information on pages 71 through 75 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 January 31, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Herbein + Company, Inc.

**Reading, Pennsylvania
January 31, 2019**

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 \$1,288,218 during the 2017-2018 fiscal year. The governmental net position increased by \$1,261,234 and the business-type (cafeteria) net position increased by \$26,984. The total net pension liability that was recognized for the first time in the 2014-2015 fiscal year is currently \$47,314,000 and is the reason the district's total net position stands at \$(21,657,722).

During the year, the District exceeded budgeted revenues by \$672,002 mainly due to continued real estate growth, higher interest income and real estate transfer tax collections. Expenditures were less than the budgeted amounts by \$169,125 due to general expense control practices. This allowed the district to transfer \$500,000 to the Capital Reserve fund and increase the unassigned General Fund balance by \$22,556 to \$2,510,864 which is slightly below the mandated 8% limit.

The transfer to the Capital Reserve 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 Reserve fund balance was \$1,591,242 at June 30, 2018 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 \$80,000 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 2018-2019 pension increase of 2.6% is the lowest percentage increase in 10 years. The 2019-2020 rate of 34.29% reflects another 2.6% increase and the projected increases for the following four years are all below 2%.

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. Three new warehouses were recently constructed along I-78 in our district. No tax incentives were granted for any of these projects so they will become fully taxable when the assessments are completed.

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. 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, 2018

	2017			2018		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Assets						
Current and other assets	\$ 10,035,040	\$ 358,495	\$ 10,393,535	\$ 10,197,859	\$ 368,834	\$ 10,566,693
Capital assets	38,350,357	19,137	38,369,494	38,139,373	39,482	38,178,855
Total assets	\$ 48,385,397	\$ 377,632	\$ 48,763,029	\$ 48,337,232	\$ 408,316	\$ 48,745,548
Deferred outflows of resources	\$ 8,693,366	\$ 155,555	\$ 8,848,921	\$ 7,667,674	\$ 132,036	\$ 7,799,710
Liabilities						
Current and other liabilities	\$ 5,966,152	\$ 13,929	\$ 5,980,081	\$ 6,487,912	\$ 16,408	\$ 6,504,320
Long-term liabilities	69,696,539	888,397	70,584,936	69,224,951	886,788	70,111,739
Total liabilities	75,662,691	902,326	76,565,017	75,712,863	903,196	76,616,059
Deferred inflows of resources	\$ 617,581	\$ 37,510	\$ 655,091	1,533,815	53,106	\$ 1,586,921
Net Position						
Net Investment in						
Capital Assets	15,699,997	19,137	15,719,134	17,931,333	39,482	17,970,815
Restricted	1,941,160	-	1,941,160	1,637,567	-	1,637,567
Unrestricted	(36,842,666)	(425,786)	(37,268,452)	(40,810,672)	(455,432)	(41,266,104)
Total net position	\$ (19,201,509)	\$ (406,649)	\$ (19,608,158)	\$ (21,241,772)	\$ (415,950)	\$ (21,657,722)

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, 2018

	2017			2018		
	Governmental Activities	Business-type activities	Total	Governmental Activities	Business-type activities	Total
Revenues						
Program revenues						
Charges for services	250,390	349,533	599,923	155,953	329,245	485,198
Operating grants and contributions	5,628,874	483,931	6,112,805	5,837,532	477,314	6,314,846
Capital grants and contributions	441,290	-	441,290	477,863	-	477,863
General revenues						
Taxes	19,820,680	-	19,820,680	19,402,611	-	19,402,611
Grants	4,083,029	-	4,083,029	4,786,373	-	4,786,373
Other	72,051	275	72,326	172,056	332	172,388
Total revenues	30,296,314	833,739	31,130,053	30,832,388	806,891	31,639,279
Expenses						
Instruction	18,105,480	-	18,105,480	17,637,777	-	17,637,777
Instructional student support	2,022,496	-	2,022,496	1,920,869	-	1,920,869
Administrative and financial support services	2,060,910	-	2,060,910	1,933,255	-	1,933,255
Operation and maintenance of plant services	2,271,063	-	2,271,063	2,637,063	-	2,637,063
Pupil transportation	1,504,120	-	1,504,120	1,501,387	-	1,501,387
Other support services	1,363,341	-	1,363,341	1,378,178	-	1,378,178
Non-instructional services	499,293	773,209	1,272,502	489,037	779,907	1,268,944
Unallocated Depreciation expense	1,589,436	-	1,589,436	1,574,926	-	1,574,926
Interest on long-term debt	554,665	-	554,665	498,662	-	498,662
Total expenses	29,970,804	773,209	30,744,013	29,571,154	779,907	30,351,061
Increase in net position	325,510	60,530	386,040	1,261,234	26,984	1,288,218
Beginning Net Position (Deficit)	(19,527,019)	(467,179)	(19,994,198)	(19,201,509)	(406,649)	(19,608,158)
Restatement for GASB Statement No. 75	-	-	-	(3,301,497)	(36,285)	(3,337,782)
Beginning Net Position (Deficit) - Restated	(19,527,019)	(467,179)	(19,994,198)	(22,503,006)	(442,934)	(22,945,940)
Ending Net Position (Deficit)	(19,201,509)	(406,649)	(19,608,158)	(21,241,772)	(415,950)	(21,657,722)

Effective July 1, 2017, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Report for Postemployment Benefits Other than Pensions, to be in conformity with generally accepted accounting principles. Statement No. 75 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures in order to improve accounting and financial reporting by governments for postemployment benefit plans other than pensions (OPEB). The adoption of Statement No. 75 resulted in the District restating beginning net position as of July 1, 2017. Net position was restated by \$3,337,782, with a decrease of \$3,301,497 and \$36,285 in governmental activities and business-type activities, respectively. This created a deficiency in net position as of July 1, 2017 of \$22,503,006 and \$442,934 in governmental activities and business-type activities, respectively.

The District Funds

Governmental Funds

As of the year-end, the governmental funds reported a combined fund balance of \$5,887,639 which is a decrease of \$281,037 from the prior year. The General Fund experienced a \$22,556 net increase in fund balance. The unassigned portion of the fund balance is \$2,510,864 or 7.9% of budgeted 2018-2019 expenditures. The district has committed \$1,280,000 for future benefit rate increases, special education and athletic facility improvements.

The District Funds - Continued

Proprietary Fund

The cafeteria fund reported an increase in net position of \$26,984. This is the sixth 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 pages 68 and 69.

The school board voted to reduce taxes by .1 mills in 2017-2018. Current real estate taxes exceeded budget by \$378,234 mainly due to increased assessments from new warehouse development along I-78 and higher than historical collection rates. Investment earnings exceeded budget by \$106,519. State revenue exceeded budget by \$168,595 and federal revenue exceeded budget by \$35,291.

Capital Assets and Debt Administration

Capital Assets

As of year-end, the District had \$38,178,855 invested in a variety of capital assets, which represents a net decrease (additions less retirements and depreciation) of \$190,639 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 \$20,100,000 in debt (bonds) outstanding compared to \$22,500,000 last year. This represents a decrease of \$2,400,000. 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 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. Revenue from the Berks 78 Business Park improvements will provide incremental tax revenue of approximately \$250,000 annually for the next six years and three new warehouse recently constructed will provide immediate real estate tax income for next fiscal year and for the future. There are at least 5 more warehouses in the planning stage. 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, 2018

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and Investments	\$ 7,867,341	\$ 344,644	\$ 8,211,985
Taxes Receivable, Net	714,979	-	714,979
Intergovernmental Receivables	1,594,477	5,932	1,600,409
Other Receivables	17,376	1,525	18,901
Inventories	-	16,733	16,733
Prepaid Expenses	3,686	-	3,686
Capital Asset Not Being Depreciated	65,136	-	65,136
Capital Assets, Net of Accumulated Depreciation	38,074,237	39,482	38,113,719
TOTAL ASSETS	48,337,232	408,316	48,745,548
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charge on Bond Refunding	86,989	-	86,989
Deferred Outflows of Resources for Pension	7,260,662	130,076	7,390,738
Deferred Outflows of Resources for Other Postemployment Benefits - Health Insurance Premium Assistance Program	108,657	1,960	110,617
Deferred Outflows of Resources for Other Postemployment Benefits - District Plan	211,366	-	211,366
TOTAL DEFERRED OUTFLOWS OF RESOURCES	7,667,674	132,036	7,799,710
LIABILITIES			
Accounts Payable	707,583	1,389	708,972
Accrued Interest	105,862	-	105,862
Payroll Accruals and Withholdings	3,162,861	-	3,162,861
Unearned Revenues	5,514	15,019	20,533
Noncurrent Liabilities Due Within One Year	2,506,092	-	2,506,092
Noncurrent Liabilities:			
Bonds Payable, Net	17,827,558	-	17,827,558
Long-Term Portion of Compensated Absences	756,762	-	756,762
Net Pension Liability	46,462,348	851,652	47,314,000
Net Other Postemployment Benefit Obligation - Health Insurance Premium Assistance Program	1,916,864	35,136	1,952,000
Total Other Postemployment Benefit Obligation - District Plan	2,261,419	-	2,261,419
TOTAL LIABILITIES	75,712,863	903,196	76,616,059
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources for Pension	1,395,353	50,568	1,445,921
Deferred Inflows of Resources for Other Postemployment Benefits - Health Insurance Premium Assistance Program	138,462	2,538	141,000
TOTAL DEFERRED INFLOWS OF RESOURCES	1,533,815	53,106	1,586,921
NET POSITION			
Net Investment in Capital Assets	17,931,333	39,482	17,970,815
Restricted for Capital Projects	1,591,242	-	1,591,242
Restricted for Other Purposes	46,325	-	46,325
Unrestricted (Deficit)	(40,810,672)	(455,432)	(41,266,104)
TOTAL NET POSITION (DEFICIT)	\$ (21,241,772)	\$ (415,950)	\$ (21,657,722)

See accompanying notes.

TULPEHOCKEN AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2018

For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
Instructional Services:							
Regular Programs - Elementary/Secondary	\$ 12,333,290	\$ -	\$ 2,285,745	\$ -	\$ (10,047,545)	\$ -	\$ (10,047,545)
Special Programs - Elementary/Secondary	4,401,269	66,572	1,795,017	-	(2,539,680)	-	(2,539,680)
Vocational Education	717,317	43,760	34,101	4,434	(635,022)	-	(635,022)
Other Instructional Programs - Elementary/Secondary	185,901	5,960	27,451	-	(152,490)	-	(152,490)
Total Instructional Services	17,637,777	116,292	4,142,314	4,434	(13,374,737)	-	(13,374,737)
Support Services:							
Students	1,001,637	-	142,320	-	(859,317)	-	(859,317)
Instructional Staff	919,232	-	97,317	-	(821,915)	-	(821,915)
Administration	1,491,215	-	146,397	-	(1,344,818)	-	(1,344,818)
Pupil Health	347,600	-	65,557	-	(282,043)	-	(282,043)
Business	442,040	-	43,186	-	(398,854)	-	(398,854)
Operation and Maintenance of Plant Services	2,637,063	21,700	143,161	-	(2,472,202)	-	(2,472,202)
Student Transportation Services	1,501,387	-	989,280	-	(512,107)	-	(512,107)
Central	1,007,407	-	30,257	-	(977,150)	-	(977,150)
Other Support Services	23,171	-	-	-	(23,171)	-	(23,171)
Total Support Services	9,370,752	21,700	1,657,475	-	(7,691,577)	-	(7,691,577)
Noninstructional Services:							
Student Activities	471,612	17,961	35,650	-	(418,001)	-	(418,001)
Community Services	17,425	-	2,093	-	(15,332)	-	(15,332)
Interest on Long-Term Debt	498,662	-	-	473,429	(25,233)	-	(25,233)
Unallocated Depreciation Expense	1,574,926	-	-	-	(1,574,926)	-	(1,574,926)
Total Noninstructional Services	2,562,625	17,961	37,743	473,429	(2,033,492)	-	(2,033,492)
Total Governmental Activities	29,571,154	155,953	5,837,532	477,863	(23,099,806)	-	(23,099,806)
Business-Type Activities							
Food Services	779,907	329,245	477,314	-	-	26,652	26,652
Total Primary Government	\$ 30,351,061	\$ 485,198	\$ 6,314,846	\$ 477,863	(23,099,806)	26,652	(23,073,154)
General Revenues							
Taxes:							
Property Taxes					17,505,164	-	17,505,164
Public Utility Realty, Earned Income, and Mercantile Tax					1,897,447	-	1,897,447
Grants, Subsidies, and Contributions Not Restricted for a Specific Program					4,786,373	-	4,786,373
Investment Earnings					149,973	332	150,305
Miscellaneous Income					22,083	-	22,083
Total General Revenues					24,361,040	332	24,361,372
Change in Net Position					1,261,234	26,984	1,288,218
Net Position (Deficit) - Beginning of Year - Restated					(22,503,006)	(442,934)	(22,945,940)
Net Position (Deficit) - End of Year					\$ (21,241,772)	\$ (415,950)	\$ (21,657,722)

See accompanying notes.

TULPEHOCKEN AREA SCHOOL DISTRICT

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2018

	General	Capital Projects	Nonmajor Fund Special Revenue	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 6,716,026	\$ 1,104,684	\$ 46,631	\$ 7,867,341
Taxes Receivable	723,842	-	-	723,842
Interfund Receivables	-	500,000	-	500,000
Intergovernmental Receivables	1,594,477	-	-	1,594,477
Other Receivables	17,376	-	-	17,376
Prepaid Expenditures	3,686	-	-	3,686
TOTAL ASSETS	\$ 9,055,407	\$ 1,604,684	\$ 46,631	\$ 10,706,722
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Interfund Payables	\$ 500,000	\$ -	\$ -	\$ 500,000
Accounts Payable	693,835	13,442	306	707,583
Accrued Salaries and Benefits	2,023,247	-	-	2,023,247
Payroll Deductions and Withholdings	1,139,614	-	-	1,139,614
Unearned Revenues	5,514	-	-	5,514
TOTAL LIABILITIES	4,362,210	13,442	306	4,375,958
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Property Taxes	443,125	-	-	443,125
FUND BALANCES				
Nonspendable	3,686	-	-	3,686
Restricted	-	1,591,242	46,325	1,637,567
Committed for:				
Athletic Facility Improvements	80,000	-	-	80,000
Benefits	1,000,000	-	-	1,000,000
Special Education Program	200,000	-	-	200,000
Assigned - Appropriations 2018 - 2019	455,522	-	-	455,522
Unassigned	2,510,864	-	-	2,510,864
TOTAL FUND BALANCES	4,250,072	1,591,242	46,325	5,887,639
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 9,055,407	\$ 1,604,684	\$ 46,631	\$ 10,706,722

See accompanying notes.

TULPEHOCKEN AREA SCHOOL DISTRICT

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

June 30, 2018

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

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 5,887,639
---	---------------------

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 \$60,632,550 and the accumulated depreciation is \$22,493,177.	38,139,373
---	------------

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.	434,262
---	---------

The net pension liability and related deferred outflows and inflows of resources of pensions are not reflected on the fund financial statements.	(40,597,039)
--	--------------

The other postemployment benefit obligations and related deferred outflows and inflows of resources for other postemployment benefits are not reflected on the fund financial statements.	(3,996,722)
---	-------------

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	\$ (20,100,000)	
Unamortized Bond Discount	19,039	
Unamortized Bond Premium	(196,597)	
Deferred Charge on Bond Refunding	86,989	
Accrued Interest on Bonds	(105,862)	
Capital Lease Payable	(17,471)	
Compensated Absences	(795,383)	(21,109,285)

TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES	<u><u>\$ (21,241,772)</u></u>
---	--------------------------------------

TULPEHOCKEN AREA SCHOOL DISTRICT

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

For the Year Ended June 30, 2018

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Fund Special Revenue</u>	<u>Total Governmental Funds</u>
REVENUES				
Local Sources	\$ 20,083,655	\$ 13,454	\$ 15,246	\$ 20,112,355
State Sources	10,160,856	-	-	10,160,856
Federal Sources	635,291	-	-	635,291
TOTAL REVENUES	30,879,802	13,454	15,246	30,908,502
EXPENDITURES				
Current:				
Instructional Services	17,946,324	-	23,724	17,970,048
Support Services	8,969,338	49,484	-	9,018,822
Operation of Noninstructional Services	483,047	-	-	483,047
Capital Outlay	-	759,085	-	759,085
Debt Service:				
Principal	2,416,851	-	-	2,416,851
Interest	540,880	-	-	540,880
Refund of Prior Year Revenues	806	-	-	806
TOTAL EXPENDITURES	30,357,246	808,569	23,724	31,189,539
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	522,556	(795,115)	(8,478)	(281,037)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	500,000	-	500,000
Transfers Out	(500,000)	-	-	(500,000)
TOTAL OTHER FINANCING SOURCES (USES)	(500,000)	500,000	-	-
NET CHANGE IN FUND BALANCES	22,556	(295,115)	(8,478)	(281,037)
FUND BALANCES - BEGINNING OF YEAR	4,227,516	1,886,357	54,803	6,168,676
FUND BALANCES - END OF YEAR	\$ 4,250,072	\$ 1,591,242	\$ 46,325	\$ 5,887,639

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, 2018

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

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS **\$ (281,037)**

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

Capital Outlays	\$ 1,364,644	
Less: Depreciation Expense	(1,574,926)	
Net Disposal of Assets	(702)	(210,984)

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. (74,606)

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	2,400,000	
Amortization of Bond Discount	(1,674)	
Amortization of Bond Premium	50,949	
Amortization of Deferred Charge on Bond Refunding	(23,806)	
Repayment of Capital Lease	16,851	2,442,320

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. 16,749

In the statement of activities, certain operating expenses - compensated absences (vacations and sick days) are measured by the amounts earned during the year. 77,328

The change in net pension liability and related deferred outflows and inflows of resources for pension are reflected as an adjustment to expense on the statement of activities, but not included in the fund statements. (637,426)

The change in other postemployment benefits obligation and related deferred outflows and inflows of resources for other postemployment benefits are reflected as an adjustment to expense on the statement of activities, but not included in the fund statements. (71,110)

CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES **\$ 1,261,234**

TULPEHOCKEN AREA SCHOOL DISTRICT

**STATEMENT OF NET POSITION
PROPRIETARY FUND**

June 30, 2018

	Enterprise Fund Food Service
ASSETS	
CURRENT ASSETS	
Cash and Investments	\$ 344,644
Intergovernmental Receivables	5,932
Other Receivables	1,525
Inventories	16,733
TOTAL CURRENT ASSETS	368,834
NONCURRENT ASSETS	
Furniture and Equipment, Net	39,482
TOTAL ASSETS	408,316
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows of Resources for Pension	130,076
Deferred Outflows of Resources for Other Postemployment Benefits - Health Insurance Premium Assistance Program	1,960
TOTAL DEFERRED OUTFLOWS OF RESOURCES	132,036
LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	1,389
Unearned Revenues	15,019
TOTAL CURRENT LIABILITIES	16,408
NONCURRENT LIABILITY	
Net Pension Liability	851,652
Net Other Postemployment Benefit Obligation - Health Insurance Premium Assistance Program	35,136
TOTAL LIABILITIES	903,196
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows of Resources for Pension	50,568
Deferred Inflows of Resources for Other Postemployment Benefits - Health Insurance Premium Assistance Program	2,538
TOTAL DEFERRED INFLOWS OF RESOURCES	53,106
NET POSITION (DEFICIT)	
Investment in Capital Assets	39,482
Unrestricted (Deficit)	(455,432)
TOTAL NET POSITION (DEFICIT)	\$ (415,950)

See accompanying notes.

TULPEHOCKEN AREA SCHOOL DISTRICT

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

For the Year Ended June 30, 2018

	<u>Enterprise Fund Food Service</u>
OPERATING REVENUES	
Food Service Revenue	\$ 329,245
OPERATING EXPENSES	
Salaries	240,308
Employee Benefits	157,837
GASB Pension and OPEB Expense	1,221
Supplies	360,392
Depreciation	2,689
Other Operating Expenses	<u>17,460</u>
TOTAL OPERATING EXPENSES	<u>779,907</u>
OPERATING LOSS	(450,662)
NONOPERATING REVENUES	
Earnings on Investments	332
State Sources	68,672
Federal Sources	<u>408,642</u>
TOTAL NONOPERATING REVENUES	<u>477,646</u>
CHANGE IN NET POSITION	26,984
NET POSITION (DEFICIT) - BEGINNING OF YEAR - RESTATED	<u>(442,934)</u>
NET POSITION (DEFICIT) - END OF YEAR	<u><u>\$ (415,950)</u></u>

TULPEHOCKEN AREA SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND**

For the Year Ended June 30, 2018

	Enterprise Fund Food Service
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Users	\$ 329,369
Payments to Employees for Services	(398,145)
Payments to Suppliers for Goods and Services	(291,563)
Payments for Other Operating Expenses	(17,460)
	<hr/>
NET CASH USED FOR OPERATING ACTIVITIES	(377,799)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Sources	68,853
Federal Sources	349,556
	<hr/>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	418,409
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Capital Assets	(23,034)
CASH FLOWS FROM INVESTING ACTIVITIES	
Earnings on Investments	332
	<hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS	17,908
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	326,736
	<hr/>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 344,644</u></u>

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

For the Year Ended June 30, 2018

	<u>Enterprise Fund Food Service</u>
<u>Reconciliation of Operating Loss to Net Cash Used for Operating Activities:</u>	
Operating Loss	\$ (450,662)
Adjustments to Reconcile Operating Loss to Net Cash Used For Operating Activities:	
Depreciation	2,689
Donated Commodities Used	61,597
Changes in Assets, Deferred Outflows of Resources, Liabilities, and Deferred Inflows of Resources:	
Other Receivables	(1,045)
Inventories	5,922
Deferred Outflows of Resources for Pension	25,479
Deferred Outflows of Resources for Otherpostemployment Benefits - Health Insurance Premium Assistance Program	(49)
Accounts Payable	1,310
Unearned Revenues	1,169
Net Pension Liability	(36,745)
Net Other Postemployment Benefit Obligation - Health Insurance Premium Assistance Program	(3,060)
Deferred Inflows of Resources for Pension	13,058
Deferred Inflows of Resources for Otherpostemployment Benefits - Health Insurance Premium Assistance Program	2,538
TOTAL ADJUSTMENTS	<u>72,863</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u><u>\$ (377,799)</u></u>

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the District used \$61,597 of commodities from the Department of Agriculture.

TULPEHOCKEN AREA SCHOOL DISTRICT

**STATEMENT OF NET POSITION
FIDUCIARY FUNDS**

June 30, 2018

	Private Purpose Trust Funds (Scholarships)	Agency Fund (Student Activities)
ASSETS		
CURRENT ASSETS		
Cash and Investments	\$ 19,633	\$ 68,897
TOTAL ASSETS	19,633	<u>\$ 68,897</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Other Current Liabilities	-	\$ 68,897
TOTAL LIABILITIES	-	<u>\$ 68,897</u>
NET POSITION HELD IN TRUST FOR SCHOLARSHIPS	<u>\$ 19,633</u>	

See accompanying notes.

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

For the Year Ended June 30, 2018

	Private Purpose Trust Funds (Scholarships)
ADDITIONS	
Contributions	\$ 8,081
Earnings on Investments	<u>-</u>
TOTAL ADDITIONS	8,081
DEDUCTIONS	
Scholarships	<u>3,494</u>
CHANGE IN NET POSITION	4,587
NET POSITION - BEGINNING OF YEAR	<u>15,046</u>
NET POSITION - END OF YEAR	<u><u>\$ 19,633</u></u>

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

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 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 6 and 21 years, who may attend.

In order to establish, enlarge, equip, furnish, operate, and maintain any school herein provided, or to pay any school indebtedness which the District is required to pay, or to pay an indebtedness that may at any time hereafter be created by the District, the board of school directors 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

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

A. Reporting Entity

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

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

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A. Reporting Entity - continued

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

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

Joint Venture: The District is a participating member of the Berks Career & Technology Center. See Note 13 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 school 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.

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.

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are the 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.

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.

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

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

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

D. Measurement Focus and Basis of Accounting

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

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

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Measurement Focus and Basis of Accounting - continued

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

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

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

E. Budgetary Process

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

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

Accelerated Budget Process Option

Under this option, a preliminary budget must be adopted 90 days prior to the primary election. Under this option, the preliminary budget must be available for public inspection at least 20 days prior to the 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.

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Budgetary Process - continued

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

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

Board Resolution Option

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

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

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

F. Financial Position

1. Cash and Cash Equivalents

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

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

2. Investments

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

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

3. Interfund Transactions

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

4. Inventories and Prepaid Items

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, 2018, consist of the following:

Purchased food and supplies	\$ 2,686
Supplies	3,165
Donated commodities	<u>10,882</u>
	<u>\$ 16,733</u>

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

4. Inventories and Prepaid Items - continued

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.

5. Capital Assets, Depreciation, and Amortization

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

The District generally capitalizes assets with 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. Interest incurred during the construction phase of the business-type activities is included in the capitalized value of the assets constructed. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

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

<u>Assets</u>	<u>Years</u>
Buildings	20 - 50
Building improvements	15 - 25
Site improvements	15 - 20
Furniture and equipment	3 - 20

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position- continued

6. Deferred Outflows/Inflows of Resources

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

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

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

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

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

6. Deferred Outflows/Inflows of Resources – continued

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has three types of items that qualify for reporting in this category.

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

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

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

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position- continued

7. Unearned Revenues

Revenues that are received but not earned are reported as unearned revenues in the government-wide, 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.

8. Net Position

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

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

9. Fund Balance Policies and Flow Assumptions

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

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

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

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position- continued

9. Fund Balance Policies and Flow Assumptions - continued

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

The District's unassigned fund balance of the General Fund should not be less than 5% of the following year's budgeted expenditures.

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. 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, 2018

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. 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, 2018, the implementation of GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and the accounting under GASB No. 68, *Accounting and Financial Reporting for Pensions* and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* created a deficiency in net position at year end of \$415,950. 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 the PSERS.

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - CONTINUED

C. Excess of Expenditures Over Appropriations in Individual Funds

For the year ended June 30, 2018, the general fund has an excess of expenditures over appropriations of \$305,875 due to a transfer of \$500,000 to the capital projects fund. The District used revenues in excess of budgeted amounts to fund the excess expenditures.

D. Budgetary Compliance

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

NOTE 3 - CASH AND INVESTMENTS

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

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

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

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

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

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

The breakdown of total cash and investments at June 30, 2018, is as follows:

Petty cash	\$ 471
Cash	643,896
Pooled cash and investments	<u>7,656,148</u>
	<u><u>\$ 8,300,515</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, 2018, the carrying amount of the District's deposits was \$643,896 and the bank balance was \$657,050. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$407,050 was exposed to custodial credit risk but was covered by collateralization requirements in accordance with Act 72 of the 1971 Session of the Pennsylvania General Assembly.

Investments

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

	<u>Maturities</u>	<u>Fair Value</u>	<u>Carrying Value</u>
PA School District Liquid Asset Fund:			
MAX Account Balance		<u>\$ 8,053,981</u>	<u>\$ 8,053,981</u>
Total			8,053,981
Less: Reconciling Items			<u>(397,833)</u>
Total Pooled Cash			<u><u>\$ 7,656,148</u></u>

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

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 \$8,053,981 (PSDLAF) at amortized cost. All investments in external investment pools that are not registered with the Securities and Exchange Commission are subject to oversight by the Commonwealth of Pennsylvania.

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Investments - continued

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

As of June 30, 2018, the entire PSDLAF book balance of \$7,656,148 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, 2018, 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, 2018, the District's investments were rated as follows:

<u>Investments</u>	<u>Standard & Poor's</u>
PA School District Liquid Asset Fund	AAAm

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, 2018

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 \$646,730,300. In accordance with Act 1 of 2006, the District received \$645,805 in property tax reduction funds for the 2017/2018 fiscal year. The District's tax rate for the year ended June 30, 2018, was 27.60 mills (\$27.60 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, 2018, were as follows:

	Gross Taxes Receivable	Allowance for Uncollectible Taxes	Net Estimated to be Collectible	Tax Revenue Recognized	Unavailable Revenue
Real Estate	\$ 538,571	\$ 8,863	\$ 529,708	\$ 95,446	\$ 443,125
Interims	2,960	-	2,960	2,960	-
Earned Income	131,839	-	131,839	131,839	-
Transfer tax	50,472	-	50,472	50,472	-
	<u>\$ 723,842</u>	<u>\$ 8,863</u>	<u>\$ 714,979</u>	<u>\$ 280,717</u>	<u>\$ 443,125</u>

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

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, 2018. 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, 2018, 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, 2018, the foregone real estate tax revenue as a result of the LERTA tax abatement was \$1,470,619.

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, 2018

NOTE 6 - INTERGOVERNMENTAL RECEIVABLES

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

<u>Name of Governmental Unit</u>	<u>General Fund</u>	<u>Enterprise Food Service</u>
Commonwealth of Pennsylvania:		
Retirement	\$ 656,682	\$ -
Social Security	183,599	-
Transportation Subsidy	122,399	-
Rental Subsidy	25,343	-
School Lunch/Breakfast Program	-	350
Berks County Intermediate Unit:		
Special Education	286,528	-
Other	16,729	-
Tuition Due from Other LEAs	110,332	-
Federal Subsidies:		
Title I Grants to Local Education Agencies	28,854	-
ACCESS Medical Assistance Program (Admin)	1,125	-
ACCESS Medical Assistance Program	162,886	-
School Lunch/Breakfast Programs	-	5,582
TOTAL	<u>\$ 1,594,477</u>	<u>\$ 5,932</u>

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 7 - CHANGES IN CAPITAL ASSETS

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

	Beginning Balance	Increase	(Reclass) Decrease	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 65,136	\$ -	\$ -	\$ 65,136
Construction in progress	496,812	-	(496,812)	-
Total not being depreciated	561,948	-	(496,812)	65,136
Capital assets being depreciated:				
Buildings and building improvements	50,320,590	1,035,428	-	51,356,018
Site improvements	4,535,987	-	-	4,535,987
Furniture and equipment	3,884,468	826,028	(35,087)	4,675,409
Total being depreciated	58,741,045	1,861,456	(35,087)	60,567,414
Less accumulated depreciation for:				
Buildings and building improvements	17,434,264	1,151,339	-	18,585,603
Site improvements	931,744	121,565	-	1,053,309
Furniture and equipment	2,586,628	302,022	(34,385)	2,854,265
Total accumulated depreciation	20,952,636	1,574,926	(34,385)	22,493,177
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	37,788,409	286,530	(702)	38,074,237
GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET	<u>\$ 38,350,357</u>	<u>\$ 286,530</u>	<u>\$ (497,514)</u>	<u>\$ 38,139,373</u>
Business-Type Activities				
Capital assets being depreciated:				
Furniture and Equipment	\$ 45,441	\$ 23,034	\$ -	\$ 68,475
Less accumulated depreciation for:				
Furniture and Equipment	26,304	2,689	-	28,993
BUSINESS-TYPE ACTIVITIES, CAPITAL ASSETS, NET	<u>\$ 19,137</u>	<u>\$ 20,345</u>	<u>\$ -</u>	<u>\$ 39,482</u>

Depreciation expense of \$1,574,926 in governmental activities was unallocated for the year ended June 30, 2018.

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 8 - LONG-TERM LIABILITIES

Bonds payable were as follows at June 30, 2018:

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. \$ 1,625,000

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. 5,080,000

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. 6,610,000

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. 1,935,000

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. 4,850,000

Total Bonds Payable \$ 20,100,000

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 8 - LONG-TERM LIABILITIES - CONTINUED

Capital lease payable was as follows at June 30, 2018:

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%.	<u>\$ 17,471</u>
--	------------------

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

Cost	\$ 68,690
Accumulated Depreciation	<u>(20,607)</u>
Net Book Value	<u>\$ 48,083</u>

Minimum future lease payments under capital leases are as follows:

Payments	\$ 18,114
Amount representing interest	<u>(643)</u>
Present value of net minimum lease payments	<u>\$ 17,471</u>

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

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
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	-	1,540,000	525,000	-
2024-2028	-	805,000	2,860,000	-
2029-2030	-	-	1,270,000	-
	<u>\$ 1,625,000</u>	<u>\$ 5,080,000</u>	<u>\$ 6,610,000</u>	<u>\$ 1,935,000</u>
	General Obligation Bonds - Series of 2013	Total General Long-Term Debt	Capital Lease	Interest
2019	\$ 360,000	\$ 2,450,000	\$ 17,471	\$ 474,963
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	385,000	2,450,000	-	247,588
2024-2028	2,080,000	5,745,000	-	710,819
2029-2030	910,000	2,180,000	-	69,506
	<u>\$ 4,850,000</u>	<u>\$ 20,100,000</u>	<u>\$ 17,471</u>	<u>\$ 2,557,314</u>

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

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, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Bonds payable	\$ 22,500,000	\$ -	\$ 2,400,000	\$ 20,100,000	\$ 2,450,000
Discounts	(20,713)	-	(1,674)	(19,039)	-
Premiums	247,546	-	50,949	196,597	-
Total Payable	22,726,833	-	2,449,275	20,277,558	2,450,000
Capital Leases	34,322	-	16,851	17,471	17,471
Compensated Absences	872,711	257,075	334,403	795,383	38,621
Total Governmental Long-Term Liabilities	<u>\$ 23,633,866</u>	<u>\$ 257,075</u>	<u>\$ 2,800,529</u>	<u>\$ 21,090,412</u>	<u>\$ 2,506,092</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, 2018, was \$540,880.

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, 2018

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.pa.gov.

Benefits Provided

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

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

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

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information About the Pension Plan - continued

Contributions

The contribution policy is set by 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% (Membership Class TC) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.

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

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

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

Employer Contributions:

The school districts' contractually required contribution rate for the fiscal year ended June 30, 2018, was 31.74% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$4,153,633 for the year ended June 30, 2018.

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information About the Pension Plan - continued

Employer Contributions - continued:

The District is also required to contribute a percentage of covered payroll to PSERS for healthcare insurance premium assistance. Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for no less than one-half of the employer contributions made, including contributions related to pension and healthcare. This arrangement does not meet the criteria of a special funding situation in accordance with GASB Standards. Therefore, the net pension liability and related pension expense represents 100% of the District's share of these amounts. The total reimbursement recognized by the District for the year ended June 30, 2018, for pension and OPEB benefits was \$2,131,662.

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

At June 30, 2018, the District reported a liability of \$47,314,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2016 to June 30, 2017. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the District's proportion was 0.0958%, which was a decrease of 0.0027% from its proportion measured as of June 30, 2017. The net pension liability will be liquidated through future contributions to PSERS at the statutory rates. Contributions will be made from the general and the food service funds.

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

For the year ended June 30, 2018, the District recognized pension expense of \$4,792,851. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 494,000	\$ 286,000
Changes in assumptions	1,285,000	-
Net difference between projected and actual investment earnings	1,096,000	-
Changes in proportion - plan level	201,000	1,135,000
Changes in proportion - internal	24,921	24,921
Difference between employer contributions and proportionate share of total contributions	136,184	-
Contributions made subsequent to the measurement date	4,153,633	-
	<u>\$ 7,390,738</u>	<u>\$ 1,445,921</u>

The \$4,153,633 reported as deferred outflows of resources related to pensions resulting from District contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the years ending June 30:

2019	\$ 524,850
2020	1,043,415
2021	606,955
2022	<u>(384,036)</u>
	<u>\$ 1,791,184</u>

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

Actuarial Assumptions

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

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

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

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

Actuarial Assumptions - continued

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

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

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

Discount Rate

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

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 9 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

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

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

	<u>1% Decrease 6.25%</u>	<u>Current Discount Rate 7.25%</u>	<u>1% Increase 8.25%</u>
District's proportionate share of the net pension liability	\$ 58,240,000	\$ 47,314,000	\$ 38,090,000

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

At June 30, 2018, the District had an accrued balance due to PSERS, including contributions related to pension and OPEB of \$1,488,756. This amount represents the District's contractually obligated contributions for wages earned in April 2018 through June 2018. The balance was paid in September 2018.

403(b) Tax Shelter Plan

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

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 10 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM

Employee Defined Benefit Other Postemployment Benefits Plan

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

Summary of Significant Accounting Policies

Other Postemployment Benefits

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

General Information About the Health Insurance Premium Assistance Program

Health Insurance Premium Assistance Program

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

Premium Assistance Eligibility Criteria

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

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

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 10 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

General Information About the Health Insurance Premium Assistance Program - continued

Pension Plan Description

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

Benefits Provided

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

Contributions:

The contribution policy is set by state statute. A portion of each employer's contribution is set aside for premium assistance. The School District's contractually required contribution rate for the fiscal year ended June 30, 2018, was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$108,617 for the year ended June 30, 2018.

The District is also required to contribute a percentage of covered payroll to PSERS for pension benefits. Under the current legislation, the Commonwealth of Pennsylvania reimburses the District for no less than one-half of the employer contributions made, including contributions related to pension and healthcare. This arrangement does not meet the criteria of a special funding situation in accordance with GASB Standards. Therefore, the net HIPAP obligation and related expense represents 100% of the District's share of these amounts. The total reimbursement recognized by the District for the year ended June 30, 2018 for pension and OPEB benefits was \$2,131,662.

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 10 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

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

At June 30, 2018, the District reported an obligation of \$1,952,000 for its proportionate share of the net OPEB obligation. The net OPEB obligation was measured as of June 30, 2017, and the total OPEB obligation used to calculate the net OPEB obligation was determined by rolling forward the System's total OPEB obligation as of June 30, 2016 to June 30, 2017. The District's proportion of the net OPEB obligation was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the District's proportion was 0.0958%, which was a decrease of 0.0027% from its proportion measured as of June 30, 2017. The net OPEB obligation will be liquidated through future contributions to PSERS at statutory rates. Contributions will be made from the general and food service funds.

For the year ended June 30, 2018, the District recognized OPEB expense of \$75,275. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ -	\$ 91,000
Net difference between projected and actual investment earnings	2,000	-
Changes in proportion	-	50,000
Contributions made subsequent to the measurement date	108,617	-
	<u>\$ 110,617</u>	<u>\$ 141,000</u>

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 10 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

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

The \$108,617 reported as deferred outflows of resources related to OPEB resulting from District contributions made subsequent to the measurement date will be recognized as a reduction of the net OPEB obligation in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows for the years ending June 30:

2019	\$ (23,000)
2020	(23,000)
2021	(23,000)
2022	(23,000)
2023	(23,000)
Thereafter	<u>(24,000)</u>
	<u>\$ (139,000)</u>

Actuarial Assumptions

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

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

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 10 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

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

Actuarial Assumptions - continued

The following assumptions were used to determine the contribution rate:

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

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

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

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

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

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 10 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

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

Discount Rate

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

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

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

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

	1% Decrease (Between 4% to 7%)	Current Trend Rate (Between 5% to 8%)	1% Increase (Between 6% to 9%)
District's proportionate share of the net OPEB obligation	\$ 1,951,000	\$ 1,952,000	\$ 1,952,000

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 10 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

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

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

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

	1% Decrease 2.13%	Current Discount Rate 3.13%	1% Increase 4.13%
District's proportionate share of the net OPEB obligation	\$ 2,219,000	\$ 1,952,000	\$ 1,730,000

OPEB Plan Fiduciary Net Position

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

Payables Related to the Plan

At June 30, 2018, the District had an accrued balance due to PSERS of \$1,488,756, including balances related to pension and OPEB. This amount represents the District's contractually obligated contributions for wages earned in April 2018 through June 2018. The balance was paid in September 2018.

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 11 - DISTRICT OTHER POSTEMPLOYMENT BENEFITS PLAN

Employee Defined Benefit Other Postemployment Benefits Plan

General Information About the OPEB Plan

Plan Description

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

Benefits Provided

Contribution requirements are negotiated between the District and union representatives. Below is a summary of the postemployment benefits provided to retirees:

All Employees

<i>ELIGIBILITY</i>	<i>COVERAGE AND PREMIUM SHARING</i>	<i>DURATION</i>
Retire from the District	Act 110/43 Coverage and Premium Sharing: Retired employees are allowed to continue coverage for themselves and their dependents in the employer's group health plan until the retired employee reaches Medicare age. In order to obtain coverage, retired employees must provide payment equal to the premium determined for the purpose of COBRA.	Medical coverage ends at Retiree age 65. Spouse medical coverage ends at spouse age 65.

- * Pennsylvania Act 110 of 1988 and Act 43 of 1989 require school employers in Pennsylvania to give retirees and their dependents the right to continue coverage in the group health plan to which they belonged as employees. To be eligible for this benefit, retirees must have taken superannuation retirement on or after age 65, retired with 30 years of service, or receive PSERS disability benefits.

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 11 - DISTRICT OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

General Information About the OPEB Plan - continued

Benefits Provided - continued

PSERS Retirement:

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

Employees Covered by Benefit Terms

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

Active participants	197
Retired participants	<u>19</u>
Total	<u><u>216</u></u>

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 11 - DISTRICT OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan – continued

OPEB Liability

Actuarial Assumptions and Other Inputs

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

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

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

Changes in the Total OPEB Liability

	<u>Total OPEB Obligation</u>
Balance at July 1, 2017	<u>\$ 2,045,529</u>
Changes for the year:	
Service cost	167,850
Interest	53,773
Changes of assumptions or other inputs	93,624
Benefit payments	<u>(99,357)</u>
Net changes	<u>215,890</u>
Balance at June 30, 2018	<u><u>\$ 2,261,419</u></u>

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 11 - DISTRICT OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

Changes in the Total OPEB Liability - continued

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

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

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

	<u>1% Decrease</u> 2.13%	<u>Current</u> <u>Discount Rate</u> 3.13%	<u>1% Increase</u> 4.13%
OPEB Plan - Total OPEB Obligation	\$ 2,425,815	\$ 2,261,419	\$ 2,089,818

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

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

	<u>1% Decrease</u>	<u>Current</u> <u>Healthcare</u> <u>Cost Trend</u> <u>Rate</u>	<u>1% Increase</u>
OPEB Plan - Total OPEB Obligation	\$ 1,975,956	\$ 2,261,419	\$ 2,606,802

At June 30, 2018, the District reported an OPEB obligation of \$2,261,419 related to the OPEB Plan. The OPEB obligation was measured as of July 1, 2017, and was determined by rolling forward an actuarial valuation performed as of July 1, 2016 to July 1, 2017. The liability will be liquidated through future payments from the general fund.

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 11 - DISTRICT OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$228,825. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 86,422	\$ -
Benefit payments made subsequent to the measurement date	124,944	-
	<u>\$ 211,366</u>	<u>\$ -</u>

The \$124,944 reported as deferred outflows of resources related to OPEB liabilities resulting from benefit payments made subsequent to the measurement date will be recognized as a reduction of the net OPEB obligation in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows for the years ending June 30:

2019	\$ 7,202
2020	7,202
2021	7,202
2022	7,202
2023	7,202
Thereafter	<u>50,412</u>
Total	<u>\$ 86,422</u>

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 12 - INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a summary of interfund receivables and payables at June 30, 2018:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ -	\$ 500,000
Capital Projects Fund	500,000	-
	<u>\$ 500,000</u>	<u>\$ 500,000</u>

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, 2018:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 500,000
Capital Projects	500,000	-
	<u>\$ 500,000</u>	<u>\$ 500,000</u>

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

NOTE 13 - 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 operations is the responsibility of the joint board. The District's share of annual operating and capital costs for Berks Career & Technology Center fluctuates based on the percentage of enrollment. The District's share for the 2017/2018 year was \$527,198.

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 2017/2018 year was \$89,279.

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 13 - JOINT VENTURE - CONTINUED

Summary financial information as of June 30, 2017 (most recent information available) was as follows:

<u>Berks Career & Technology Center (Governmental Activities)</u>	
Total Assets and Deferred Outflows of Resources	\$ 33,405,464
Total Liabilities and Deferred Inflows of Resources	<u>32,156,625</u>
Total Net Position (Deficit)	<u><u>\$ 1,248,839</u></u>

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

NOTE 14 - 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 2017/2018 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 15 - CONTINGENT LIABILITIES AND COMMITMENTS

The District receives federal, state, and local funding through a number of programs. Payments made by these sources under contractual agreements are provisional and subject to redetermination based on filing reports and audits of those reports. Final settlements due from or to these sources are recorded in the year in which the related services are performed. Any adjustments resulting from subsequent examinations are recognized in the year in which the results of such examinations become known. District officials do not expect any significant adjustments as a result of these examinations.

TULPEHOCKEN AREA SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 16 - RESTATEMENT OF BEGINNING NET POSITION

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

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

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

	Governmental Activities	Business-Type Activities Food Service Fund	Total
Net Position (Deficit) at June 30, 2017	\$ (19,201,509)	\$ (406,649)	\$ (19,608,158)
Restatement for:			
Deferred Outflow - HIPAP contributions made subsequent to the measurement date	104,364	1,911	106,275
Other postemployment benefit obligation - HIPAP	(2,083,804)	(38,196)	(2,122,000)
Deferred Outflow - benefit payments made subsequent to the measurement date	99,357	-	99,357
Other postemployment benefit obligation - District Plan	<u>(1,421,414)</u>	<u>-</u>	<u>(1,421,414)</u>
Net Position (Deficit) at July 1, 2017 - restated	<u>\$ (22,503,006)</u>	<u>\$ (442,934)</u>	<u>\$ (22,945,940)</u>

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 17 - FUND BALANCE

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

General Fund

The general fund has nonspendable funds of \$3,686 for prepaid expenditures; committed funds of \$80,000 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 \$455,522 for balancing the 2018/2019 budget; and unassigned funds of \$2,510,864. 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 \$1,591,242 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 \$46,325, consisting of receipts that are received from sources to be used for specific purposes.

NOTE 18 - NEW ACCOUNTING PRONOUNCEMENTS

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

- Statement No. 84, *Fiduciary Activities* - This statement establishes criteria for identifying fiduciary activities and describes four types of fiduciary funds, as well as provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. This statement is effective for the District's fiscal year ending June 30, 2020.

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 18 - NEW ACCOUNTING PRONOUNCEMENTS - CONTINUED

- Statement No. 87, *Leases* - This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. This statement is effective for the District's fiscal year ending June 30, 2021.
- Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, have been issued to enhance reporting and disclosures for specific debt transactions. Statement No. 88 is effective for the District's fiscal year ending June 30, 2019.

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

REQUIRED SUPPLEMENTARY INFORMATION

TULPEHOCKEN AREA SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

For the Year Ended June 30, 2018

	BUDGET		ACTUAL	VARIANCE
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES				
Local Sources:				
Real Estate Taxes	\$ 16,618,939	\$ 16,618,939	\$ 16,997,173	\$ 378,234
Other Taxes	2,463,100	2,463,100	2,483,893	20,793
Earnings on Investments	30,000	30,000	136,519	106,519
Revenue from Student Activities	27,000	27,000	23,921	(3,079)
Revenue from Intermediate Sources	276,000	276,000	286,528	10,528
Tuition	180,000	180,000	110,332	(69,668)
Other Revenue	20,500	20,500	45,289	24,789
State Sources	9,992,261	9,992,261	10,160,856	168,595
Federal Sources	600,000	600,000	635,291	35,291
TOTAL REVENUES	30,207,800	30,207,800	30,879,802	672,002
EXPENDITURES				
INSTRUCTIONAL SERVICES:				
Regular Programs - Elementary/Secondary	12,833,139	12,833,139	12,699,912	133,227
Special Programs - Elementary/Secondary	4,263,296	4,263,296	4,326,303	(63,007)
Vocational Education	720,955	720,955	715,371	5,584
Other Instructional Programs - Elementary/Secondary	332,662	332,662	204,738	127,924
Nonpublic School Programs	1,600	1,600	-	1,600
TOTAL INSTRUCTIONAL SERVICES	18,151,652	18,151,652	17,946,324	205,328
SUPPORT SERVICES:				
Students	972,650	972,650	969,692	2,958
Instructional Staff	978,668	978,668	870,940	107,728
Administration	1,557,010	1,557,010	1,498,565	58,445
Pupil Health	373,803	373,803	332,513	41,290
Business	424,798	424,798	428,279	(3,481)
Operation and Maintenance of Plant Services	2,365,677	2,365,677	2,368,398	(2,721)
Student Transportation Services	1,362,547	1,362,547	1,500,316	(137,769)
Central	928,701	928,701	977,464	(48,763)
Other Support Services	23,000	23,000	23,171	(171)
TOTAL SUPPORT SERVICES	8,986,854	8,986,854	8,969,338	17,516

TULPEHOCKEN AREA SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND - CONTINUED

For the Year Ended June 30, 2018

	BUDGET		ACTUAL (GAAP Basis)	VARIANCE Final to Actual
	Original	Final		
OPERATION OF NONINSTRUCTIONAL SERVICES:				
Student Activities	430,545	430,545	466,361	(35,816)
Community Services	17,702	17,702	16,686	1,016
TOTAL OPERATION OF NONINSTRUCTIONAL SERVICES	448,247	448,247	483,047	(34,800)
DEBT SERVICE:				
Principal	2,400,000	2,400,000	2,416,851	(16,851)
Interest	539,618	539,618	540,880	(1,262)
REFUND OF PRIOR YEAR REVENUES	-	-	806	(806)
TOTAL EXPENDITURES	30,526,371	30,526,371	30,357,246	169,125
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(318,571)	(318,571)	522,556	841,127
OTHER FINANCING SOURCES (USES)				
Transfers Out	(25,000)	(25,000)	(500,000)	(475,000)
Budgetary Reserve	(175,000)	(175,000)	-	175,000
TOTAL OTHER FINANCING USES	(200,000)	(200,000)	(500,000)	(300,000)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (518,571)	\$ (518,571)	22,556	\$ 541,127
FUND BALANCE - BEGINNING OF YEAR			4,227,516	
FUND BALANCE - END OF YEAR			\$ 4,250,072	

TULPEHOCKEN AREA SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2018

BUDGETARY DATA

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

TULPEHOCKEN AREA SCHOOL DISTRICT

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

	LAST TEN FISCAL YEARS				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.0958%	0.0985%	0.0987%	0.0993%	0.0971%
District's proportionate share of the net pension liability	\$ 47,314,000	\$ 48,813,000	\$ 42,752,000	\$ 39,304,000	\$ 39,749,000
District's covered-employee payroll	\$ 12,754,140	\$ 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	370.97%	382.70%	336.81%	310.19%	318.99%
Plan fiduciary net position as a percentage of the total pension liability	51.84%	50.14%	54.36%	57.24%	54.50%

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

NOTES TO SCHEDULE

Changes of Benefit Terms

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

Changes of Assumptions

None.

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

TULPEHOCKEN AREA SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - PENSION PLAN

LAST TEN FISCAL YEARS

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 4,153,633	\$ 3,738,821	\$ 3,188,959	\$ 2,631,295	\$ 2,030,178	\$ 1,432,889	\$ 999,405	\$ 617,656	\$ 481,376	\$ 473,266
Contributions in relation to the contractually required contribution	<u>4,153,633</u>	<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>
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	\$ 13,026,361	\$ 12,754,140	\$ 12,755,004	\$ 12,693,060	\$ 12,670,891	\$ 12,460,944				
Contributions as a percentage of covered-employee payroll	31.89%	29.31%	25.00%	20.73%	16.02%	11.50%				

NOTE: This schedule is to illustrate 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 THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB OBLIGATION
AND RELATED RATIOS - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM (HIPAP)**

LAST TEN FISCAL YEARS

	2018	2017
District's proportion of the collective HIPAP obligation	0.0958%	0.0985%
District's proportionate share of the collective net HIPAP obligation	\$ 1,952,000	\$ 2,122,000
District's covered employee payroll	\$ 12,754,140	\$ 12,755,004
District's proportionate share of the net HIPAP obligation as a percentage of its covered employee payroll	15.30%	16.64%
Plan fiduciary net position as a percentage of the total HIPAP obligation	5.73%	5.47%

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

NOTES TO SCHEDULE

Changes of Benefit Terms

None.

Changes of Assumptions

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

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

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

TULPEHOCKEN AREA SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM

LAST TEN FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually required contribution	\$ 108,617	\$ 106,275	\$ 107,149	\$ 115,520	\$ 118,004	\$ 107,155	\$ 81,202	\$ 79,060	\$ 93,868	\$ 89,921
Contributions in relation to the contractually required contribution	<u>108,617</u>	<u>106,275</u>	<u>107,149</u>	<u>115,520</u>	<u>118,004</u>	<u>107,155</u>	<u>81,202</u>	<u>79,060</u>	<u>93,868</u>	<u>89,921</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	\$ 13,026,361	\$ 12,754,140	\$ 12,755,004	\$ 12,693,060	\$ 12,670,891	\$ 12,460,944				
Contributions as a percentage of covered employee payroll	0.83%	0.83%	0.84%	0.91%	0.93%	0.86%				

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

TULPEHOCKEN AREA SCHOOL DISTRICT

**SCHEDULE OF CHANGES OF TOTAL OPEB OBLIGATION AND RELATED RATIOS -
DISTRICT OPEB PLAN**

LAST TEN FISCAL YEARS

	<u>2018</u>
Total OPEB Obligation	
Service cost	\$ 167,850
Interest	53,773
Changes in assumptions	93,624
Benefit payments	<u>(99,357)</u>
Net change in total OPEB obligation	215,890
Total OPEB obligation, beginning	<u>\$ 2,045,529</u>
Total OPEB obligation, ending	<u><u>\$ 2,261,419</u></u>
Covered Employee Payroll	<u><u>\$ 11,707,710</u></u>
Total OPEB Obligation as a Percentage of Covered Employee Payroll	19.32%

NOTES TO SCHEDULE

Changes of Benefit Terms

None.

Changes of Assumptions

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

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

This schedule is to presented to illustrate 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.

SUPPLEMENTARY INFORMATION

TULPEHOCKEN AREA SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2018

Federal Grantor/ Pass-Through Grantor/Program Title	Source Code	Federal CFDA Number	Federal Pass-Through Grantor's Number	Grant Period Beginning/Ending Date	Program or Award Amount	Total Received for Year	Accrued or (Unearned) Revenue at July 1, 2017	Revenue Recognized	Expenditures	Accrued or (Unearned) Revenue at June 30, 2018
<u>U.S. Department of Education</u>										
Passed through Commonwealth of Pennsylvania Department of Education:										
Title I - Grants to Local Educational Agencies	I	84.010	013-180434	07/01/17 - 09/30/19	\$ 371,656	\$ 297,325	\$ -	\$ 326,179	\$ 326,179	\$ 28,854
Title I - Grants to Local Educational Agencies	I	84.010	013-170434	08/23/16 - 09/30/18	430,242	84,219	16,360	67,859	67,859	-
Subtotal						381,544	16,360	394,038	394,038	28,854
Supporting Effective Instruction State Grant	I	84.367	020-180434	07/01/17 - 09/30/18	64,831	64,892	-	64,831	64,831	(61)
Supporting Effective Instruction State Grant	I	84.367	020-170434	08/23/16 - 09/30/18	79,917	(430)	(430)	-	-	-
Subtotal						64,462	(430)	64,831	64,831	(61)
English Language Acquisition State Grants	I	84.365	010-170434	08/23/16 - 09/30/17	11,546	1,649	(4,779)	975	975	(5,453)
English Language Acquisition State Grants	I	84.365	010-160434	07/29/15 - 09/30/16	11,184	(6,483)	(6,483)	-	-	-
Subtotal						(4,834)	(11,262)	975	975	(5,453)
Student Support and Academic Achievement	I	84.424	144-180434	07/01/17 - 09/30/18	10,000	10,000	-	10,000	10,000	-
Passed through the Berks County Intermediate Unit:										
Special Education Cluster (IDEA)										
Special Education - Preschool Grants	I	84.173	N/A	07/01/17 - 09/30/18	5,500	-	-	5,500	5,500	5,500
Special Education - Grants to States	I	84.027	N/A	07/01/17 - 09/30/18	281,028	-	-	281,028	281,028	281,028
Special Education - Grants to States	I	84.027	N/A	07/01/16 - 09/30/17	288,296	288,296	288,296	-	-	-
Total Special Education Cluster (IDEA)						288,296	288,296	286,528	286,528	286,528
TOTAL U.S. DEPARTMENT OF EDUCATION						739,468	292,964	756,372	756,372	309,868
<u>U.S. Department of Health and Human Services</u>										
Medicaid Cluster										
Passed through the Pennsylvania Department of Human Services:										
Medical Assistance Program	I	93.778	N/A	07/01/17 - 06/30/18	2,561	1,436	-	2,561	2,561	1,125
Medical Assistance Program	I	93.778	N/A	07/01/16 - 06/30/17	3,816	2,279	2,279	-	-	-
TOTAL MEDICAID CLUSTER AND TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						3,715	2,279	2,561	2,561	1,125
<u>U.S. Department of Agriculture</u>										
Child Nutrition Cluster										
Passed through Commonwealth of Pennsylvania Department of Education:										
National School Lunch Program	I	10.555	N/A	07/01/17 - 06/30/18	276,457	271,953	-	276,457	276,457	4,504
National School Lunch Program	I	10.555	N/A	07/01/16 - 06/30/17	278,810	6,282	6,282	-	-	-
School Breakfast program	I	10.553	N/A	07/01/17 - 06/30/18	70,588	69,510	-	70,588	70,588	1,078
School Breakfast program	I	10.553	N/A	07/01/16 - 06/30/17	79,832	1,811	1,811	-	-	-
Passed through Commonwealth of Pennsylvania Department of Agriculture:										
National School Lunch Program - Donated Commodities	I	10.555	N/A	07/01/17 - 06/30/18	61,597	56,274	(16,205)	61,597	61,597	(10,882)
TOTAL CHILD NUTRITION CLUSTER AND TOTAL U.S. DEPARTMENT OF AGRICULTURE						405,830	(8,112)	408,642	408,642	(5,300)
TOTAL FEDERAL AWARDS						<u>\$ 1,149,013</u>	<u>\$ 287,131</u>	<u>\$ 1,167,575</u>	<u>\$ 1,167,575</u>	<u>\$ 305,693</u>

I = Indirect Source of Funding

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

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, 2018

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, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the 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 MINIMIS RATE FOR INDIRECT COSTS

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

NOTE 4 - FOOD COMMODITIES

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. At June 30, 2018, the District has \$10,882 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, 2018, 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 January 31, 2019.

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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
January 31, 2019**



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

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

**To the Board of School Directors
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, 2018. 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, 2018.

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
January 31, 2019**

TULPEHOCKEN AREA SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? 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>
84.010	Title I - Grants to Local Educational Agencies

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, 2018

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.

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2018

Section II - Financial Statement Findings

There were no financial statements findings reported for the year ended June 30, 2017.

Section III - Federal Awards Findings and Questioned Costs

There were no federal awards findings or questioned costs reported for the year ended June 30, 2017.

