

KARNS CITY AREA SCHOOL DISTRICT

KARNS CITY, PENNSYLVANIA

ANNUAL FINANCIAL REPORT
SCHOOL YEAR ENDED JUNE 30, 2018



Cypher & Cypher

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KARNS CITY AREA SCHOOL DISTRICT

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Independent Auditor's Report

Karns City Area School District
Karns City, Pennsylvania

Ladies and Gentlemen:

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 Karns City 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 School 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 the 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 School District's preparation and fair presentation of the financial statements in order to design the audit procedures that are appropriate in the circumstances, but not for the

purpose of expressing an opinion on the effectiveness of the School District'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 Karns City Area School District as of June 30, 2018 and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of District's Proportionate Share of the Net Pension Liability, and the Schedule of the District's Proportionate Share of the Net OPEB Liability on Pages i through vii, 41, and 42 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Karns City Area School District's basic financial statements. The statement of changes in assets and liabilities – agency funds is presented for purposes of additional analysis and is not a required part of the 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* Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The statement of changes in assets and liabilities – agency funds and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly

to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the statement of changes in assets and liabilities – agency funds and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2018, on our consideration of Karns City Area School 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 Karns City Area School 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 Karns City Area School District's internal control over financial reporting and compliance.

CYPHER & CYPHER

Cypher & Cypher

CERTIFIED PUBLIC ACCOUNTANTS

Canonsburg, Pennsylvania
August 10, 2018

Management's Discussion & Analysis

Our discussion and analysis of Karns City Area School District's financial performance provides an overview of the school district financial activities for the fiscal year ended June 30, 2018. The MD&A should be read in conjunction with the financial statements and footnotes.

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

THE SCHOOL DISTRICT

The Karns City Area School District is a school district of the Third Class, organized and existing under the laws of the Commonwealth of Pennsylvania (the "Commonwealth").

The governing body of the School District is a board of nine school directors who are each elected for a four-year term. The daily operation and management of the School District is carried out by the administrative staff of the School District headed by the Superintendent of Schools, who is appointed by the Board of School Directors.

FINANCIAL HIGHLIGHTS

Our financial statements provide these insights into the results of this year's operations:

- General fund balance has been increased from \$4,946,658 to \$6,637,700. The overall increase is the result of revenues exceeding budgeted amounts and actual expenditures coming in less than budgeted figures.
- Real Estate Tax millage increases will be needed to cover future inflationary costs, escalating retirement costs, and declining state and federal revenues. The District has the second lowest tax millage rate in Butler County and one of the lowest rates in Armstrong and Clarion Counties.

Revenues: The School District's general fund received 66.5 percent of its funding from state and federal sources and 33.5 percent from local sources. Basic instructional state subsidy continues to be the primary source of revenue for the general fund. Real Estate Tax is the second most significant local revenue source funding general fund operations. It is likely that annual millage rates will continue to increase due to state revenues not keeping pace with increased costs. In addition, unfunded mandates, such as cyber charter school, puts an increased burden on the local taxpayers. Because the financial health of the local economy is heavily dependent on several major employers, it may or may not perform as well as many communities.

Program revenues by major source can be noted on the Statement of Activities of the audited financial statements (page v).

Expenditures: Total general fund spending for 2017-2018 was \$21.96 million for the year. Instructional programs expended \$13.4 million, or 61.20 percent of all general fund spending.

Actual general fund expenditures were 98.9 percent of budgeted expenditures for the year excluding fund transfers. Actual spending by function category was as follows:

	<u>2017-2018</u> <u>Expenses</u>	<u>Percentage</u>
Instructional	\$ 13,441,331	61.20
Pupil Personnel Services	627,040	2.85
Instructional Staff Services	954,039	4.34
Administrative Services	1,413,092	6.44
Pupil Health Services	272,756	1.24
Business Services	360,588	1.64
Operation and Maintenance of Plant	1,972,982	8.99
Student Transportation	2,188,308	9.97
Capital Outlay	116,794	0.53
Other Support Services	13,976	.06
Student Activities	562,645	2.56
Debt Service	39,431	0.18
Other	<u>57</u>	<u>0.00</u>
	\$ 21,963,039	100.00

Explanation of Category Content:

Instructional Staff Services – library, computer services, curriculum and staff development

Pupil Personnel Services – guidance, psychological and other related services

Administrative Services – school board, tax collection, legal, superintendent, and building administration

Business Services – fiscal administration

Operation and Maintenance of Plant – building and grounds, maintenance, utilities, energy, and security services

Student Transportation – conveyance of students

Other Support Services – Midwestern Intermediate Unit IV administrative operation funding

Student Activities – Co-curricular student activities, including interscholastic athletics

Debt Service – payment of principal and interest on outstanding bonds and other debt obligations

Financial Analysis of the Governmental Funds

The following table reflects changes in fund balance of the District’s various funds. These amounts represent a short-term view of the District’s finances.

	General Fund	Capital Projects Fund	Proprietary Activities
June 30, 2017	\$ 4,946,658	\$ 2,901,173	\$ 2,124,045
Increase (Decrease)	1,691,042	15,497	(32,975)
June 30, 2018	<u>\$ 6,637,700</u>	<u>\$ 2,916,670</u>	<u>\$ 2,091,070</u>

Overview of Financial Statements

The basic financial statements comprise three components:

- ✓ Management’s Discussion & Analysis
- ✓ The Financial Statements
- ✓ Notes & Required Supplementary Information

Government-Wide Financial Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private sector companies. The statement of net position includes all of the governmental and business-type activities that are consolidated in columns, which add to a total for the Primary Government. The focus of the Statement of Net Position is designed to be similar to bottom line results for the District and its governmental and business-type activities. This statement combines the governmental fund’s current financial resources, capital assets and long-term obligations. The difference between the District’s assets and liabilities are one way to measure the District’s financial health or position.

The Statement of Activities is focused on both the gross and net costs of various functions, which are supported by the government’s charges for services, program revenues, Federal and state subsidies, contributions and capital grants. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. This

statement is intended to summarize and simplify the user's analysis of cost of various governmental services provided.

The following table reflects the condensed Statement of Net Position:

STATEMENT OF NET POSITION
as of June 30, 2018

	Governmental Activities		Business-Type Activities		Total	
	2017	2018	2017	2018	2017	2018
Current and Other Assets	\$ 11,275,054	\$ 12,562,304	\$ 1,971,830	\$ 1,985,907	\$ 13,246,884	\$ 14,548,211
Non Current Assets	11,909,135	11,215,112	172,342	163,627	12,081,477	11,378,739
Deferred Outflows	6,077,210	6,872,399			6,077,210	6,872,399
Total Assets & Deferred Outflows	29,261,399	30,649,815	2,144,172	2,149,534	31,405,571	32,799,349
Current and Other Liabilities	3,471,613	2,770,748		36,024	3,471,613	2,806,772
Non Current Liabilities	39,252,159	45,566,567			39,252,159	45,566,567
Deferred Inflows	752,386	1,162,040	20,127	22,440	772,513	1,184,480
Total Liabilities & Deferred Inflows	43,476,158	49,499,355	20,127	58,464	43,496,285	49,557,819
Net Investment in Capital Assets	11,285,434	10,611,677	172,342	163,627	11,457,776	10,775,304
Restricted	2,901,173	2,916,670	1,725,934	1,728,518	4,627,107	4,645,188
Unrestricted	(28,401,366)	(32,377,887)	225,769	198,925	(28,175,597)	(32,178,962)
Total Net Position	\$ (14,214,759)	\$ (18,849,540)	\$ 2,124,045	\$ 2,091,070	\$ (12,090,714)	\$ (16,758,470)

Assets, Liabilities and Net Position

Total assets for the period ending June 30, 2018 were \$25,926,950 with cash and cash equivalents and investments representing 48.4% of all total assets.

The value of capital assets included in non-current assets total \$46,294,243, with accumulated depreciation of \$35,567,517 resulting in net capital assets of \$10,726,726.

Primary liabilities of the District include a net pension liability of \$36,405,000, Other Post Employment Benefit (OPEB) liabilities totaling \$8,715,619, and accrued salaries and benefits of \$2,445,377. These liabilities accompanied with total assets have resulted in net position of a deficit \$(16,758,470).

The total net position of the District is comprised of three components. The net investment in capital assets totals \$10,775,304 restricted net position totals \$4,645,188, and unrestricted net position totals \$(32,178,962).

Statement of Activities

The following schedule discloses the revenues and expenses for the current period:

STATEMENT OF ACTIVITIES as of June 30, 2018

	Governmental Activities		Business-Type Activities		Total	
	2017	2018	2017	2018	2017	2018
Program Revenues:						
Charges for Services	\$ 380,331	\$ 269,630	\$ 373,416	\$ 335,847	\$ 753,747	\$ 605,477
Operating Grants and Contributions	6,356,403	6,382,398	641,975	673,694	6,998,378	7,056,092
General Revenues:						
Property Taxes	5,620,307	6,004,288			5,620,307	6,004,288
Other Taxes	1,099,637	1,141,237			1,099,637	1,141,237
Grants Subsidies and Contributions	9,636,359	9,734,602			9,636,359	9,734,602
Other	32,437	247,583	6,587	6,909	39,024	254,492
	<u>23,125,474</u>	<u>23,779,738</u>	<u>1,021,978</u>	<u>1,016,450</u>	<u>24,147,452</u>	<u>24,796,188</u>
Expenditures:						
Depreciation	982,461	885,224			982,461	885,224
Instruction	15,110,208	12,647,553			15,110,208	12,647,553
Instructional Student Support	1,825,650	1,672,067			1,825,650	1,672,067
Administrative and Financial Support	2,022,221	1,712,336			2,022,221	1,712,336
Operation and Maintenance of Plant	2,268,432	1,988,678			2,268,432	1,988,678
Pupil Transportation	2,051,397	2,188,308			2,051,397	2,188,308
Student Activities	540,257	545,580			540,257	545,580
Debt Service	126,151	192,522			126,151	192,522
Food Service			988,648	1,049,425	988,648	1,049,425
Other	4,000					-
	<u>24,930,777</u>	<u>21,832,268</u>	<u>988,648</u>	<u>1,049,425</u>	<u>25,915,425</u>	<u>22,881,693</u>
Change in Net Position	<u>\$ (1,805,303)</u>	<u>\$ 1,947,470</u>	<u>\$ 33,330</u>	<u>\$ (32,975)</u>	<u>\$ (1,767,973)</u>	<u>\$ 1,914,495</u>

FUTURE ECONOMIC FACTORS

Capital Improvement Plan

Major capital projects have been funded in the past through Capital Reserve Fund investment proceeds. In 2017-2018 the District planned for two capital projects to begin June, 2018 at the high school complex; a roof section repair totaling \$735,000 as well as a gym renovation of \$168,000. Concrete walkway repairs were completed at all three buildings totaling \$28,000. The District is presently considering closure of the Sugarcreek Elementary, resulting in an addition at the Chicora Elementary School to house all K-6 students in the district and a building renovation at the Karns City Area High School.

Debt Administration

The following table reflects the District’s long-term debt obligations:

<u>Authority Obligations</u>	<u>Retirement Obligations</u>	<u>Pension Liability</u>	<u>Total</u>
\$ 603,435	\$8,798,806	\$36,405,000	\$45,807,241

The Authority obligations with the Vo-Tech were refinanced in the 15/16 year. The retirement obligations include the amounts for GASB Statement #75, which was implemented in the 17/18 year. A building project for the District would result in additional debt, financed through a bond issuance.

Pennsylvania School Employees’ Retirement System Crisis

It is anticipated that the fund will require significantly increased contributions from the school systems within the State. Projections from the retirement system have indicated that the rate to school systems will increase from the 2018-2019 rate of 33.43% to an ultimate peak of 36.30% in 2023-2024. The most recent projections indicate this will result in an estimated net increase of nearly \$200,000 per year in retirement contributions from the District.

Technology

Karns City Area School District had invested several million dollars to acquire technology in the form of equipment, software, and infrastructure. In 2017, the District signed a three year contractual agreement with ITPS to provide technology staffing and support. Attempts to provide budgeted funds for replacement and upgrade of this technology in an effort to remain reasonably current have been very successful. Future technology expenditures must be closely scrutinized due to funding constraints.

Revenue Uncertainty

Funding for public schools was deeply cut in the 2011-12 state budget and is slowly recovering. As School districts are faced with lower state funding, pension increases, higher health care costs, no mandate relief and weakened authority to raise revenue due to Act 1 of 2006, prudent financial management and cost savings strategies will be key to the continued positive financial state of the district.

Staffing

Since the district has declining student enrollment, it will be necessary to consider staff reductions especially when personnel retirements occur. The Karns City Area School Board is currently in discussions and the planning stages to close Sugarcreek Elementary School and consolidate with Chicora Elementary with the beginning of the 2020-21 school year. This closure is projected to save \$750,000 in staffing reductions and operational efficiencies. A demographic study to assist in future decision making has been completed, which indicates the enrollment decline will continue.

CONTACTING THE SCHOOL BOARD'S FINANCIAL MANAGEMENT

Our financial report is designed to provide citizens, taxpayers, students, investors and creditors, and other interested parties with a general overview of the school board's finances and to illustrate the school board's accountability for the funds it receives. Questions concerning this report or a request for additional information should be addressed to the Deana R. Turner, Director of Business Affairs for the Karns City Area School District, 1446 Kittanning Pike, Karns City, PA 16041, telephone number (724) 756-0521, ext.1011.

Basic Financial Statements

KARNS CITY AREA SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 10,609,422	\$ 1,943,480	\$ 12,552,902
Taxes Receivable (Net)	457,162		457,162
State Revenue Receivable	1,066,014	621	1,066,635
Federal Revenue Receivable	243,717	8,743	252,460
Internal Balances	(9,814)	9,814	
Other Receivables	25,521		25,521
Inventories		23,249	23,249
Prepaid Expenses/Expenditures	170,282		170,282
Investment in Joint Venture	652,013		652,013
Capital Assets (net)	10,563,099	163,627	10,726,726
TOTAL ASSETS	23,777,416	2,149,534	25,926,950
DEFERRED OUTFLOWS OF RESOURCES			
Pension and OPEB Related	6,872,399		6,872,399
Total Deferred Outflows of Resources	6,872,399		6,872,399
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 30,649,815	\$ 2,149,534	\$ 32,799,349
LIABILITIES			
Accounts Payable	\$ 114,495	\$ -	\$ 114,495
Accrued Salaries and Benefits	2,409,353	36,024	2,445,377
Interest Payable	6,226		6,226
Long-Term Liabilities:			
Portions Due or Payable Within One Year:			
Authority Lease Obligations	20,680		20,680
OPEB Obligation	219,994		219,994
Portions Due or Payable After One Year:			
Authority Lease Obligations	582,755		582,755
Net Pension Liability	36,405,000		36,405,000
OPEB - Health Insurance Premium Share Liability	1,502,000		1,502,000
Compensated Absences	83,187		83,187
OPEB Obligation	6,993,625		6,993,625
Total Liabilities	48,337,315	36,024	48,373,339
DEFERRED INFLOWS OF RESOURCES			
Pension and OPEB Related	1,062,000		1,062,000
Unearned Revenue	100,040	22,440	122,480
Total Deferred Inflows of Resources	1,162,040	22,440	1,184,480
NET POSITION			
Net Investment in Capital Assets	10,611,677	163,627	10,775,304
Restricted for:			
Capital Projects	2,916,670		2,916,670
Retirement Obligations		1,108,459	1,108,459
Risk Management		620,059	620,059
Unrestricted	(32,377,887)	198,925	(32,178,962)
TOTAL NET POSITION	(18,849,540)	2,091,070	(16,758,470)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 30,649,815	\$ 2,149,534	\$ 32,799,349

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

KARNS CITY AREA SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental Activities						
Depreciation - Unallocated	\$ 885,224	\$	\$	\$ (885,224)	\$	\$ (885,224)
Instruction	12,647,553	239,753	4,369,968	(8,037,832)		(8,037,832)
Instructional Student Support	1,672,067		173,422	(1,498,645)		(1,498,645)
Administrative and Financial Support	1,712,336		240,465	(1,471,871)		(1,471,871)
Operation and Maintenance of Plant	1,988,678	5,850	216,707	(1,766,121)		(1,766,121)
Pupil Transportation	2,188,308		1,285,311	(902,997)		(902,997)
Student Activities	545,580	24,027	60,551	(461,002)		(461,002)
Interest on Long-Term Debt	192,522		35,974	(156,548)		(156,548)
Total Governmental Activities	21,832,268	269,630	6,382,398	(15,180,240)		(15,180,240)
Business Type Activities						
Food Service	1,049,425	335,847	673,694		(39,884)	(39,884)
Risk Management						
Retirement Obligations						
Total Business Type Activities	1,049,425	335,847	673,694	(39,884)		(39,884)
Total Government	\$ 22,881,693	\$ 605,477	\$ 7,056,092	\$ (15,180,240)	\$ (39,884)	\$ (15,220,124)
General Revenues, Special and Extraordinary Items and Transfers						
Taxes						
Property Taxes				6,004,288		6,004,288
Other Taxes				1,141,237		1,141,237
Grants, Subsidies and Contributions, Unrestricted				9,734,602		9,734,602
Investment Earnings				23,529	2,584	26,113
Miscellaneous Income (Expense)				224,054	4,325	228,379
Total General Revenues, Special and Extraordinary Items and Transfers				17,127,710	6,909	17,134,619
Change in Net Position				1,947,470	(32,975)	1,914,495
Net Position - Beginning - Restated				(20,797,010)	2,124,045	(18,672,965)
Net Position - Ending				\$ (18,849,540)	\$ 2,091,070	\$ (16,758,470)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

KARNS CITY AREA SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2018

	Governmental Funds		
	General Fund	Capital Projects Fund	Totals
ASSETS			
Cash and Cash Equivalents	\$ 7,692,752	\$ 2,916,670	\$ 10,609,422
Taxes Receivable (Net)	73,116		73,116
Due From Other Funds	2,782		2,782
State Revenue Receivable	1,066,014		1,066,014
Federal Revenue Receivable	243,717		243,717
Other Receivables (Net)	22,738		22,738
Prepaid Expenditures	170,282		170,282
TOTAL ASSETS	\$ 9,271,401	\$ 2,916,670	\$ 12,188,071
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Due to Other Funds	\$ 9,814	\$ -	\$ 9,814
Accounts Payable	114,494		114,494
Accrued Salaries and Benefits	2,409,353		2,409,353
Total Liabilities	2,533,661		2,533,661
Deferred Inflows of Resources			
Unearned Revenue	100,040		100,040
Total Deferred Inflows of Resources	100,040		100,040
Fund Balances:			
Nonspendable:			
Prepaid Expenditures	170,282		170,282
Committed to:			
Capital Projects		2,916,670	2,916,670
Unassigned:	6,467,418		6,467,418
Total Fund Balances	6,637,700	2,916,670	9,554,370
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 9,271,401	\$ 2,916,670	\$ 12,188,071

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

KARNS CITY AREA SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

Total Fund Balances - Governmental Funds	\$	9,554,370
Capital assets used in governmental activities are not financial resources and are not reported as assets in governmental funds. The cost of the assets is \$45,620,284 and the accumulated depreciation is \$35,057,185.		10,563,099
Net Investments in Joint Ventures are not financial resources and are not reported as assets in the governmental funds.		652,013
Long-term liabilities, including retirement and compensated absences, are not due and payable in the current period and are not reported as liabilities in the funds.		(8,798,806)
Long-term liabilities, including lease purchase obligations, are not due and payable in the current period and are not reported as liabilities in the funds.		(603,435)
Accrued interest expense on long-term debt is not due and payable in the current period and is not reported as a liability in the funds.		(6,226)
Net Pension Obligations are not due and payable in the current period and, therefore, are not reported in the funds.		(36,405,000)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the		
Deferred outflows of resources related to pensions and		6,872,399
Deferred inflows of resources related to pensions and		(1,062,000)
Delinquent property taxes receivable will be collected, but are not available soon enough to pay for the current period's expenditure, and therefore are deferred in the funds.		384,046
Total Net Position - Governmental Activities	\$	<u>(18,849,540)</u>

KARNS CITY AREA SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2018

	Governmental Funds		
	General	Capital Projects Fund	Totals
Revenues			
Local Sources			
Taxes	\$ 7,035,325	\$ -	\$ 7,035,325
Other Local Revenues	889,695	15,514	905,209
State Sources	15,725,610		15,725,610
Federal Sources	3,451		3,451
Total Revenues	<u>23,654,081</u>	<u>15,514</u>	<u>23,669,595</u>
Expenditures			
Instruction	13,441,331		13,441,331
Support Services	7,802,781	17	7,802,798
Operation Of Non-Instructional Services	562,645		562,645
Capital Outlay	116,794		116,794
Debt Service			
Principal and Interest	39,431		39,431
Total Expenditures	<u>21,962,982</u>	<u>17</u>	<u>21,962,999</u>
Excess (Deficiency) of Revenues Over Expenditures	1,691,099	15,497	1,706,596
Other Financing Sources & (Uses)			
Refund of Prior Year Receipts	(57)		(57)
Total Other Financing Sources & (Uses)	<u>(57)</u>		<u>(57)</u>
Net Change in Fund Balances	1,691,042	15,497	1,706,539
Fund Balances - July 1, 2017	4,946,658	2,901,173	7,847,831
Fund Balances - June 30, 2018	<u>\$ 6,637,700</u>	<u>\$ 2,916,670</u>	<u>\$ 9,554,370</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

KARNS CITY AREA SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2018

Total Net Change in Fund Balances - Governmental Funds	\$	1,706,539
Depreciation Expense		(885,224)
Capital outlays are reported in the governmental funds as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		191,201
Some delinquent property taxes will not be collected for several months after the District's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased by this amount this year.		110,200
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest recognized as the interest accrues regardless of when it is due. The additional interest reported in the statement of activities is the result of accrued interest payable.		135
Repayment of lease obligation principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the statement of net position.		20,266
In the statement of activities compensated absences and other post employment benefits are measured by the amounts earned during the year. In the governmental funds, these items are measured by the amounts paid.		160,862
Governmental funds report district pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense		
District pension contributions		1,536,491
Cost of benefits earned net of employee contributions		(893,000)
		643,491
Change in Net Position - Governmental Activities	\$	<u>1,947,470</u>

KARNS CITY AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET VS ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	Original Budget	Final Budget	Actual (budgetary basis)	Over (Under) Budget - Final
Revenues				
Local Sources				
Taxes	\$ 6,892,674	\$ 6,892,674	\$ 7,035,325	\$ 142,651
Other Local Revenues	865,572	865,572	889,695	24,123
State Sources	15,377,235	15,377,235	15,725,610	348,375
Federal Sources	4,368	4,368	3,451	(917)
Total Revenues	<u>23,139,849</u>	<u>23,139,849</u>	<u>23,654,081</u>	<u>514,232</u>
Expenditures				
Instruction				
Regular Programs	12,516,995	\$ 12,516,995	11,560,064	(956,931)
Special Programs	1,420,899	1,420,899	1,417,855	(3,044)
Vocational Education	385,935	385,935	381,555	(4,380)
Other Instructional Programs	20,000	20,000	81,857	61,857
Total Instruction	<u>14,343,829</u>	<u>14,343,829</u>	<u>13,441,331</u>	<u>(902,498)</u>
Support Services				
Pupil Personnel	500,092	500,092	627,040	126,948
Instructional Staff	872,860	872,860	954,039	81,179
Administration	1,393,426	1,393,426	1,413,092	19,666
Pupil Health	190,000	190,000	272,756	82,756
Business	405,106	405,106	360,588	(44,518)
Operation & Maintenance of Plant Services	1,633,777	1,633,777	1,972,982	339,205
Student Transportation Services	2,180,000	2,180,000	2,188,308	8,308
Other Support Services			13,976	13,976
Total Support Services	<u>7,175,261</u>	<u>7,175,261</u>	<u>7,802,781</u>	<u>627,520</u>
Operation of Non-Instructional Services				
Student Activities	551,646	551,646	562,645	10,999
Total Non-Instructional Services	<u>551,646</u>	<u>551,646</u>	<u>562,645</u>	<u>10,999</u>
Capital Outlay	121,400	121,400	116,794	(4,606)
Debt Service				
Principal and Interest	24,925	24,925	39,431	14,506
Total Expenditures	<u>22,217,061</u>	<u>22,217,061</u>	<u>21,962,982</u>	<u>(254,079)</u>
Excess (Deficiency) of Revenues Over Expenditures	922,788	922,788	1,691,099	768,311
Other Financing Sources & (Uses)				
Refund of Prior Year Receipts			(57)	(57)
Budgetary Reserve	(911,825)	(911,825)		911,825
Total Other Financing Sources & (Uses)	<u>(911,825)</u>	<u>(911,825)</u>	<u>(57)</u>	<u>911,768</u>
Net Change in Fund Balances	10,963	10,963	1,691,042	1,680,079
Fund Balance - July 1, 2017	<u>4,946,658</u>	<u>4,946,658</u>	<u>4,946,658</u>	
Fund Balance - June 30, 2018	<u>\$ 4,957,621</u>	<u>\$ 4,957,621</u>	<u>\$ 6,637,700</u>	<u>\$ 1,680,079</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

KARNS CITY AREA SCHOOL DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2018

	Food Service Fund	Risk Management Fund	Retirement Obligations Fund
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 214,962	\$ 620,059	\$ 1,108,459
Due from Other Funds	9,814		
State Revenue Receivable	621		
Federal Revenue Receivable	8,070		
Other Receivables	673		
Inventories	23,249		
Total Current Assets	257,389	620,059	1,108,459
Noncurrent Assets:			
Food Service Equipment (Net of Depreciation)	163,627	-	-
Total Noncurrent Assets	163,627		
TOTAL ASSETS	\$ 421,016	\$ 620,059	\$ 1,108,459
 LIABILITIES			
Current Liabilities:			
Accrued Salaries and Benefits	\$ 36,024	-	-
Total Current Liabilities	36,024		
 DEFERRED INFLOWS OF RESOURCES			
Unearned Revenue	22,440		
Total Deferred Inflows of Resources	22,440		
 NET POSITION			
Net Investment in Capital Assets	163,627		
Restricted for:			
Risk Management		620,059	
Retirement Obligations			1,108,459
Unrestricted	198,925		
Total Net Position	362,552	620,059	1,108,459
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 421,016	\$ 620,059	\$ 1,108,459

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

KARNS CITY AREA SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	Food Service Fund	Risk Management Fund	Retirement Obligations Fund
Operating Revenues			
Food Service Revenue	\$ 335,847	\$	\$
Other Operating Revenue	4,325		
Total Operating Revenue	340,172		
Operating Expenses			
Personal Services - Salaries	357,855		
Personal Services - Benefits	188,252		
Purchased Professional and Technical Services	784		
Other Purchased Services	1,417		
Supplies	487,853		
Other Objects	1,661		
Depreciation Expense	11,603		
Total Operating Expenses	1,049,425		
Operating Income (Loss)	(709,253)		
Nonoperating Revenues (Expenses)			
Donations from Private Sources			
Operating Subsidies			
State Subsidies	111,421		
Federal Subsidies			
Lunch and Breakfast Subsidies	504,105		
Value of Donated Commodities Received	58,168		
Earnings on Investments		927	1,657
Total Nonoperating Revenue and Expense	673,694	927	1,657
Change in Net Position	(35,559)	927	1,657
Net Position - July 1, 2017	398,111	619,132	1,106,802
Net Position - June 30, 2018	\$ 362,552	\$ 620,059	\$ 1,108,459

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

KARNS CITY AREA SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	Food Service Fund	Risk Management Fund	Retirement Obligations Fund
Cash Flows from Operating Activities:			
Cash Received from Customers	\$ 335,784	\$	\$
Cash Received from Other Operating Revenue	4,325		
Cash Payments to Employees for Services	(510,083)		
Cash Paid to Suppliers for Goods and Services	(335,748)		
Net Cash Provided (Used) by Operating Activities	<u>(505,722)</u>		
Cash Flows from Noncapital Financing Activities:			
Grants and Subsidies Received for Non-Operating Activities			
State Subsidies	111,654		
Federal Subsidies	506,176		
Net Cash Provided (Used) by Noncapital Financing Activities	<u>617,830</u>		
Cash Flows from Capital and Related Financing Activities:			
Purchase of Equipment	(2,888)		
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(2,888)</u>		
Cash Flows from Investing Activities:			
Earnings on Investments		927	1,657
Net Cash Provided (Used) by Investing Activities		<u>927</u>	<u>1,657</u>
Net Increase (Decrease) in Cash and Cash Equivalents	109,220	927	1,657
Cash and Cash Equivalents, Beginning of Year	<u>105,742</u>	<u>619,132</u>	<u>1,106,802</u>
Cash and Cash Equivalents, End of Year	<u>\$ 214,962</u>	<u>\$ 620,059</u>	<u>\$ 1,108,459</u>
Reconciliation of Operating Income (Loss) to Net Cash Used By Operating Activities			
Operating Income (Loss)	\$ (709,253)	\$	\$
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used by Operating Activities:			
Depreciation	11,603		
Donated Commodities Used	58,168		
Changes in Assets and Liabilities:			
Accounts Receivable	(63)		
Inventories	(273)		
Due to/Due From Other Funds	95,759		
Accrued Payables	36,024		
Unearned Revenues	2,313		
Total Adjustments	<u>203,531</u>		
Net Cash Provided (Used) by Operating Activities	<u>\$ (505,722)</u>	<u>\$</u>	<u>\$</u>

Noncash Noncapital Financing Activities:

During the year, the District received \$59,679 of food commodities from the U.S. Department of Agriculture.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

KARNS CITY AREA SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS
JUNE 30, 2018

	Private Purpose Trust Funds	Agency Funds Student Activities
ASSETS		
Cash and Cash Equivalents	\$ 30,315	\$ 110,390
Investments	148,472	
TOTAL ASSETS	\$ 178,787	\$ 110,390
LIABILITIES		
Due to Other Funds	\$ -	\$ 2,782
Accounts Payable		956
Other Liabilities		106,652
Total Liabilities		110,390
NET POSITION		
Unrestricted	178,787	
Total Net Position	178,787	
TOTAL LIABILITIES AND NET POSITION	\$ 178,787	\$ 110,390

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

KARNS CITY AREA SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - FIDUCIARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2018

	Private Purpose Trust Funds
Additions	
Gifts and contributions	\$ 6,640
Interest Income	697
	7,337
Total Additions	7,337
Deductions	
Scholarship Awards	5,000
	5,000
Total Deductions	5,000
Changes in Net Position	2,337
Net Position - July 1, 2017	176,450
	176,450
Net Position - June 30, 2018	\$ 178,787

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

Karns City Area School District

Notes to the Basic Financial Statements

June 30, 2018

Note 1 - Summary of Significant Accounting Policies

The Karns City Area School District (the "School District") provides public education to residents of the Boroughs of Bruin, Fairview, Chicora, Petrolia, East Brady, and Karns City and the Townships of Donegal, Parker, Perry, Bradys Bend and Fairview in the Counties of Butler, Armstrong and Clarion, Pennsylvania from its three elementary schools and high/middle school.

A. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards and agencies that are not legally separate from the School District. For Karns City Area School District, this includes general operations, food service, and student related activities of the School District.

In evaluating the School District as a primary government in accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, "The Financial Reporting Entity," management has addressed all potential component units. Consistent with this Statement, the criteria used by the School District to evaluate possible inclusion of related entities within its reporting entity are financial accountability and the nature and significance of the relationship. Upon review of this criteria, the School District determined that there were no potential component units that met the criteria for inclusion in the reporting entity.

The School District is however a participant in a jointly governed organization: Butler County Area Vocational Technical School. The Vo-Tech School is not considered part of the reporting entity, as the School District is not financially accountable for the Vo-Tech School. See Note 9 for details on operating information about these entities.

B. Basis of Presentation

The financial statements of Karns City Area School District have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Following are the more significant of the School District's accounting policies.

The School District's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities and fund financial statements which provide a more detailed level of financial information.

1. Government-wide Financial Statements

The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Eliminations have been made to minimize the double-counting of internal activities. The statements distinguish between those activities of the School District that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of net position presents the financial condition of the governmental and business-type activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities and business-type activity. Direct expenses are those that are specifically associated with a service program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function or business segment is self-financing or draws from the general revenues of the School District.

2. Fund Financial Statements

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

C. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

1. Governmental Funds

Governmental funds are those through which most governmental functions of the School District are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from

which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

The General Fund and the Capital Projects Fund are the School District's major governmental funds:

General Fund - The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund. Normal debt service payments for general long-term debt are recorded in the General Fund by the School District.

Capital Projects Fund – The Capital Projects Fund is the School District's capital reserve fund and accounts for funds which are typically borrowed or transferred from the general fund and used for major capital improvements.

2. Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. The following are the School District's proprietary funds:

Enterprise Fund

The Enterprise Fund may be used to account for any activity for which a fee is charged to external users for goods or services.

Food Service

The Food Service accounts for the financial transactions related to the food service operations of the School District. This fund is the School District's only enterprise fund and it is reported as a major fund.

Internal Service Funds

The Internal Service Funds may be used to account for any activity for which a fee is charged to external users for goods or services. The School District maintains two internal service funds.

Risk Management

The Risk Management Fund accounts for the financial transactions related to the risk management activities of the School District. This fund is used to account for the potential claims arising from certain torts, thefts, damages, and catastrophic loss of assets, errors and omissions, injury to employees and natural disasters incurred by the School District. The School District uses this fund to accumulate funds to protect against losses for which insurance cannot be obtained by reason of policy limitations or deductibles or uninsurability. See Note 12 for additional details on the operation of this fund.

Retirement Obligations Fund

The Retirement Obligations Fund was established by the School District to account for funds accumulated to provide for payment of post retirement insurance benefits and retirement incentives.

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 the proprietary fund's principal ongoing operations. The principal operating revenues of the School District's enterprise fund are food service charges. Operating expenses for the School District's enterprise fund include food production costs, supplies, administrative costs, and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the School District's internal service funds are premium charges and transfers from the general fund. Operating expenses for the School District's internal service fund include payments for claims and payments for post retirement obligations. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

3. Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts for various student-managed activities.

Private Purpose Trust Funds

This is a non-expendable trust fund established by an individual to provide income for a continuing scholarship. The basis of accounting for non-expendable trust funds is full accrual.

Agency Funds

Student Activity Fund - This fund is utilized to account for monies authorized by Section 511 of the Public School Code of 1949 for student activities, publications and organizations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. These organizations exist with the explicit approval of and are subject to revocation by the Board.

D. Measurement Focus, Basis of Accounting

1. Government-wide, Proprietary, and Fiduciary Fund Financial Statements

The government-wide, proprietary, and fiduciary fund financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the School District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

2. Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The School District considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. The statement of revenues, expenditures and changes in fund balances reflects the sources (i.e. revenues and other financing sources) and uses (i.e. expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

3. Revenues - Exchange and Nonexchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from income taxes is recognized in the period in which the income is earned. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at fiscal year end: property taxes available as an advance, income taxes, grants, interest, tuition and student fees.

4. Unearned Revenues

Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2018, but which were levied to finance fiscal year 2019 operations, are recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as unearned revenue.

On governmental fund financial statements, receivables that will not be collected within the available period are reported as unearned revenue.

5. Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Process

Generally accepted accounting principles serve as the budgetary basis of accounting. In accordance with state law, an annual budget prepared by function and object is formally adopted for the General Fund. The School District does not formally adopt budgets for other funds.

The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the budget when the original appropriations were adopted.

The appropriation resolution is subject to budget transfer amendments between functions, as allowed by the Public School Code, throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts in the budgetary financial statement reflects the first appropriation resolution for the general fund that covered the entire fiscal year. The amounts reported as the final budgeted amounts represent the final appropriation and include budget transfer amendments as passed by the Board during the fiscal year. The measurement level of control over expenditures for all budgeted funds is the surplus or deficit of the fund as a whole.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

- ◆ - Prior to May of the preceding fiscal year, the School District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
- ◆ - A meeting of the Board of School Directors is then called for the purpose of adopting the proposed budget. The meeting may only be held after 30 days of public notification.
- ◆ - Prior to July 1, the Board of School Directors legally enacts the budget through passage of a resolution.
- ◆ - The budget must be filed with the Pennsylvania Department of Education by July 31 of the fiscal year.

F. Encumbrances

Encumbrances at year-end are reported in the fund financial statements as reservations of fund balance since they do not constitute expenditures or liabilities, but serve as authorization for expenditures in the subsequent year. As of June 30, 2018, the School District has no encumbrances.

G. Cash and Investments

For purposes of the statement of cash flows, the proprietary fund considers all highly liquid investments with maturity of three months or less when purchased and pooled funds of investments subject to daily withdrawal to be cash equivalents.

Deposits

Below is a summary of the School District's deposits which are insured by the Federal Depository Insurance Company, and those which are not insured or collateralized in the School District's name, but collateralized in accordance with Act 72 of the Pennsylvania State Legislature, which requires the financial institution to pool collateral for all government deposits and have the collateral held by an approved custodian in the institution's name.

	FDIC Insured	Pooled Collateral	Bank Balance	Carrying Amount
Cash and Deposits	<u>\$ 500,000</u>	<u>\$ 12,299,975</u>	<u>\$ 12,799,975</u>	<u>\$ 12,693,607</u>

Investments

The District's investments at June 30, 2018 consist of:

	Cost	Fair Value
Certificates of Deposit	<u>\$ 148,472</u>	<u>\$ 148,472</u>
Total	<u>\$ 148,472</u>	<u>\$ 148,472</u>

When applicable, the School District measures investments at fair value. The fair value measurement guidelines, set forth by generally accepted accounting principals, recognize a three-tiered fair value hierarchy as follows:

- Level 1 inputs: Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets. A quoted price for an identical asset or liability in an active market (e.g., an equity security traded on a major exchange) provides the most reliable fair value measurement and, if available, should be used to measure the fair value in that particular market.
- Level 2 inputs: The categorization of an asset/liability as Level 1 requires that it is traded in an active market. If an instrument is not traded in an active market, it may fall to Level 2. Level 2 inputs are inputs that are observable, either directly or indirectly, but do not qualify as Level 1.
- Level 3 inputs: Reporting entities may use unobservable inputs to measure fair value if relevant observable inputs are not available, thereby allowing for situations in which there is little, if any market activity for the asset or liability at the measurement date. These unobservable inputs are considered Level 3.

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Investment Risks

Custodial Credit Risk - Custodial credit risk is the risk of loss resulting from the failure of the custodian such that the custodian would not be able to recover the value of its investments or collateral securities in the possession of the custodian. The School District is permitted to invest funds consistent with sound business practices in the following types of investments, certain money market mutual funds, and deposit accounts:

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 of Pennsylvania, 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.

Act 20, a Pennsylvania law enacted in June of 1995, expands the allowable investment vehicles to include certain money market mutual funds rated as "AAA" whose investments are limited to those mentioned in the previous paragraph.

Deposits in savings accounts or 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.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a fixed income investment. The School District does not 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.

Concentration of Credit Risk – Credit risk concentration is the risk of loss attributed to investments (other than those issued or guaranteed by the U.S. Government) in any one organization that represented 5 percent or more of the plan's net position. The School District places no limit on the amount it may invest in any one issue.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment.

H. Taxes Receivable

Taxes receivable consist of delinquent real estate taxes due at June 30, 2018, less an allowance for the amount of these delinquencies not expected to be collected within the next fiscal year.

I. Interfund Receivables/Payables

During the course of operations, transactions sometime occur between individual funds for goods provided or services rendered. These receivables and payables, to the extent they exist, are classified as “Due from Other Funds” or “Due to Other Funds” on the balance sheet.

J. Inventories

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

Inventories in governmental funds are stated at cost by the first-in, first-out method. The purchase method is used to account for inventories. Under the purchase method, inventories are recorded as expenditures when purchased; however, an estimated value of inventories is reported as an asset in the General Fund. The inventories in the General Fund are equally offset by a fund balance reserve, which indicates they do not constitute “available spendable resources” even though they are a component of net current assets. The General Fund did not have a material inventory balance as of June 30, 2018.

A physical inventory of the Food Service Fund food and supplies was taken as of June 30, 2018. The inventory consisted of food and non food supplies (valued at cost) and government donated commodities (valued using USDA values) using the first-in, first-out (FIFO) method. Any unused commodities donated by the federal government at June 30, 2018 are reported as unearned revenue.

K. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$1,500 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous asset categories with individual assets less than \$1,500 as composite groups for financial reporting purposes. In addition, capital assets purchased with a long-term debt may be capitalized regardless of the thresholds established. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

All capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives.

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	10 - 15 years
Buildings and Building Improvements	20 - 50 years
Vehicles	6 - 10 years
Machinery and Equipment	6 - 10 years

L. Long-Term Liabilities

In the government-wide financial statements and proprietary funds in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

M. 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, results could differ from those estimates.

N. Fund Balances

In accordance with Governmental Accounting Standards Board Statement #54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the School District classifies governmental fund balances as follows:

- Nonspendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. All amounts reported as nonspendable at June 30, 2018 by the School District are nonspendable in form.
- Restricted – includes amounts that are restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.
- Committed – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to resolutions passed by the Board of School Directors, the District's highest level of decision making authority. Commitments may be modified or rescinded only through resolutions approved by the Board of School Directors.
- Assigned – includes amounts that the School District intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Under the School District's established policy, amounts may be assigned by the Business Manager of the School District.
- Unassigned – includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the School District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of School Directors has provided otherwise in its commitment or assignment actions.

Fund balances in the School District's major funds are \$6,637,700 in the General Fund, consisting of nonspendable prepaid amounts of \$170,282 and unassigned amounts of \$6,467,418. In addition \$2,916,670 is a committed fund balance in the Capital Projects Fund.

The Risk Management and Retirement Obligations Fund net position of \$620,059 and \$1,108,459 are for the School District's risk management activities and retirement obligations, respectively. In addition, \$362,552 is included in net position of the School District's Food Service Fund.

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence. Neither of these types of transactions occurred during the fiscal year.

P. Subsequent Events

The School District evaluated subsequent events for recognition and disclosure through August 10 2018, the date the financial statements were available to be issued. No subsequent events were identified requiring recognition or disclosure.

Note 2 - Real Estate and Unearned Revenue

Property taxes attach as an enforceable lien on property as of July 1st of the year following levy. Taxes are levied on July 1. The School District bills and collects its own property taxes through locally elected tax collectors. Collection of delinquent property taxes is contracted to a private collection agency. The tax levy for fiscal 2018 was based on assessed values on January 1, 2017 of \$96.25 million. The School District tax rates for the year ended June 30, 2018 varied by county as determined by the State Tax Equalization Board and were 91.95 mills for Butler County, 46.87 mills for Clarion County and 45.07 mills for Armstrong County as levied by the School Board.

Taxes may be paid at a 2% discount until September 30th, at face until November 30th, and at a 10% penalty until the lien date.

The School District, in accordance with GAAP, recognized the delinquent and unpaid taxes receivable reduced by an allowance for uncollectible taxes as determined by the 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 deferred in the fund financial statements. This balance, net of allowances, is \$73,116.

Note 3 - Changes in Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities				
Non-Depreciable Assets:				
Land	\$ 38,526	\$	\$	\$ 38,526
Depreciable Assets				
Land Improvements	3,817,812	21,400		3,839,212
Buildings	38,114,432	7,350		38,121,782
Equipment	3,458,313	162,451		3,620,764
Totals at historical cost	<u>45,429,083</u>	<u>191,201</u>		<u>45,620,284</u>
Less accumulated depreciation for:				
Land Improvements	(2,891,335)	(336,965)		(3,228,300)
Buildings	(27,622,757)	(367,986)		(27,990,743)
Equipment	(3,657,869)	(180,273)		(3,838,142)
Total accumulated depreciation	<u>(34,171,961)</u>	<u>(885,224)</u>		<u>(35,057,185)</u>
Governmental activities capital assets, net	<u>\$ 11,257,122</u>	<u>\$ (694,023)</u>	<u>\$</u>	<u>\$ 10,563,099</u>
Business-type Activities				
Depreciable Assets:				
Equipment	\$ 671,071	\$ 2,888	\$	\$ 673,959
Totals at historical cost	<u>671,071</u>	<u>2,888</u>		<u>673,959</u>
Less accumulated depreciation for:				
Equipment	(498,729)	(11,603)	-	(510,332)
Total accumulated depreciation	<u>(498,729)</u>	<u>(11,603)</u>		<u>(510,332)</u>
Business-type activities capital asset, net	<u>\$ 172,342</u>	<u>\$ (8,715)</u>	<u>\$</u>	<u>\$ 163,627</u>
Depreciation expense was charged to governmental functions as follows:				
Instruction				\$ -
Support				
Administration				
Plant				
Transportation				
Student Activities				
Unallocated-Governmental Funds				885,224
Total depreciation expense				<u>\$ 885,224</u>

In the 2017-2018 school year, land improvements and equipment purchases added \$191,201 to the historical cost of governmental activities and \$2,888 to the historical cost of business activities. Depreciation expense for that same time period was \$885,224 and \$11,603 for the governmental activities and business activities resulting in a net book value decrease of \$694,023 for the governmental activities and \$8,715 for the business activities.

Note 4 - General Long-Term Debt

Changes in the School District's long-term obligations during fiscal year 2018 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Bonds, loans & leases payable					
Authority Lease Obligations	\$ 623,701		\$ (20,266)	\$ 603,435	\$ 20,680
Total bonds, loans and leases payable	623,701	-	(20,266)	603,435	20,680
Other liabilities:					
Post retirement benefits & Compensated absences	69,766	16,669	(3,248)	83,187	
Pension Liability	37,124,000	3,718,000	(4,437,000)	36,405,000	
Health Insurance Premium Share (OPEB)	1,613,000	62,000	(173,000)	1,502,000	
OPEB Obligation	6,740,203	785,692	(312,276)	7,213,619	219,994
Total other liabilities	45,546,969	4,582,361	(4,925,524)	45,203,806	219,994
Governmental activities long-term liabilities	\$ 46,170,670	\$ 4,582,361	\$ (4,945,790)	\$ 45,807,241	\$ 240,674

General Obligation Bonds

The General Fund is used to liquidate the long-term liability for post-retirement benefits and compensated absences.

During 2010/2011, the Butler County Area Vocational-Technical School Authority issued lease revenue bonds in the principal amount of \$8,265,000. The purpose of the bonds is to pay a portion of the cost of additions and renovations to the BAVTS facilities. During the 15/16 year, these bonds were refinanced with the issuance of the School Lease Revenue Bonds, Series of 2015. The School District is responsible for a prorated share of this debt in the amount of \$639,831, with final payment due in 2040. The annual amounts necessary to amortize the bonds payable outstanding as of June 30, 2018 are as follows:

	Principal	Interest	Total
2019	\$ 20,680	\$ 18,678	\$ 39,358
2020	21,093	18,264	39,357
2021	21,093	17,842	38,935
2022	21,921	17,421	39,342
2023	22,334	16,982	39,316
2024-2028	119,529	76,492	196,021
2029-2033	138,141	57,379	195,520
2034-2038	164,611	31,653	196,264
2039-2040	74,033	4,049	78,082
Total	\$ 603,435	\$ 258,760	\$ 862,195

Note 5 - Pension Plan

1. Summary of Significant Accounting Policies

Pensions

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 addition to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Pension Plan

Plan Description

PSERS is a governmental cost sharing 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

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 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 3 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% 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 ten 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% 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 (ten years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

Contributions

Member Contributions:

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

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

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

Members who joined the System after June 30, 2011 automatically contribute at the Membership Class T-E rate of 7.50% (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 District's contractually required contribution rate for 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 \$3,745,701 for the year ended June 30, 2018.

2. 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 \$36,405,000 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 0.0737 percent, which was a decrease of 0.0012 from its proportion measured as of June 30, 2017.

For the year ended June 30, 2018, the District recognized pension expense of \$3,718,000. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 380,000	\$ 220,000
Changes in Assumptions	989,000	
Net difference between projected and actual investment earnings	843,000	
Changes in proportions	286,000	750,000
Contributions subsequent to the measurement date	3,745,701	
	\$ 6,243,701	\$ 970,000

\$3,745,701 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	
2018	\$ 429,000
2019	890,000
2020	435,000
2021	(227,000)

Actuarial assumptions

The total pension liability as of June 30, 2017 was determined by rolling forward the System's total pension liability 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 – 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 a long-term expected rate of return by

weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Public Equity	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%
Alternate investments	15.0%	6.2%
Cash	3.0%	0.6%
Financing (LIBOR)	-20.0%	1.1%
	<u>100.0%</u>	

The above was the 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 project future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate

The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate.

	1% Decrease 6.25%	Current Discount rate 7.25%	1% Increase 8.25%
District's proportionate share of the net pension liability	\$44,804,000	\$36,399,000	\$29,303,000

Pension plan fiduciary net position

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

Schedule of Employer Contributions

	2017	2016	2015	2014
Actuarially Determined Contribution	\$ 2,818,957	\$ 2,651,688	\$ 2,503,397	\$ 2,221,321
Contributions in relation to the actuarially determined contribution	2,818,957	2,382,897	1,964,989	1,492,071
Contribution Deficiency	-	268,791	538,408	729,250
Covered Payroll	9,817,175	9,701,676	9,791,352	9,560,501
Contribution as a percentage of covered payroll	28.71%	24.56%	20.07%	15.61%

Note 6 – OPEB Liability – Health Insurance Premium Share

OPEB Plan

1. Summary of Significant Account Policies

Other Postemployment Benefits

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the 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 benefit 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. 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 Premium Assistance program if they satisfy the following criteria:

- Have 24 ½ or more years of service, or
- Area 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.

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.

Employer Contributions:

The school districts' contractually required contribution rate for the fiscal year ended June 30, 2017 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 \$81,000 for the year ended June 30, 2017.

1. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the District reported a liability of \$1,502,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System’s total OPEB liability as of June 30, 2016 to June 30, 2017. The District’s proportion of the net OPEB liability was calculated utilizing the employer’s one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the District’s proportion was 0.0737%, which was a decrease of 0.0012% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2018, the District recognized OPEB expenses of \$60,000. 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	-	\$ 70,000
Net difference between projected and actual investment earnings	2,000	
Changes in proportions	-	22,000
Contributions subsequent to the measurement date	97,950	
	<u>\$ 99,950</u>	<u>\$ 92,000</u>

\$97,950 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	
2018	\$ (15,000)
2019	(15,000)
2020	(15,000)
2021	(15,000)
2022	(15,000)
Thereafter	(15,000)

Actuarial assumptions

The total OPEB liability as of June 30, 2017 was determined by rolling forward the System's total OPEB liability 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 @70%.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2015 determined the employer contribution rate for fiscal year 2017.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 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 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>OPEB 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 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 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 System Net OPEB Liability to Change 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, retiree 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 System net OPEB liability for June 30, 2017, calculated using current Healthcare cost trends as well as what the System net OPEB liability would be if health cost trends were 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
System net OPEB Liability (in thousands)	\$ 2,315,996	\$ 2,037,412	\$ 1,805,991

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability, calculated using the discount rate of 3.13%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.13%) or 1-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 liability	\$ 1,707,000	\$ 1,502,000	\$ 1,331,000

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.

Schedule of Employer Premium Assistance Contributions

	2017	2016
Actuarially Determined Contribution	\$ 92,636	\$ 96,991
Contributions in relation to the actuarially determined contribution	81,481	84,305
Contribution Deficiency	11,155	12,686
Covered Payroll	9,817,175	9,701,676
Contribution as a percentage of covered payroll	0.83%	0.87%

Note 7 - Compensated Absences

The School District has made early retirement benefits available to certain employees. The benefit is payment for unused sick days at retirement. The payable for declared retirements are recorded as current liabilities in the General Fund at the time of retirement. With respect to other employees that do not meet the criteria established by the School District for early retirement, these employees are not eligible to receive payment for their unused sick days at retirement. The General Fund has been used to liquidate the accumulated liability for retirement benefits. The dollar amounts of the benefits are as follows:

	<u>Sick Day Liability</u>
June 30, 2017 Balance	\$ 69,766
Increases	16,669
Decreases	<u>(3,248)</u>
June 30, 2018 Balance	<u>\$ 83,187</u>

Note 8 – Other Post Employment Benefits

The District maintains a single-employer defined benefit healthcare plan. The plan provides health insurance for eligible retirees and their spouses through the District’s health insurance plan.

Funding Policy. The contribution requirements of plan members and the District are established and may be amended by the Board of School Directors.

Funded Status and Funding Progress. As of June 30, 2018, the actuarial accrued liability for benefits was \$7,213,619, all of which was unfunded.

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

For the year ended June 30, 2018, the District recognized expense of \$396,489. At June 30, 2018 the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in Assumptions	\$ 197,735	\$ -
Benefit payments subsequent to the measurement date	331,013	
	<u>\$ 528,748</u>	<u>\$ -</u>

The other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	
2019	\$ 17,976
2020	17,976
2021	17,976
2022	17,976
2023	17,976
Thereafter	107,855

Sensitivity of the Net OPEB liability to changes in the discount rate

The following presents the net OPEB liability of the Plan, as well as what the Plan's net OPEB liability would be if it were calculated using a discount rate this is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	<u>2.13%</u>	<u>3.13%</u>	<u>4.13%</u>
Net OPEB Liability	\$ 7,688,357	\$ 7,213,619	\$ 6,756,969

Sensitivity of the Net OPEB liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the Plan, as well as what the Plan's net OPEB liability would be if it were calculated using the healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
Net OPEB Liability	\$ 6,460,035	\$ 7,213,619	\$ 8,091,032

Schedule of Changes in the Total OPEB Liability and Related Ratios

	<u>2018</u>
Service Cost	\$ 396,489
Interest	173,492
Changes of Assumptions	215,711
Benefit Payments	<u>(312,276)</u>
Net Change in total OPEB Liability	<u>473,416</u>
Total OPEB liability - beginning of year	<u>6,740,203</u>
Total OPEB liability - end of year	\$ 7,213,619
Covered-employee payroll	\$ 8,734,193
Total OPEB liability as a percentage of covered-employee payroll	82.59%

The following assumptions were also made:

Actuarial Cost Method – Entry Age Normal

Asset Valuation Method – Market value

Salary Increases – 2.5% 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%.

Withdrawal – Rate of withdrawal vary by age, gender, and years of service.

Interest Rate – 3.13%, based on S&P Municipal Bond 20 Year High Grade Rate Index at 7/1/2017.

Retirement – Assumed retirement rates are based on PSERS plan experience and vary by age, service, and gender.

Percentage of Eligible Retirees Electing Coverage in Plan – 100% of Teachers and Administrators eligible for the district subsidy and 20% of employees only eligible for Act 110/43 are assumed to elect coverage.

Percent Married at Retirement – 80% of employees are assumed to be married and have a spouse covered by the plan at retirement. Non-spouse dependents are deemed to be immaterial.

Spouse age – Wives are assumed to be two years younger than their husbands.

Mortality – 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.

Disability – No disability was assumed.

Retiree Contributions – Retiree contributions are assumed to increase at the same rate as the Health Care Cost Trend Rate. However, the first year trend assumption was adjusted to account for short-term reserve applications.

Health Care Cost Trend Rate – 6.0% in 2017, 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.

Note 9 - Jointly Governed Organizations

The School District is one of seven member school districts of the Butler County Area Vocational Technical School (Vo-Tech). Vo-Tech is controlled and governed by the Joint Board, which is composed of one member from each school board of the member districts. Direct oversight of Vo-Tech's operations is the responsibility of the Joint Committee. The School District's share of annual operating and capital costs for Vo-Tech fluctuates based on the percentage enrollment in the school. The Butler County Area Vocational Technical School prepares financial statements, which have been separately audited. The audit report may be obtained by calling the business office of the School District.

Note 10 – Investment in Joint Venture

As disclosed in Note 8, the School District is a member school district of the Butler County Area Vocational Technical School. During 2010/2011, the Vo-Tech issued lease revenue bonds with the prorated principal amounts allocated among the member school districts. This investment by the School District in the renovation of the Vo-Tech is accounted for as a joint venture. The amount shown on the statement of net position represents only amounts invested by the School District since July 1, 2010.

Note 11 - Commitments and Contingencies

The Karns City Area School District participates in a number of state and federally assisted grant programs. The programs are subject to program compliance audits by the grantor agencies or their representatives. The audits of some of these programs for and including the year ended June 30, 2018 have not yet been conducted. Accordingly, the School District's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures, which may be disallowed by the granting agencies, cannot be determined at this time although the School District expects such amounts to be immaterial.

Note 12 – Interfund Balances

As of June 30, 2018, there were the following individual fund level interfund receivable and payable balances:

<u>Interfund Receivable</u>	<u>Amounts</u>	<u>Interfund Payable</u>	<u>Amounts</u>
Cafeteria Fund	\$ 9,814	General Fund	\$ 9,814
General Fund	2,782	Student Activity Fund	2,782
	<u>\$ 12,596</u>		<u>\$ 12,596</u>

The amount due to the Cafeteria fund represents state and federal subsidies received by the General Fund that are due to the Cafeteria Fund.

During the fiscal year ended June 30, 2018, there were no interfund transfers made.

Note 13 - Risk Management

The School District is exposed to various risk of loss related to certain torts, thefts, damages, catastrophic loss of assets, errors and omissions, injury to employees and natural disasters. Karns City Area School District manages most of its risk through the general fund with the purchase of commercial insurance coverage. However, for those amounts not covered by insurance by reason of policy limitations or deductibles or uninsurability, the School District has established a Risk Management Fund to account for and to accumulate money to be used in the event of such uninsured losses.

Note 14 – Health Insurance Consortium

The District participates in the Western Pennsylvania Schools Health Care Consortium (WPSHCC). The Consortium provides health insurance benefits to employees of the participating districts. The WPSHCC is a public entity risk pool designed to administer health and medical insurance risks on a pooled risk basis. The District pays an annual premium to WPSHCC for its health and medical insurance coverage. The formation agreement of WPSHCC provides that the WPSHCC will be self-sustaining through annually determined member premiums and will reinsure through commercial companies for excess claims of amounts as defined in the insurance contract. The agreement permits participating districts to withdraw from the WPSHCC under terms as specified in the agreement. Withdrawing districts are entitled to a proportionate share of WPSHCC fund balance or deficit on the date of withdrawal. The District estimates that there are no additional amounts due to the Consortium at June 30, 2018.

Note 15 – New Accounting Pronouncement

GASB Statement #75 was implemented in the 2017/2018 year. This statement addresses accounting and financial reporting for post-employment benefits other than pensions. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows, deferred inflows, and expenditures. The beginning balance of the School District's long term net position was restated as of July 1, 2017 to comply with this Statement. The application of this Statement has resulted in the School District including the total unfunded post retirement liability within its financial statements. The beginning balance of the School District's net position was restated to comply with this Statement.

Required Supplementary Information

KARNS CITY AREA SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u>	<u>6/30/2013</u>
District's Proportion of the Net Pension Liability	0.0737%	0.0749%	0.0761%	0.0749%	0.0740%
District's Proportionate Share of the Net Pension Liability	\$ 36,399,000	\$ 37,118,000	\$ 32,963,000	\$ 29,646,000	\$ 30,292,000
District's Covered-employee Payroll	\$ 9,817,175	\$ 9,701,676	\$ 9,791,352	\$ 9,560,501	\$ 9,491,856
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-employee Payroll	370.77%	382.59%	336.65%	310.09%	319.14%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	51.84%	50.14%	54.36%	57.24%	54.49%

KARNS CITY AREA SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
 PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

	<u>6/30/2017</u>	<u>6/30/2016</u>
District's Proportion of the Net OPEB Liability	0.0737%	0.0749%
District's Proportionate Share of the Net OPEB Liability	\$ 1,502,000	\$ 1,613,000
District's Covered-employee Payroll	\$ 9,817,175	\$ 9,701,676
District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-employee Payroll	15.30%	16.63%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	5.73%	5.47%

Supplementary Information

KARNS CITY AREA SCHOOL DISTRICT
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2018

Student Activity Fund

	June 30, 2017	Additions	Reductions	June 30, 2018
Assets				
Cash and Cash Equivalents	\$ 86,840	\$ 208,844	\$ 185,294	\$ 110,390
Other Assets	5,525		5,525	-
Total Assets	<u>\$ 92,365</u>	<u>\$ 208,844</u>	<u>\$ 190,819</u>	<u>\$ 110,390</u>
Liabilities				
Due to Other Funds	\$ 2,782	\$ -	\$ -	\$ 2,782
Other Liabilities	89,583	208,844	190,819	107,608
Total Liabilities	<u>\$ 92,365</u>	<u>\$ 208,844</u>	<u>\$ 190,819</u>	<u>\$ 110,390</u>



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Accountants | Auditors | Advisors

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*

Karns City Area School District
Karns City, 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 Karns City Area School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Karns City Area School District's basic financial statements, and have issued our report thereon dated August 10, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Karns City 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 Karns City Area School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Karns City 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 Karns City 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 entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CYPHER & CYPHER

Handwritten signature in black ink that reads "Cypher & Cypher". The script is cursive and fluid.

CERTIFIED PUBLIC ACCOUNTANTS

Canonsburg, Pennsylvania
August 10, 2018



Cypher & Cypher

Accountants | Auditors | Advisors

Independent Auditor's Report on Compliance for Each Major Program And on Internal Control Over Compliance Required by the Uniform Guidance

Karns City Area School District
Karns City, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Karns City 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 Karns City Area School District's major federal programs for the year ended June 30, 2018. Karns City 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 Karns City 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 Karns City 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 Karns City Area School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Karns City 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 Karns City 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 Karns City 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 Karns City 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.

CYPHER & CYPHER



CERTIFIED PUBLIC ACCOUNTANTS

Canonsburg, Pennsylvania
August 10, 2018

**Karns City Area School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018**

Section 1 – Summary of Auditor’s Results

Financial Statements		
i.	Type of auditor’s report issued	Unmodified
ii.	Internal control over financial reporting:	
ii.	Material weakness (es) identified?	No
	Significant deficiencies identified?	No
iii.	Noncompliance material to financial statements noted?	No

Federal Awards:		
iv.	Internal control over major programs:	
	Material weakness (es) identified?	No
	Significant deficiencies identified?	None reported
v.	Type of auditor’s report issued on compliance for major programs:	Unmodified
vi.	Any audit findings disclosed that are required to be reported in accordance with 2CFR 200.516(a)?	No

vii.	Major Programs:	
	CFDA Number(s)	Name of Federal Program or Cluster
	10.553 10.555 10.559	Child Nutrition Cluster
viii.	Dollar threshold used to distinguish between type A and type B programs:	\$750,000
ix.	Auditee qualify as low-risk auditee?	No

Section 2 – Findings Related to Financial Statements Required to Be Reported Under GAGAS

None noted.

Section 3 – Findings and Questioned Costs for Federal Awards

None noted.

Section 4 – Summary of Prior Audit Findings

Financial Statement Finding #2017-001	
Criteria	Finding Criteria – A component of internal control relating to financial reporting is to verify the accuracy of ledger account balances.
Condition	Condition Found – Employee benefit costs including health, dental, workmen’s compensation, and life insurance are overstated due to the fringe benefit module recording expense when payroll is processed and the actual insurance invoice being processed through the accounts payable module.
Cause/Effect	<p>Cause of the Finding – Insurance invoice being processed through the accounts payable module, rather than matching the payment to the outstanding voucher that is created with the fringe benefit module when payroll was processed.</p> <p>Effect of the Finding – Over statement of expense occurred within the district without being detected in a timely manner.</p> <p>Questioned Costs – No questioned costs.</p>

<p>District's Response and Corrective Action Plan</p>	<p>The District transitioned to Tyler accounting software for the 2015/2016 year. The poor implementation of this accounting software put the District in a state that accurate financial information could not be produced.</p> <p>The Implementation of the software was not properly planned, compounded by a vacancy in the business manager position while the software was implemented and went live. Due to the vacancy, Tyler and District staff made decisions relating to the implementation which they did not understand the ramifications of their decisions.</p> <p>During the 2016/2017 year, many of the issues relating to the poor implementation of the accounting software were modified and corrected. These corrected items include; training of business office personnel, fundamental setup of the software that did not record transactions where they were intended; numbering of funds; creation of ten school locations that did not exist; cash ledger account masks which created dozens of cash ledger accounts when only one operating bank account existed; accounts payable ledger account masks which created dozens of accounts payable ledger accounts when only one ledger account existed; elimination of payroll fund; inter-fund transactions not self-balancing, segregate payroll and benefit liabilities accumulated in one ledger account.</p> <p>The District's administration is in agreement with this finding. Efforts will continue to maintain accounting system and procedural modifications already made, and strive to continue improvement of processes to assure items listed above are not repeated.</p>
<p>Status of Finding as of June 30, 2018</p>	<p>This finding has been corrected and is not included in the current audit.</p>

<p>Financial Statement Finding #2017-002</p>	
<p>Criteria</p>	<p>Finding Criteria – A component of internal control relating to financial reporting is to verify the accuracy of ledger account balances.</p>
<p>Condition</p>	<p>Condition Found – Various account balances were not in balance at year end. The reconciliation process that verifies transactions recorded to the books and records was not performed to certain accounts receivable, prepaid, payroll liabilities and accounts payable account balances.</p> <p>The following are some of the accounting matters that were addressed during the audit: health insurance double recorded for the entire year, reverse 15/16 accounts receivable, record 16/17 accounts receivable, reverse portion of 15/16 accounts payable, employer PSERS liability and reclassify certain revenues and expenses.</p>

Cause/Effect	<p>Cause of the Finding – Change in key personnel of the business office lead to not having an understanding of internal processes, lack of accounting knowledge and training, compounded with a poor implementation of a new accounting software and working knowledge of the accounting software utilized by the district.</p> <p>Effect of the Finding – Misstatement of income and expense may occur within the district without being detected in a timely manner.</p> <p>Questioned Costs – No questioned costs.</p>
District’s Response and Corrective Action Plan	The District’s administration is in agreement with this finding. Efforts will continue to maintain accounting system and procedural modifications already made, and strive for improvement of processes to assure items listed above are not repeated.
Status of Finding as of June 30, 2018	This finding has been corrected and is not included in the current audit.

Financial Statement Finding #2016-001	
Criteria	Finding Criteria – A component of internal control relating to financial reporting is to verify the accuracy of ledger account balances.
Condition	Condition Found – The District transitioned to Tyler accounting software for the 2015/2016 year. The poor implementation of this accounting software put the District in a state that accurate financial information could not be produced. The poor implementation included; fundamental setup of the software did not record transactions where they were intended; incorrect numbering of funds; creation of ten school locations that did not exist; did not correctly define cash ledger account masks which created dozens of cash ledger accounts when only one operating bank account existed; did not correctly define accounts payable ledger account masks which created dozens of accounts payable ledger accounts when only one ledger account existed; inter-fund transactions not self-balancing, payroll and benefit liabilities accumulated in one ledger account rather than being properly segregated.
Cause/Effect	Cause of the Finding – The Implementation of the software was not properly planned, compounded by a vacancy in the business manager position while the software was implemented and went live. Due to the vacancy, Tyler and District staff made decisions relating to the implementation which they did not understand the ramifications of their decisions.

	<p>Effect of the Finding – Misstatement of income and expense may occur within the district without being detected in a timely manner.</p> <p>Questioned Costs – No questioned costs.</p>
District's Response and Corrective Action Plan	The District's administration is in agreement with this finding. Efforts will continue to maintain accounting system and procedural modifications already made, and strive for improvement of processes to assure items listed above are not repeated.
Status of Finding as of June 30, 2018	This finding has been corrected and is not included in the current audit.

Financial Statement Finding #2016-002	
Criteria	Finding Criteria – A component of internal control relating to financial reporting is to verify the accuracy of ledger account balances.
Condition	<p>Condition Found – Various account balances were not in balance at year end. The reconciliation process that verifies transactions recorded to the books and records was not performed to certain cash, accounts receivable, prepaid, payroll liabilities and accounts payable account balances.</p> <p>The following are some of the accounting matters that were addressed: bank accounts not reconciled, health insurance double recorded for the entire year, July and August 2015 retirement expense not recorded, 14/15 year payroll accrual not reversed, 14/15 accounts receivable not reversed, 14/15 accounts payable not reversed, record 15/16 payroll accrual, record 15/16 accounts receivable, record 15/16 accounts payable, expenses not correctly classified.</p>
Cause/Effect	<p>Cause of the Finding – Change in key personnel of the business office lead to not having an understanding of internal processes, lack of accounting knowledge and training, poor implementation of a new accounting software and working knowledge of the accounting software utilized by the district.</p> <p>Effect of the Finding – Misstatement of income and expense may occur within the district without being detected in a timely manner.</p> <p>Questioned Costs – No questioned costs.</p>
District's Response and Corrective Action Plan	The District's administration is in agreement with this finding. Efforts will continue to maintain accounting system and procedural modifications already made, and strive for improvement of processes to assure items listed above are not repeated.

Status of Finding as of June 30, 2018	This finding has been corrected and is not included in the current audit.
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Financial Statement Finding #2015-001	
Criteria	Finding Criteria – A component of internal control relating to financial reporting is to verify the accuracy of ledger account balances.
Condition	Condition Found – Various account balances were not in balance at year end. The reconciliation process that verifies transactions recorded to the books and records was not performed to certain accounts receivable, prepaid, and accounts payable account balances. This was due to prior year balances not adjusted in the current period and ledger account balances not verified to source documentation.
Cause/Effect	Cause of the Finding – Change in key personnel of the business office lead to not having an understanding of internal processes and working knowledge of the accounting software utilized by the district. Effect of the Finding – Misstatement of income and expense may occur within the district without being detected in a timely manner. Questioned Costs – No questioned costs.
District's Response and Corrective Action Plan	The District's administration is in agreement with this finding. Efforts will continue to maintain accounting system and procedural modifications already made, and strive for improvement of processes to assure items listed above are not repeated.
Status of Finding as of June 30, 2018	This finding has been corrected and is not included in the current audit.

KARNS CITY AREA SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
 SCHOOL YEAR ENDED JUNE 30, 2018

PROJECT TITLE OR GRANT NAME	FUNDING SOURCE	FEDERAL CFDA #	PASS THROUGH GRANTOR #	PROGRAM YEARS	PROGRAM GRANT AWARD	CASH RECEIVED IN 17/18	ACCRUED/ DEFERRED REVENUE 07/01/17	REVENUES RECOGNIZED 17/18	EXPENDITURES RECOGNIZED 17/18	ACCRUED/ DEFERRED REVENUE 06/30/18	CARRYOVER TO 18/19
SPECIAL EDUCATION CLUSTER (IDEA) DEPARTMENT OF EDUCATION PASSED FROM MIDWEST INTERMEDIATE UNIT IV IDEA, PART B		84.027	062-04-0-004	16/17 17/18	\$ 211,605.00 209,157.00	\$ 211,605.00 209,157.00	\$ 211,605.00 -	\$ 209,157.00	\$ 209,157.00	\$ -	\$ -
IDEA 619 - EARLY INTERVENTION		84.173		16/17 17/18	1,983.00 1,544.00 3,527.00	1,983.00 1,544.00 3,527.00	1,983.00 -	1,544.00 1,544.00	1,544.00 1,544.00	-	-
SUBTOTAL CFDA #84.173					\$ 424,285.00	\$ 424,289.00	\$ 213,588.00	\$ 210,701.00	\$ 210,701.00	\$ -	\$ -
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)											
CHILD NUTRITION CLUSTER UNITED STATES DEPARTMENT OF AGRICULTURE (USDA) PASSED FROM THE PENNSYLVANIA DEPARTMENT OF EDUCATION											
SCHOOL BREAKFAST PROGRAM		10.553		16/17 17/18	157,351.51 166,026.07 323,377.58	3,350.29 163,245.49 166,595.78	3,350.29 -	166,026.07 166,026.07	166,026.07 166,026.07	2,780.58 2,780.58	-
SUBTOTAL CFDA #10.553											
NATIONAL SCHOOL LUNCH PROGRAM		10.555		16/17 17/18	319,966.16 334,672.24 654,638.40	6,791.10 329,382.84 336,173.94	6,791.10 -	334,672.24 334,672.24	334,672.24 334,672.24	5,289.40 5,289.40	-
PASSED FROM PENNSYLVANIA DEPARTMENT OF AGRICULTURE NATIONAL SCHOOL LUNCH PROGRAM - DONATED COMMODITIES		10.555		17/18 18/17	59,678.55 63,730.17 123,408.72	59,678.55 -	59,678.55 (6,297.59) (6,297.59)	51,870.87 6,297.59 58,168.46	51,870.87 6,297.59 58,168.46	(7,807.68) (7,807.68)	7,807.68 7,807.68
SUBTOTAL CFDA #10.555					778,047.12	395,852.49	493.51	392,840.70	392,840.70	(2,518.26)	7,807.68
PASSED FROM THE PENNSYLVANIA DEPARTMENT OF EDUCATION SUMMER FOOD PROGRAM		10.559		17/18	3,407.09	3,407.09	-	3,407.09	3,407.09	-	-
TOTAL CHILD NUTRITION CLUSTER					\$ 1,104,831.79	\$ 565,855.36	\$ 3,843.80	\$ 562,273.86	\$ 562,273.86	\$ 262.30	\$ 7,807.68
DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS) PASSED FROM PENNSYLVANIA DEPARTMENT OF WELFARE											
MEDICAL ASSISTANCE		93.778	100211	16/17 17/18	3,780.05 3,451.13 7,241.18	1,378.34 3,451.13 4,829.47	1,378.34 -	3,451.13 3,451.13	3,451.13 3,451.13	-	-
UNITED STATES DEPARTMENT OF AGRICULTURE (USDA) PASSED FROM PENNSYLVANIA DEPARTMENT OF EDUCATION											
GRAND TOTAL					\$ 1,536,361.97	\$ 994,973.83	\$ 218,810.14	\$ 776,425.99	\$ 776,425.99	\$ 262.30	\$ 7,807.68

Footnotes:
 (a) Total amount of Commodities received from Dept of Agriculture
 (b) Beginning inventory at July 1
 (c) Total amount of Commodities Used
 (d) Ending Inventory at June 30

Karns City 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 federal award activity of Karns City Area School District (the "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 Karns City Area School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of Karns City Area School District.

Note 2 – Summary of Significant Accounting Policies

- (1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.
- (2) Pass-through entity identifying numbers are presented where available.

Note 3 – Food Distribution

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. At June 30, 2018, the District had food commodities totaling \$7,808 in inventory.

Note 4 – Indirect Cost Rates

The School District has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.