Audited Financial Statements

June 30, 2018

Tuscarora School District

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Smith Elliott Kearns & Company, LLC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Tuscarora School District
Mercersburg, Pennsylvania

REPORT ON 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 Tuscarora 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

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

Emphasis-of-Matter

As discussed in Note 10 and 15 to the financial statements, the School District adopted new accounting guidance, *Government Accounting Standards Board ("GASB") Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as of July 1, 2017. Our opinion has not been modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 14, budgetary comparison schedule – general fund on pages 63, and schedules related to pension and OPEB liabilities on pages 64 – 68 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 response 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 the Tuscarora School District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2018 on our consideration of Tuscarora 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 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 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 Tuscarora School District's internal control over financial reporting and compliance.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
October 30, 2018

This section of the Tuscarora School District's annual financial report presents its discussion and analysis of the district's financial performance during the fiscal year ended June 30, 2018. Please read it in conjunction with the district's financial statements, which immediately follow this section.

Additional information has been added to this report to incorporate the financial and operational disclosures as required for bond holders and others that reference documents through the Electronic Municipal Market Access (EMMA) portal on the Municipal Securities Rulemaking Board (MSRB) website.

FINANCIAL HIGHLIGHTS

District-Wide

- The District's assets total $ 66.0 million with capital assets of $ 48.2 million.
- During the year, the District had expenses of $ 38.2 million versus total revenues of $ 40.0 million resulting in an increase in net position of $ 1.8 million.
- The District reduced its outstanding long-term debt $ 0.8 million, as a result of principal payments made during the year. The District issued Series 2017B GOB note in the amount of $ 2.9 million and refinanced loans in the amount of $ 1.5 million through the issuance of Series 2017A note. Net Pension Liability of $ 54.4 million has been recorded under GASB 68 reporting requirements. This liability represents the District's share of the Pennsylvania School Employees' Retirement System (PSERS) net pension liability.

Fund-Level

- Total District's general fund revenues of $ 38.6 million exceeded total expenditures by $ 1.1 million due primarily to actual spending below budget and revenues ex. Significant favorable revenue variances include: real estate transfer taxes of $ 132 thousand, earned income taxes of $ 177 thousand, transportation subsidy of $ 337 thousand, investment earnings of $ 112 thousand, and delinquent real estate tax collections of $ 109 thousand. Unfavorable variances include revenues from student activities of $ 13 thousand and federal revenue from intermediate sources of $ 15 thousand.
- Significant favorable expenditure variances include: regular program salaries and benefits of $ 500 thousand, regular program supplies of $ 291 thousand, special program purchased services of $ 101 thousand, support services salaries and benefits of $ 199 thousand, and operations and maintenance salaries and benefits of $ 200 thousand. Significant unfavorable expenditure variances include: student transportation of $ 62 thousand and operations and maintenance contracted services of $ 139 thousand.
- The business-type activity for the District, food service operations, posted a positive change in net position of $ 28 thousand for the year. Operating expenses include depreciation expense of $ 31 thousand on primarily contributed capital assets of $ 171 thousand.
- Planned budgeted pension funding of $ 4.7 million below actual of $ 4.6 million providing for a difference of about $ 137 thousand.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the district:

- The first two statements, Statement of Net Position and Statement of Activities, are district-wide financial statements that provide both short-term and long-term information about the District's overall financial position.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- The government funds statements tell how basic services were financed in the short-term as well as what remains for future spending.
- Proprietary fund statements offer short- and long-term financial information about the activities the District operates like businesses, such as food services.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

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

District-wide Statements

The district-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 District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when the cash is received or paid.

The two district-wide statements report the District's net position and how it has changed. Net position, the difference between the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, is one way to measure the District's financial health.

- Over time, increases or decreases in the District's net position is an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities are divided into two categories:

- Government activities: Most of the district's basic activities are included here, such as instruction, transportation, and administration. Property taxes, income taxes and state subsidy finance most of these activities.
- Business-type activities: The district charges fees to help cover the costs of certain services it provides. The district's food service operation is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (such as for the purchase of capital assets or the payment of long-term debt).

The District has three kinds of funds:

- **Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the district's programs. Because the information does not encompass the additional long-term focus of the district-wide statements, additional information is provided with the governmental funds statements that explain the relationship (or differences) between them.
- **Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide statements. The District's enterprise fund (one type of proprietary fund) is the same as its business-type activities but provide more detail and additional information, such as cash flows.
- **Fiduciary funds:** The District is the trustee, or fiduciary, for assets that belong to others, such as scholarship funds and student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

Net position. The District's combined net position increased $ 1.8 million from June 30, 2017, to a negative $ 19.5 million (before restatement) (See Figure A-1.). This increase is due primarily to an increase in net position of $ 1.8 million from governmental activities. Net pension liability of $ 54.4 million, as recorded in non-current liabilities, represents the District's proportionate share of the Public School Employees' Retirement System (PSERS) liability under GASB 68 reporting requirements.

Figure A-1
Condensed Statement of Net Position (In thousands of dollars)

	Governmental Activities		Business-type Activity		Total School District		Total Percentage Change
	2017	2018	2017	2018	2017	2018	2017 to 2018
Current and other assets	$ 15,018.8	$ 17,438.4	$ 344.9	$ 316.0	$ 15,363.7	$ 17,754.4	15.6%
Noncurrent assets	48,466.4	48,070.9	148.5	171.7	48,614.9	48,242.6	-0.8%
Total assets	**63,485.2**	**65,509.3**	**493.4**	**487.7**	**63,978.6**	**65,997.0**	**3.2%**
Deferred outflows of resources	**12,447.0**	**10,618.8**	**26.7**	**30.5**	**12,473.7**	**10,649.3**	
Current liabilities	6,377.7	6,518.9	50.3	31.3	6,428.0	6,550.2	1.9%
Noncurrent liabilities	85,401.8	88,380.0	127.5	135.7	85,529.3	88,515.7	3.5%
Total liabilities	**91,779.5**	**94,898.9**	**177.8**	**167.0**	**91,957.3**	**95,065.9**	**3.4%**
Deferred inflows of resources	**1,345.0**	**1,083.3**	**8.3**	**6.1**	**1,353.3**	**1,089.4**	
Net assets							
Net investment in capital assets	16,677.2	17,147.1	148.5	171.7	16,825.7	17,318.8	2.9%
Restricted	5,621.8	6,020.9	-	-	5,621.8	6,020.9	0.0%
Unrestricted	(39,491.3)	(43,021.9)	185.4	173.5	(39,305.9)	(42,848.4)	9.0%
Total net position	**$ (17,192.3)**	**(19,853.9)**	**$ 333.9**	**$ 345.2**	**$ (16,858.4)**	**$ (19,508.7)**	**15.7%**

Note: totals may not add due to rounding

Long-term liabilities increased $ 2.9 million to $ 88.5 million due primarily to the issuance of Series 2017B general obligation note. A significant portion of the District's long-term debt is comprised of bond issues in 2014 in the amount of $ 9.9 million, which was an advanced refunding of the 2009 issuance and Series 2015 in the amount of $ 4.6 million. General obligation notes of $ 4.9 million under Series 2015, $ 3.0 million under Series 2016A, $10 million under Series 2017B which were used to refund the 2011A Series, $ 1.5 million under series 2017A which were used as current refunding of the SunTrust loans, and $ 2.9 million under Series 2017B.

Changes in net position. Total revenues of $ 39.9 million exceeded total expenses of $ 38.1 million. (See Figure A-2) The increase in net position of $ 1.8 million is primarily due to decrease in expenses and increase in property and other taxes and operating grants and contributions.

Figure A-2
Changes in Net Position from Operating Results (In thousands of dollars)

	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change
	2017	2018	2017	2018	2017	2018	2017 to 2018
Revenues							
Program revenues							
Charges for services	$ 172.5	$ 147.0	$ 576.9	$ 580.0	$ 749.4	$ 727.0	-3.0%
Operating grants & contributions	7,442.7	8,027.2	797.1	761.2	8,239.8	8,788.4	6.7%
Capital grants and contributions	779.6	814.9			779.6	814.9	
General revenues							
Property and other taxes	19,861.2	20,437.5			19,861.2	20,437.5	2.9%
Grants, subsidies and contributions not restricted	8,871.1	8,993.3			8,871.1	8,993.3	
Other	149.2	269.1	(13.4)	3.4	135.8	272.5	100.7%
Total revenues	**$ 37,276.3**	**$ 38,689.0**	**$ 1,360.6**	**$ 1,344.6**	**$ 38,636.9**	**$ 40,033.6**	**3.6%**
Expenses							
Instruction	$ 22,650.0	$ 22,436.4			$ 22,650.0	$ 22,436.4	-0.9%
Instructional student support	3,505.6	3,475.2			3,505.6	3,475.2	-0.9%
Administration & financial support	3,899.4	3,891.1			3,899.4	3,891.1	-0.2%
Ops & maintenance of plant services	3,105.6	3,012.3			3,105.6	3,012.3	-3.0%
Pupil transportation	2,209.0	2,316.8			2,209.0	2,316.8	4.9%
Other	1,833.3	1,783.2	1,320.2	1,315.8	3,153.5	3,099.0	-1.7%
Total expenses	**$ 37,202.9**	**$ 36,915.0**	**$ 1,320.2**	**$ 1,315.8**	**$ 38,523.1**	**$ 38,230.8**	**-0.8%**
Increase (decrease) in net position	**$ 73.4**	**$ 1,774.0**	**$ 40.4**	**$ 28.8**	**$ 113.8**	**$ 1,802.8**	**1484.2%**

Note: totals may not add due to rounding

Governmental Activities

As of June 30, 2018, the health of the District's finances improved with the addition to fund balance from the general fund. Later in this report you will find an explanation of factors that will impact the District to some extent in the future.

Revenues are comprised primarily of taxes (52.9%), non-restricted grants, subsidies, and contributions (23.3%), and operating grants and contributions, 20.8%. (See Figure A-3)

- The Franklin County economy, as measured by unemployment, has decreased to 3.7% in August 2018 from 4.8% in August 2017 (5.8%, 5%, 5.6%, 6.6%, 7.4%, 7.4% for August 2016, 2015, 2014, 2013, 2012, and 2011). The unemployment rate for the state was 4.1% and 3.9% for the nation in August 2018 (5.5% and 4.9% in August 2017, 4.9% and 4.4 % in August 2016).
- For 2017/18 the District collected earned income taxes of $ 1.97 million vs. $ 1.9 million for 2016/17. For the years prior to 2016/17 total EIT was $ 1.85 for 2015/16, $ 1.81 million for 2014/15, $ 1.78 million for 2013/14, $ 1.70 million for 2012/13, $ 1.71 million for 2011/12, and $ 1.63 million for 2010/11. Collections for 2017/18 were 3.6% over the prior year. The District shares the 1% earned income tax with municipalities with each at 50% of collections.

Figure A-3 Sources of Revenue for Fiscal Year 2017/18

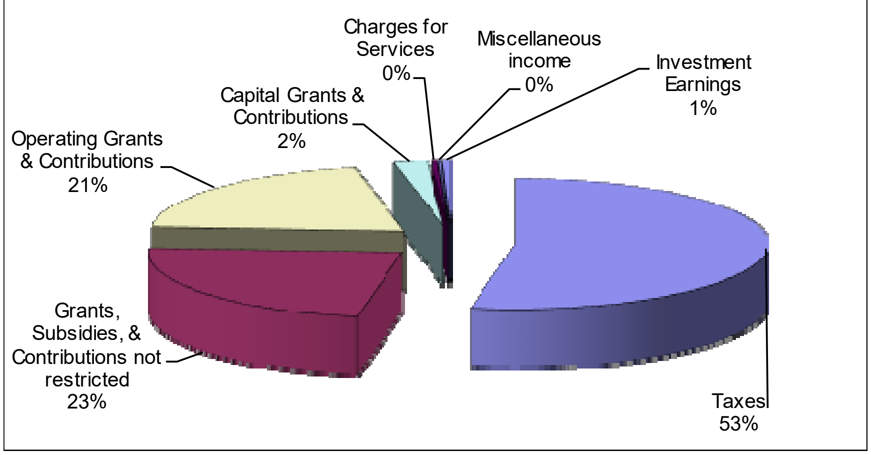

Figure A-4 charts the significant expenses. Instruction, 60.9%, administration & financial support, 10.6%, and instructional student support, 9.4%, are the most significant.

Figure A-4 Expenses for Fiscal Year 2017/18

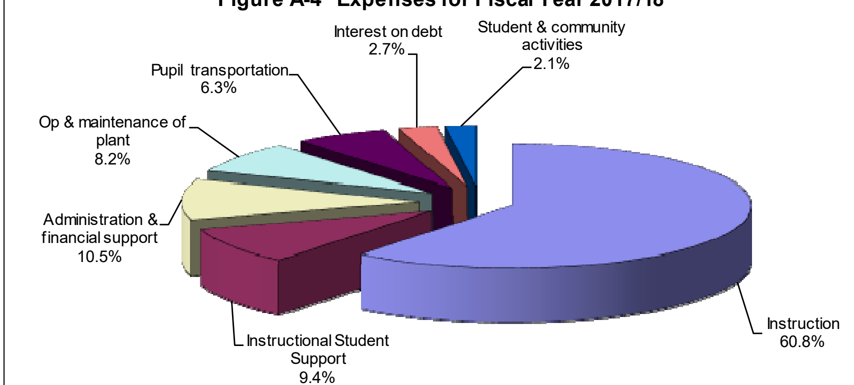

Figure A-5 presents the cost of six major District activities plus one expense category: activities include instruction, pupil and instructional services, administration and financial support, operations and maintenance of plant, pupil transportation, and student and community activities, and the expense category is interest on long-term debt. The table also shows each activity's net cost (total cost less program revenues comprised of fees generated by the activities and intergovernmental aid provided for specific programs). The net cost of services shows the financial burden placed on the District's taxpayers by each of these functions.

Figure A-5
Net Cost of Governmental Activities (in thousands of dollars)

	Total Cost of Services		Program Revenues		Net Cost of Services		Percentage Change
	2017	2018	2017	2018	2017	2018	2017 to 2018
Instruction	$ 22,650.0	$ 22,436.4	$ 5,118.5	$ 5,234.0	$ 17,531.5	$ 17,202.4	-1.9%
Instructional student support	3,505.6	3,475.2	568.2	675.6	2,937.4	2,799.6	-4.7%
Administration & financial support	3,899.4	3,891.1	327.8	345.4	3,571.6	3,545.7	-0.7%
Ops & maintenance of plant	3,105.6	3,012.2	190.3	183.4	2,915.3	2,828.8	-3.0%
Pupil Transportation	2,209.0	2,316.8	1,219.3	1,558.7	989.7	758.1	-23.4%
Interest on long-term debt	1,005.3	1,009.4	772.5	806.8	232.8	202.6	-13.0%
Student & community activities	828.0	773.9	198.3	185.3	629.7	588.6	-6.5%
Totals	$ 37,202.9	$ 36,915.0	$ 8,394.9	$ 8,989.2	$ 28,808.0	$ 27,925.8	-3.1%

Note: totals may not add due to rounding

Program revenues related to instruction expenses include basic and special education subsidies, and federal grants. The total net cost of $ 27.9 million is for the most part offset by general revenues as shown on the statement of activities. These general revenues consist primarily of property and earned income taxes, as well as interest on investments and miscellaneous income.

Business-Type Activity

Revenues of the District's business-type activity (food service operations) decreased to $ 1.34 million in 2017/18 from $ 1.36 million the year before, and expenses remained consistent at $ 1.32 million from year to year. (Refer to Figure A-2) Factors contributing to these results included:

- The food service operation had a positive change in net position of $ 29 thousand. Depreciation expense of $ 32 thousand was recorded, most of which relates to new equipment purchased in the various schools. Cash flows increased $ 52 thousand for the year.
- The food service operation supports the direct costs of the operation such as the food service management contract, wages, benefits, and repairs to equipment. The general fund absorbs the building cost, utilities, and insurance.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

General Fund Highlights

In October 2018 the school board approved the 2017/18 fund balance plan transferring $ 550 thousand to the capital reserve fund, $ 1.65 million to committed fund balance, and $ 180 thousand to assigned fund balance.

For the 2017/18 fiscal year, significant revenue and expenditure variances are noted:

- The general fund had overall revenues that exceeded budget by $ 1.15 million with the most favorable differences being: earned income taxes of $ 177 thousand, real estate transfer taxes of $ 132 thousand, transportation subsidy of $ 337 thousand, investment earnings of $ 112 thousand, and delinquent real estate tax collections of $ 109 thousand. Unfavorable variances include revenues from student activities of $ 13 thousand and revenues from intermediate sources of $ 15 thousand.
- Expenditures came in under budget by $ 1.3 million and are comprised of regular instruction salaries and benefits of $ 501 thousand, regular program supplies of $ 292 thousand, special program purchased services of $ 102 thousand, support staff salaries and benefits of $ 199 thousand, and operations and maintenance salaries and benefits of $ 200 thousand. Significant unfavorable expenditure variances include: operations and maintenance purchased services of $ 139 thousand and transportation of $ 62 thousand.

Capital Fund Highlights: Capital Projects Fund and Capital Reserve Fund

- The capital projects fund was used for the project to bring natural gas to the middle and high schools as part of the Series 2017B general obligation note. A $ 1.2 million principal payment on the Series 2016A note was made after approving a revision to the borrowing resolution. The remaining portion of the St. Thomas Elementary renovation was expended to close out the project. The board authorized expenditures for improvements to the high school entrance, security doors at the elementary schools, and a new sound system in the middle school auditorium from the capital reserve fund. Revenues consisted primarily of investment earnings and expenditures were facility acquisition, construction and improvements and debt service payments.

Proprietary Fund Highlights: Food Service Fund

- The District contracts with a food service management company to provide lunch and breakfast to student daily. The district also operated a summer food program at two school sites for the community. Revenues consist primarily of funds from students for meals, federal subsidies from the National School Lunch and School Breakfast programs, and state subsidies. Expenses consist primarily of food service management company costs, employee salaries and benefits, and equipment repair and maintenance.

Fiduciary Fund Highlights

- The District serves in a fiduciary role for student activity groups in the middle and high school and for scholarship funds. The student activity groups are run by student officers and a faculty advisor. The District received $ 17.1 thousand in donations for scholarship and awarded $ 13.6 thousand, mainly to graduating seniors. The scholarship fund also earned $ 30 thousand in interest income.

Capital Asset and Debt Administration

As of June 30, 2018, the District invested $ 74.3 million, net of $ 26.0 million depreciation, in a broad range of capital assets, including school buildings and infrastructure, athletic facilities, furniture, vehicles, and technology equipment. (See Figure A-6) Net capital assets of $ 48 million represent a reduction of 1.6% from June 30, 2017.

Figure A-6
Capital Assets (net of depreciation, in thousands of dollars)

	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change
	2017	2018	2017	2018	2017	2018	2017 to 2018
Land	$ 1,583.0	$ 1,553.0			$ 1,583.0	$ 1,553.0	-1.9%
Construction in progress	460.4	-			460.4	-	
Buildings	45,524.4	45,665.0			45,524.4	45,665.0	0.3%
Equipment & furniture	886.1	841.8	148.5	171.7	1,034.6	1,013.5	-2.0%
Total	$ 48,453.9	$ 48,059.8	$ 148.5	$ 171.7	$ 48,602.4	$ 48,231.5	-0.8%

Construction completed over the last several years is summarized below:

- An energy performance project to convert much of the middle school and high school HVAC systems from electric to natural gas was completed in 2018. This was financed with the issuance of the Series 2017B note.
- In 2016, an energy performance project at St. Thomas Elementary school included improvements in the HVAC system, new windows, door locks, surge protection, lighting upgrades, and furniture.
- Mercersburg Elementary was renovated in 2011, the high school was renovated in 2010 and the middle school was renovated in 2006. The District is undergoing an enrollment and facility condition study in 2018 to provide assessments on the current condition of the buildings and projected student enrollment in order to make decisions for the future.

Long-Term Debt

- At year-end the District had $ 31.9 million in general obligation bonds and other long-term debt outstanding, a decrease of $ 877 thousand, or 2.8% from last year. (See Figure A-7) More detailed information on the District's long-term debt is presented in Note 9 to the financial statements.

Figure A-7
Outstanding Long-Term Debt

	Total School District		Total Percentage Change
	2017	2018	2017 to 2018
General obligation bonds & notes	$ 32,747,425	$ 31,943,689	-2.5%
Retirement Incentive	146,699	81,913	-44.2%
Compensated absences	913,824	840,475	-8.0%
Total	$ 33,807,948	$ 32,866,077	-2.8%

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of factors that could significantly affect its financial health in the future:

- In November 2015, the District employees switched to a qualified high deductible health plan. As part of the Lincoln Benefit Trust for medical and dental coverage, the District has been able to experience annual increase below the market average increases for medical and prescription costs. In 2017-18, contribution rates increased by 1.5% for medical coverage. The district pays for the majority of the coverage contributions with employees contributing 5%.
- The pension contribution rate set by the state retirement system is forecasted to increase substantially through 2022/23 reaching a peak of 36.32%. (PSERS June 30, 2017 actuarial valuation). Although anticipated in the District's forecast, the rates are based on assumptions about market performance. If market performance lags the assumed rate of return, pension contribution rates could be higher than expected. The gross contribution rate (the district receives one-half of the gross contribution from the state) for 2018/19 is 33.43%, up 2.6% from 2017/18 (32.57%), of qualified gross wages. The contribution rates for the previous several years beginning with 16/17 and working backwards: 30.03% 25.84%, 21.4%, 16.93%, 12.36%, 8.65%, 5.64%, 4.78%, 4.76%, and 7.13%.
- Charter schools and related funding have become more common in the state. According to state law, a Tuscarora resident can send their child to an approved charter school and the District must pay the tuition (regular education rate of $ 10,590 and special education rate of $ 19,805 per year per child for 17/18) to the receiving school. For 2017/18, seventy-six (76) students attended cyber charter schools with total tuition of $ 908 thousand paid to the receiving schools.
- The state legislature and governor passed legislation (Act 1 – Taxpayer Relief Act) in June 2006 that requires districts to seek voter approval if any future proposed budget tax increase (2007/08 and later) exceeds, on a percentage basis over the prior year, the increase in the index beginning with the 2007/08 school year. The index is defined as the average of the statewide average weekly wage and the employment cost index. The adjusted index for 2018/19 is 3.1% vs. 3.3% for 2017/18 (3.1% for 2016/17, 2.5% for 2015/16, 2.7% for 2014/15, 2.2% for 2013/14 and 2012/13). Districts may need to develop two budgets if their initial budget exceeds the index, one that would be necessary to continue the District's programs, and a second that would cut spending to at least meet the index. Gaming revenue of $ 630 thousand was received for 2017/18 and 2016/17 from a state-wide fund to reduce property taxes.
- The District issued Series 2017A note in September 2017. The proceeds were used to refinance the Sun Trust leases related to energy performance contracts from 2004 and 2005. In September 2017, the district also issued the Series 2017B note originally for the solar and natural gas projects. After further review, the solar portion did not meet the criteria of a capital asset under the Debt Act and the $ 1.2 million originally borrowed for the project was used to make a payment on the 2016A note as a result of an amended borrowing resolution.
- The District entered into a 25 year power purchase agreement for solar in which a 2000 kW system will be installed in 2018/19 at Mountain View Elementary and James Buchanan High School. The agreement outlined a $ 1.2 million prepayment of energy with options to purchase the system after 5.5 years. The district will be paying the $ 1.2 million energy prepayment outlined in the solar power purchase agreement from the General Fund.

* The Tuscarora Education Association (teachers) contract was renewed for a three year period beginning August 1, 2018. This contract calls for wage increases that average 2.5% over the three year period.

OTHER FINANCIAL AND OPERATIONAL INFORMATION

The following is information required for bond holders and others that reference documents through the Electronic Municipal Market Access (EMMA) portal on the Municipal Securities Rulemaking Board (MSRB) website.

Budget

The budget for the fiscal year ended June 30, 2018, is accessible through the EMMA portal, in the Pennsylvania state format PDE-2028.

Real Estate Values

As of June 30, 2018, the total taxable assessed value of real estate in Tuscarora School District was $ 159,135,740. The total taxable assessed value by municipality was: Mercersburg Borough $ 13,230,890, Montgomery Township $ 58,636,180, Peters Township $ 37,694,190, St. Thomas Township $ 45,680,960, and Warren Township $ 3,893,520.

The total taxable assessed value was used to calculate the real estate tax bills that were issued August 1, 2018.

Taxes and Millage Rates

The millage rate for the fiscal year 2017/18 was 119.00. This rate is divided by one-thousand and applied to the assessed value for each property to determine the school tax. Franklin County's base year for tax assessments is 1961. For example, a property with an assessed value of $ 25,000 would be multiplied by .119 (119 divided by 1000) to get a school tax amount of $ 2,975. Total estimated school tax of $ 17,433,070 was generated as of July 1, 2017, for the fiscal year 2017/18. Millage for the fiscal year 2018/19 is 122.6, a 3% increase over 2017/18.

Property Tax Collection

This table shows the real estate tax collections for the historical period 2010/11 through 2017/18. Current year collections exclude the penalty paid on late payments or discount received on early payments.

School Year	Assessed Valuation	Mills	Gross Adjusted Levy	Current Collections Amount	Current Year Collections As a Percent
2010-11	$ 149,255,630	107.91	$ 15,475,710	$ 14,708,123	95.04%
2011-12	150,036,500	107.91	15,559,976	14,820,839	95.25%
2012-13	150,764,970	109.91	15,940,649	15,249,596	95.66%
2013-14	151,861,245	110.66	16,175,036	15,398,576	95.20%
2014-15	152,408,361	113.65	16,690,463	16,008,961	95.92%
2015-16	153,170,403	115.15	17,006,403	16,378,643	96.31%
2016-17	155,510,810	116.65	17,509,681	16,796,371	95.93%
2017-18	158,098,080	119.00	18,183,503	17,410,615	95.75%
2018-19	159,377,810	122.60	18,909,497		

Top Ten Real Estate Taxpayers – June 30, 2018

Taxpayer	Assessed Value	
Snow Time Incorporated	$	2,448,640
Stoners'Hijos Hill		739,410
Buchanan Trail Realty Holdings		710,000
Gray Bonnet Corporation		709,550
D L Martin Co & D L Martin Machine		614,390
M & G Realty Incorporated		585,950
Chiou Hog Farm		530,260
Hissong Family General		432,040
Hissong Farmstead Incorporated		410,340
Fischer Homestead		396,030
Total Assessed Value of Ten Largest Taxpayers	$	7,576,610
Total 2018-19 District Assessed Value	$	159,377,810
Percentage of Total District Assessed Value		4.75%

Pupil Enrollment

Grades	Actual at End of Reporting Period 2016/2017	Current Year Actual as of October 2017/2018	Projected Enrollment for Next Fiscal Year 2018/2019
Elementary (K-6)	1,317	1,269	1,291
Secondary (7-12)	1,127	1,088	1,073
Total	2,444	2,357	2,364

Enrollment will has been slightly declining with a 2025-2026 projection by the Pennsylvania Department of Education of 1960. An enrollment projection study is currently being performed by the Pennsylvania Economy League.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the district's citizens, taxpayers, customers, investors and creditors with a general overview of the district's finances and to demonstrate the district's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office at the Tuscarora School District, 100 West Seminary Street, Mercersburg, PA 17236, or call at (717) 328-3127.

TUSCARORA SCHOOL DISTRICT
Statement of Net Position
June 30, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	$ 7,717,824	$ 256,093	$ 7,973,917
Investments	6,615,000	-	6,615,000
Receivables:			
Taxes	1,064,871	-	1,064,871
Intergovernmental	1,548,109	5,230	1,553,339
Internal balances	(2,577)	2,577	-
Other	73,354	-	73,354
Prepaid expenses	381,757	-	381,757
Inventories	40,105	52,109	92,214
Total current assets	17,438,443	316,009	17,754,452
Noncurrent Assets			
Prepaid bond insurance	11,014	-	11,014
Capital assets net of accumulated depreciation			
Land and improvements	1,553,007	-	1,553,007
Buildings and improvements	45,665,189	-	45,665,189
Furniture, fixtures and equipment	841,782	171,670	1,013,452
Total noncurrent assets	48,070,992	171,670	48,242,662
TOTAL ASSETS	65,509,435	487,679	65,997,114
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pension liability	9,327,853	29,353	9,357,206
Deferred outflows related to OPEB liability	334,941	1,184	336,125
Deferred charge on bond refunding	956,078	-	956,078
Total deferred outflows of resources	10,618,872	30,537	10,649,409
Total Assets and Deferred Outflows of Resources	$ 76,128,307	$ 518,216	$ 76,646,523
LIABILITIES			
Current liabilities			
Accounts payable	$ 104,162	$ 31,317	$ 135,479
Accrued salaries and benefits/withholdings	3,184,222	-	3,184,222
Accrued interest	203,860	-	203,860
Portion due or payable within one year:			
General obligation bonds and notes payable	2,648,206	-	2,648,206
Compensated absences	264,013	-	264,013
Retirement incentive	81,913	-	81,913
Total current liabilities	6,486,376	31,317	6,517,693
Noncurrent liabilities			
Portion due or payable after one year:			
General obligation bonds and notes payable	29,295,483	-	29,295,483
Compensated absences	576,462	-	576,462
Net pension liability	54,303,958	122,065	54,426,023
OPEB liability	4,236,623	13,595	4,250,218
Total noncurrent liabilities	88,412,526	135,660	88,548,186
TOTAL LIABILITIES	94,898,902	166,977	95,065,879
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension liability	975,861	5,841	981,702
Deferred inflows related to OPEB liability	107,404	241	107,645
Total deferred outflows of resources	1,083,265	6,082	1,089,347
NET POSITION			
Net investment in capital assets	17,147,144	171,670	17,318,814
Restricted	6,020,930	-	6,020,930
Unrestricted	(43,021,934)	173,487	(42,848,447)
TOTAL NET POSITION	(19,853,860)	345,157	(19,508,703)
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 76,128,307	$ 518,216	$ 76,646,523

TUSCARORA SCHOOL DISTRICT
Statement of Activities
Year Ended June 30, 2018

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
Instruction	$ 22,436,361	$ 53,698	$ 5,180,290	$ -	$ (17,202,373)	$ -	$ (17,202,373)
Instructional student support	3,475,185	-	675,583	-	(2,799,602)	-	(2,799,602)
Administration and financial support services	3,891,054	-	345,360	-	(3,545,694)	-	(3,545,694)
Operation and maintenance of plant services	3,012,266	-	175,312	8,082	(2,828,872)	-	(2,828,872)
Pupil transportation	2,316,823	-	1,558,675	-	(758,148)	-	(758,148)
Student activities	690,771	93,328	66,506	-	(530,937)	-	(530,937)
Community services	83,170	-	25,495	-	(57,675)	-	(57,675)
Interest and other fiscal charges on long-term debt	1,009,391	-	-	806,865	(202,526)	-	(202,526)
Total governmental activities	36,915,021	147,026	8,027,221	814,947	(27,925,827)	-	(27,925,827)
Business-type activities:							
Food services	1,315,785	580,028	761,154	-	-	25,397	25,397
Total primary government	$ 38,230,806	$ 727,054	$ 8,788,375	$ 814,947	(27,925,827)	25,397	(27,900,430)
General revenues and transfers:							
Property taxes, levied for general purposes, public utility realty tax, earned income tax, real estate transfer tax					20,437,477	-	20,437,477
Grants, subsidies and contributions not restricted					8,993,292	-	8,993,292
Miscellaneous income (loss)					65,832	2,975	68,807
Investment earnings					203,253	452	203,705
Total general revenues and transfers					29,699,854	3,427	29,703,281
Change in net position					1,774,027	28,824	1,802,851
Net position - beginning, as restated					(21,627,887)	316,333	(21,311,554)
Net position - ending					$ (19,853,860)	$ 345,157	$ (19,508,703)

TUSCARORA SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2018

	General Fund	Capital Reserve Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 2,077,149	$ 5,551,219	$ 89,456	$ 7,717,824
Investments	6,615,000	-	-	6,615,000
Taxes receivable, net	1,064,871	-	-	1,064,871
Due from other funds	-	550,000	-	550,000
Due from other governments	1,548,109	-	-	1,548,109
Other receivables	73,354	-	-	73,354
Prepaid expenditures	381,757	-	-	381,757
Inventories	40,105	-	-	40,105
Total assets	$ 11,800,345	$ 6,101,219	$ 89,456	$ 17,991,020
LIABILITIES				
Accounts payable	$ 101,406	$ 2,756	$ -	$ 104,162
Due to other funds	552,577	-	-	552,577
Retirement incentive	81,913	-	-	81,913
Accrued salaries and benefits/withholdings	3,184,222	-	-	3,184,222
Total liabilities	3,920,118	2,756	-	3,922,874
DEFERRED INFLOWS OF RESOURCES				
Unavailable tax revenue	553,469	-	-	553,469
Total deferred inflows of resources	553,469	-	-	553,469
FUND BALANCES				
Nonspendable				
Prepaid expenditures	381,757	-	-	381,757
Inventories	40,105	-	-	40,105
Restricted				
Future capital improvements	-	6,098,463	89,456	6,187,919
Committed				
Future retirement contributions	1,196,064	-	-	1,196,064
Future utility cost	250,000	-	-	250,000
Future student #8638 costs	34,450	-	-	34,450
Future expenditures related to redistricting	650,000	-	-	650,000
Future purchase of laptops	50,000	-	-	50,000
Future purchase of software	275,000			275,000
Future buyout of solar system	650,000	-	-	650,000
Future tax increase reduction	800,000	-	-	800,000
Future district vehicle replacement	75,000	-	-	75,000
Assigned				
Future capital purchases	55,000	-	-	55,000
Future purchase of software	125,000	-	-	125,000
Unassigned	2,744,382	-	-	2,744,382
Total fund balances	7,326,758	6,098,463	89,456	13,514,677
Total liabilities, deferred inflows of resources, and fund balances	$ 11,800,345	$ 6,101,219	$ 89,456	$ 17,991,020

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

June 30, 2018

Total fund balances - governmental funds		$ 13,514,677
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.		
Cost of assets	73,832,176	
Accumulated depreciation	(25,772,198)	48,059,978
Certain receivables are not available to pay current period expenditures and therefore are not reported in the fund financial statements, but are reported in governmental activities of the Statement of Net Position.		553,469
Deferred charges on bond refundings are reported as a deferred outflow of resources in the Statement of Net Position.		956,078
Prepaid bond insurance is expensed in governmental funds when the debt is first issued. The Statement of Net Position reports prepaid bond insurance as an asset.		11,014
Long-term liabilities are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Position. Long-term liabilities and related deferred inflows and outflows of resources consist of:		
Bonds and notes payable, net of discount and premium	(31,943,689)	
Accrued interest on bonds	(203,860)	
Compensated absences	(840,475)	
OPEB liability	(4,236,623)	
Net pension liability	(54,303,958)	
Deferred outflows related to pension liability	9,327,853	
Deferred inflows related to pension liability	(975,861)	
Deferred outflows related to OPEB liability	334,941	
Deferred inflows related to OPEB liability	(107,404)	(82,949,076)
Net position of governmental activities in the Statement of Net Position		$ (19,853,860)

TUSCARORA SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds
Year Ended June 30, 2018

	General Fund	Capital Reserve Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Local revenues				
Taxes	$ 20,469,600	$ -	$ -	$ 20,469,600
Investment earnings	134,547	56,681	12,025	203,253
Revenue from intermediate sources	352,423	-	-	352,423
Other	242,575	-	2,568	245,143
State sources	16,923,756	-	-	16,923,756
Federal sources	518,914	-	-	518,914
Total revenues	38,641,815	56,681	14,593	38,713,089
EXPENDITURES				
Instruction	20,045,458	-	-	20,045,458
Support services	11,862,971	-	-	11,862,971
Operation of noninstructional services	742,105	-	-	742,105
Facilities acquisition, construction and improvements	-	119,110	1,223,130	1,342,240
Debt service	3,313,557	-	-	3,313,557
Total expenditures	35,964,091	119,110	1,223,130	37,306,331
OTHER FINANCING SOURCES (USES)				
Issuance of long term financing	1,525,000	-	2,925,000	4,450,000
Payment to refund debt	(1,611,600)	-	(1,202,670)	(2,814,270)
Interfund transfers	(550,000)	550,000	-	-
Total other financing sources and uses	(636,600)	550,000	1,722,330	1,635,730
Net change in fund balances	2,041,124	487,571	513,793	3,042,488
Fund balances - beginning, as restated	5,285,634	5,610,892	(424,337)	10,472,189
Fund balances - ending	$ 7,326,758	$ 6,098,463	$ 89,456	$ 13,514,677

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Year Ended June 30, 2018

Net change in fund balances - total governmental funds		$ 3,042,488
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report capital outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays differed from depreciation expense in the current period.		
Depreciation expense	(1,790,219)	
Capital outlays	1,418,502	(371,717)
In the statement of activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase other financing sources. Thus, the change in net position differs from the changes in the fund balance by the net cost of the capital assets sold.		(10,987)
Governmental funds do not present certain revenues unless they are "available" to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. Because certain taxes will not be collected for several months after the District's year end, they are not considered as "available" revenues in the governmental funds. Unavailable tax revenues changed by this amount this year.		(32,123)
The issuance of general obligation notes provides current financial resources to governmental funds, but has no effect on net position. Likewise, the payment to refund bonds uses current financial resources, but also has no effect on net position. Governmental funds report prepaid bond issuance, bond discounts, and other similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		
Series of 2017 A		
Issuance of general obligation note	(1,525,000)	
Payment for lease redemption	1,419,003	(105,997)
Series of 2017 B		
Issuance of general obligation note	(2,925,000)	
Payment for lease redemption	1,200,000	(1,725,000)
Governmental funds report repayment of principal on bonds and notes as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. Also, governmental funds report the effect of premium, discount, and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities:		
Repayment of long term obligations - principal		2,626,527
Amortization of bond premium, discounts and prepaid bond insurance		(127,934)
Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds. This is the difference between the amount incurred and the amount paid of:		
Accrued interest		840
Compensated absences		53,422
Net pension liability and related deferred outflows and inflows		(1,563,723)
OPEB liability and related deferred outflows and inflows		(21,354)
Incurred But Not Reported (IBNR) claims		9,585
Change in net position of governmental activities		$ 1,774,027

TUSCARORA SCHOOL DISTRICT
Statement of Net Position - Proprietary Fund
June 30, 2018

	Food Service
ASSETS	
Current Assets	
Cash and cash equivalents	$ 256,093
Intergovernmental receivables	5,230
Due from other funds	2,577
Inventory	52,109
Total current assets	316,009
Noncurrent Assets	
Furniture and equipment	444,310
Accumulated depreciation	(272,640)
Total noncurrent assets	171,670
Total assets	487,679
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pension liability	29,353
Deferred outflows related to OPEB liability	1,184
Total deferred outflows of resources	30,537
Total assets and deferred outflows of resources	$ 518,216
LIABILITIES	
Current Liabilities	
Accounts payable	$ 31,317
Total current liabilities	31,317
Noncurrent Liabilities	
Net pension liability	122,065
OPEB liability	13,595
Total noncurrent liabilities	135,660
Total liabilities	166,977
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pension liability	5,841
Deferred inflows related to OPEB liability	241
Total deferred inflows of resources	6,082
NET POSITION	
Net investment in capital assets	171,670
Unrestricted	173,487
Total net position	345,157
Total liabilities, deferred inflows of resources and net position	$ 518,216

TUSCARORA SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund
Year Ended June 30, 2018

	Food Service
OPERATING REVENUES	
Food service revenues	$ 580,028
Total operating revenues	580,028
OPERATING EXPENSES	
Purchased services	1,078,886
Food and milk purchases	102,478
Salaries	27,988
Employee benefits	30,057
Supplies	7,888
Depreciation	31,855
Repairs and maintenance	17,558
Traveling and training	3,704
Trash removal	10,000
Other operating expense	5,371
Total operating expenses	1,315,785
Operating (loss)	(735,757)
NON-OPERATING REVENUES	
Federal subsidies	713,150
State subsidies	48,004
Interest income	452
Gain on sale of capital assets	2,975
Total non-operating revenue	764,581
Change in net position	28,824
Net position - beginning, as restated	316,333
Net position - ending	$ 345,157

TUSCARORA SCHOOL DISTRICT
Statement of Cash Flows - Proprietary Fund
Year Ended June 30, 2018

	Food Service
Cash flows from operating activities:	
Cash received from food sales	$ 580,609
Cash payments to and on behalf of employees	(73,860)
Cash payments for goods and services	(1,139,233)
Net cash (used) by operating activities	(632,484)
Cash flows from capital financing activities:	
Proceeds from the sale of capital assets	2,975
Purchase of equipment	(60,117)
Net cash (used) by capital activities	(57,142)
Cash flows from noncapital financing activities:	
Federal subsidies	688,333
State subsidies	53,499
Net cash provided by noncapital financing activities	741,832
Cash flows from investing activities:	
Earnings on investments	452
Net increase in cash and cash equivalents	52,658
Cash and cash equivalents - beginning	203,435
Cash and cash equivalents - ending	$ 256,093
Reconciliation of income (loss) from operations to net cash (used) by operating activities:	
Operating (loss)	$ (735,757)
Adjustments to reconcile operating (loss) to net cash provided (used) by operating activities:	
Donated food used	102,478
Depreciation	31,855
(Increase) decrease in:	
Inventory	(3,378)
Accounts receivable	581
Interfund receivable	1,163
Increase (decrease) in:	
Compensated absences	(19,927)
Net pension liability and related items	3,975
Other post-employment benefit liability and related items	137
Accounts payable	(13,611)
Total adjustments	103,273
Net cash (used) by operating activities	$ (632,484)

TUSCARORA SCHOOL DISTRICT
Statement of Fiduciary Net Position
June 30, 2018

	Agency Funds	Private Purpose Trust Funds
ASSETS		
Cash and cash equivalents	$ 91,753	$ 2,272,707
Total assets	$ 91,753	$ 2,272,707
LIABILITIES		
Due to student groups	$ 91,753	$ -
Total liabilities	91,753	-
NET POSITION		
Held in trust for scholarships	-	2,272,707
Total net position	-	2,272,707
Total liabilities and net position	$ 91,753	$ 2,272,707

	Private Purpose Trust Funds
ADDITIONS	
Donations	$ 17,181
Interest income	30,021
Total additions	47,202
DEDUCTIONS	
Scholarships and awards/grants	13,664
Total deductions	13,664
Change in net position	33,538
Net position - beginning	2,239,169
Net position - ending	$ 2,272,707

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Reporting Entity

Tuscarora School District (School District) operates a public school system which is comprised of the Borough of Mercersburg and Townships of Peters, Montgomery, Warren, and St. Thomas in Franklin County, Pennsylvania.

The School District consists of James Buchanan High School and Middle School; Mercersburg, Montgomery, Mountain View, and St. Thomas Elementary Schools; as well as the School District Administration Office.

The financial statements of the School District have been prepared in conformity with 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.

Reporting Entity

The financial statements of the School District include all funds, functions, and activities to which the Board of Directors has oversight responsibility. The financial statements presented do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from Tuscarora School District.

Governmental Accounting Standards Board (GASB) statements define the criteria used to determine the composition of the reporting entity. These standards require the reporting entity to include (1) the primary government, (2) organizations for which the primary government is financially accountable, (3) organizations that are fiscally dependent on the primary government and a financial benefit or burden exists, and (4) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Based on the above criteria, the School District is not included in any other governmental reporting entity and there are no component units of the School District.

Joint Ventures

The following joint ventures are not component units of Tuscarora School District and are not included in this report.

Franklin County Career and Technology Center - is a separate legal entity organized by five local school districts to provide services in Franklin County. Each of the participating school districts appoints members to serve on the joint operating committee, and each has an ongoing financial responsibility to fund the Center's operations.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Joint Ventures (Continued)

Franklin Learning Center - is a separate entity organized by four local school districts to provide special education services in Franklin County. Each of the participating school districts appoints members to serve on the joint operating committee, and each has an ongoing financial responsibility to fund the Center's operations.

Lincoln Intermediate Unit #12 - is a separate legal entity organized by constituent school districts in York, Adams, and Franklin counties to provide services to the school districts. Each member school district appoints members to serve on the Board of Directors of the Intermediate Unit. The School District contracts with the Intermediate Unit primarily for special education services and training. During the year ended June 30, 2018, the School District paid $ 670,410 to the Lincoln Intermediate Unit #12.

Complete financial statements for each of the entities previously described can be obtained from each respective administrative office.

Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental, proprietary, and fiduciary.

1. Governmental Funds

Governmental Funds are those through which most governmental functions of the School District are financed. The measurement focus is on the flow of expendable resources, rather than on net earnings determination.

The School District reports the following major governmental funds:

a. General Fund

The General Fund is used to account for all financial transactions not accounted for in another fund. Revenues are primarily derived from local property and earned income taxes, and state and federal subsidies. Many of the more important activities of the School District, including instruction, administration, and certain noninstructional services are accounted for in this fund. This is a budgeted fund, and any unassigned fund balances are considered as resources available for use.

b. Capital Reserve Fund

This fund is authorized under Section 2932 and is authorized by Pennsylvania Law 145, Act of April 30, 1943, known as Section 2932. School Laws of Pennsylvania and accounts for (1) monies transferred during any fiscal year from appropriations made for any particular purpose which may not be needed, and (2) surplus monies in the General Fund of the School District at the end of any fiscal year.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting (Continued)

Additionally, the School District reports the following non-major governmental funds:

c. Capital Projects Fund

Capital Projects funds are used to account for financial resources to be used for the acquisitions or construction of major capital facilities.

2. Proprietary Fund

Proprietary Funds are used to account for the School District's ongoing activities which are similar to those often found in the private sector. The focus of proprietary funds is on the determination of net earnings and capital maintenance. The following fund is utilized:

a. Food Service Fund – Enterprise Fund – Major Fund

This fund accounts for all revenues and expenses pertaining to cafeteria operations as authorized under Section 504 of the Public School Code of 1949. It is the intent of the governing body that the cost of providing food, goods or services to the students on a continuing basis be financed or recovered primarily through user charges or cost reimbursement plans.

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 therefore not available to support the School District’s own programs. The School District’s only trust fund is a private purpose trust which accounts for a scholarship program for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Student activity funds are classified as Agency Funds.

Basis of Presentation

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. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund 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 statements for governmental funds.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function or program of the School District's governmental activities. 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 business segment or governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements - Fund financial statements report detailed information about the School District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds (if applicable) are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds are reported using the economic resources measurement focus.

Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources) are used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased net position. Depreciation is charged as expense against current operations and accumulated depreciation is reported on the statement of net position.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Revenue from federal, state, and other grants designated for payment of specific School District expenditures is recognized when the related expenditures are incurred and the related revenue is available, which is generally 60 days; accordingly, when such funds are received, they are recorded as a liability until earned. If time eligibility requirements are not met, a deferred inflow of resources would be recorded. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing food services, including charges for meals and the costs of food, salaries and benefits, depreciation, and other expenses, Federal and State subsidies are considered non-operating revenues as no exchange transaction occurs.

Cash, Cash Equivalents, and Investments

Cash and cash equivalents include all demand deposits, petty cash, savings, money market accounts, and certificates of deposit with original maturities of three months or less. Investments include certificates of deposit with original maturities greater than three months. Investments are stated at market value. Accrued interest is included with other receivables on the balance sheet and statement of net position.

The School District invests in funds with the Pennsylvania School District Liquid Asset Fund (PSDLAF) and the Pennsylvania Local Government Investments Trust (PGLIT). PSDLAF and PLGIT operate and are authorized under the Intergovernmental Cooperation Act of 1972. Investments in these funds have daily liquidity and are valued at amortized cost which equals market value.

These funds invest in federal securities backed by the full faith and credit of the United States Government, in agencies, instrumentalities and subdivisions of the Commonwealth of Pennsylvania and backed by the full faith and credit of the Commonwealth, and certificates of deposit which are insured by the Federal Insurance Corporation or which are collateralized as provided by law of Act 72 of 1971.

Statement of Cash Flows

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventory in the Food Service Fund consists of expendable supplies and food (valued at cost) held for consumption. Government-donated commodities are valued at estimated fair market value. The expendable supplies are recorded as an expenditure when used. The cost of governmental fund inventories are recorded as expenditures when purchased in the fund financial statements and the asset (valued at cost) at June 30 is offset by nonspendable fund balance. Governmental fund supplies inventories are capitalized at cost and expensed as used on the government-wide financial statements.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at acquisition value as of the date received. The School District maintains a capitalization threshold of $ 1,500. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed. Interest incurred during the construction of capital assets is not capitalized unless it is incurred in the proprietary fund.

All reported capital assets are depreciated except for land and construction in process. 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:

	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Land improvements	20 years	N/A
Buildings and improvements	10 - 40 years	N/A
Furniture and equipment	5 - 20 years	12 years
Vehicles	7 - 15 years	N/A

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The School District has several items that qualify for reporting in this category, including the deferred charge on bond refunding and various amounts related to pension and OPEB liabilities. These amounts will be amortized in future periods.

In addition to liabilities, the statement of financial position and balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School's deferred inflows of resources consist of various amounts related to pension and OPEB liabilities (on the statement of net position) and unavailable tax revenue (on the balance sheet – governmental funds).

Interfund Activity/Internal Balances

Advances between funds are accounted for in the appropriate interfund receivable and payable accounts. Advances between funds which are not expected to be repaid are accounted for as transfers. Interfund balances and transactions are eliminated in the government-wide financial statements.

Exchange transactions, if any, between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

Budgets and Budgetary Accounting

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

The Pennsylvania School Code dictates specific procedures relative to adoption of the School District's budget and reporting of its financial statements, specifically:

1. The School District, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year.

2. The Board of School Directors may make transfers of funds appropriated to any particular item of expenditure by legislative action. An affirmative vote of two-thirds of all members of the Board is required. The final budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting (Continued)

3. Fund balances in budgetary funds may be appropriated based on resolutions passed by the Board of Directors, which authorize the School District to make expenditures. Appropriations lapse at the end of the fiscal period.

4. Supplemental budget appropriations to the General Fund budget are the result of program budgets as prescribed by the state and federal agencies funding the programs. These budgets are approved on a program-by-program basis by the state or federal funding agency, and frequently result in supplementary budget appropriations.

Capital budgets are not implemented for capital improvements and capital projects in the Capital Reserve Fund. All transactions of the Capital Reserve Fund are approved by the Board prior to commitment, thereby constructively achieving budgetary control.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, and the disclosure of those items, if any, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Long-Term Obligations

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

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 and original issue discounts or premiums are reported as other financing sources or uses. Issuance costs and underwriter's discount, whether or not withheld from the actual debt proceeds received, are reported as support service expenditures.

Other Postemployment Benefits Other Than Pensions

GASB establishes standards for the measurement, recognition, and display of other postemployment benefit expenditures and related liabilities, note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The School District's other postemployment benefits are accounted for in accordance with these standards.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Postemployment Benefits Other Than Pensions (Continued)

PSERS

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the PSERS 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.

Retirement Plans

The School District contributes to the Public School Employees Retirement System (PSERS), a cost-sharing multiple-employer defined benefit pension plan. The School District accounts for the plan under the provisions of GASB Standards, which establish standards for the measurement, recognition, and display of pension expense and related liabilities, assets, and note disclosures.

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

Compensated Absences

Liability for compensated absences is accounted for in accordance with the provisions of the GASB, which requires entities to accrue for employees' rights to receive compensation for vacation leave, or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable.

The estimate of the liability for the accumulated unpaid sick leave has been calculated using the vesting method. Under that method, the School District has identified the accrued sick leave benefit earned to date by each employee, determined the cost of that benefit by reference to the benefit provisions and the current rates paid by the School District, and estimated the probability of the payment of that benefit to employees upon retirement.

Liabilities for vested, unused vacation, sick pay, and personal leave are recorded in the proprietary funds and the government-wide financial statements and are expensed as incurred.

Payments for vacation, sick pay, and personal leave are expensed as paid in the governmental fund financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position – Government-Wide/Proprietary Funds

In the government-wide financial statements and proprietary fund financial statements, net position is classified in the following categories:

Net Investment in Capital Assets: This component consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those capital assets. If there are significant unspent related debt proceeds at year-end, the portion of debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of debt is included in the same net position component as the unspent proceeds. Deferred outflows of resources and deferred inflows of resources attributable to acquisition, construction, or improvement of assets or related debt also should be included in this component of net position.

Restricted Net Position: This component of net position consists of restricted assets and deferred outflows of resources reduced by liabilities and deferred inflows of resources related to those assets. These restrictions could include constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provision or enabling legislation.

Restricted net position as of June 30, 2018 consists of $ 6,020,930 for future capital improvements.

Unrestricted Net Position: This component of net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School District's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance – Governmental Funds

Governmental funds classify fund balance based on the relative strength of the spending constraints placed on the purpose for which resources can be used. The classifications are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact. This classification includes items such as prepaid amounts, inventories, and long-term amount of loans and notes receivable. This also includes the corpus (or principal) of permanent funds.

Restricted: This classification includes amounts where the constraints placed on the use of resources are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, change or mandate payment and includes a legally enforceable requirement on the use of these funds.

Committed: This classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the School District's highest level of decision-making authority. This formal action is in the form of a resolution which is made by the School Board. Once an amount is committed, it cannot be used for any other purpose unless changed by the same type of formal action used to initially constrain the funds.

Assigned: This classification includes spendable amounts that are reported in governmental funds other than in the General Fund, that are neither restricted nor committed, and amounts in the General Fund that are intended to be used for a specific purpose. The intent of an assigned fund balance should be expressed by either the School Board, or a subordinate high-level body, such as the finance committee, superintendent, or business manager that is authorized to assign amounts to be used for specific purposes. As detailed in its Fund Balance Policy, the School Board or the business manager has the authority to make assignments of fund balance. Thus, these assignments would be made or changed by formal action of the Board. The assignment of fund balance cannot result in a negative unassigned fund balance.

Unassigned: This classification represents the portion of a spendable fund balance that has not been categorized as restricted, committed, or assigned. The general fund is the only fund which would include a positive unassigned fund balance as all other fund types must categorize amounts within the other classifications. A negative unassigned fund balance may occur in any fund when there is an over expenditure of restricted or committed fund balance. In this case, any assigned fund balance (and assigned fund balance in the general fund) would be eliminated prior to reporting a negative unassigned fund balance.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Minimum Fund Balance Policy

The School District will strive to maintain an unassigned fund balance level in the general fund of between 4% and 8% of budgeted expenditures for that fiscal year. If the unassigned portion of fund balance falls below the 4% threshold, the School District will pursue variations of increasing revenues and decreasing expenditures or a combination of both until a level of 6% is attained.

If the assigned and unassigned portion of fund balance exceeds 8% of budgeted expenditures, the School District may utilize a portion of fund balance by appropriating excess funds for nonrecurring expenditures.

Policy Regarding Order of Spending

When fund balance resources are available for a specific purpose in multiple classifications, the School District's policy is to use restricted resources first and then apply unrestricted resources in the following order: unassigned, assigned and committed. This order of spending may be altered per board approval.

NOTE 2 CASH AND INVESTMENTS

Section 440.1 of the Pennsylvania School Code and Act 10 of 2016 define allowable investments for school districts, which are summarized as follows:

- U.S. Treasury Bills.
- Short-term obligations of the U.S. Government and Federal agencies.
- Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund 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.
- Obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the respective governmental entity.
- Shares of an investment company restricted under the Investment Company Act of 1940.
- Obligations, participations or other instruments of any Federal agency, instrumentality, or United States government-sponsored enterprise if the debt obligations are rated at least "A" or its equivalent.
- Commercial paper issued by corporations or other business entities organized in accordance with federal or state law, with a maturity not to exceed 270 days.
- Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances, if the bankers' acceptances do not exceed 180 days maturity.
- Negotiable certificates of deposit or other evidences of deposit, with a remaining maturity of three years or less.

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2018, the School District has a bank balance of $ 10,492,452 (including long-term certificates of deposit of $ 6,615,000, which are classified as investments in the financial statements). Of this balance, $ 7,865,000 is covered by FDIC insurance and the remaining balance of $ 2,627,452 was exposed to custodial credit risk because the collateral securities held by the bank's agents are not in the School District's name.

Pennsylvania Act 72 of 1971, as amended, is an act standardizing the procedures for pledges of assets to secure deposits of public funds with banking institutions pursuant to other laws; establishing a standard rule for the types, amounts and valuations of assets eligible to be used as collateral for deposits of public funds; permitting assets to be pledged against deposits on a pooled basis and authorizing the appointment of custodians to act as the pledger of the assets. Based on the standards outlined in Act 72, the various banks utilized by the School District have pledged collateral on a pooled basis on behalf of the School District and all other governmental depositors in the respective financial institutions.

Credit Risk - Investments

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

	Carrying Value	Standard and Poor's Credit Quality Rating
PA School District Liquid Asset Fund	$ 34,525	AAAm
PA Local Government Investment Trust I Class	6,898,399	AAAm
	$ 6,932,924	

Included in cash and cash equivalents are pooled investments in the Pennsylvania School District Liquid Asset Fund (PSDLAF-MAX) of $ 34,525. The PSDLAF-MAX is essentially a mutual fund that consists of short-term money market instruments and seeks to maintain a constant net asset value of $ 1 per share. PSDLAF-MAX deposits are invested by PSDLAF directly in portfolios of securities held by a third-party custodian and are collateralized with securities held by the PSDLAF agent in a collateral pool.

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Credit Risk – Investments (Continued)

Included in cash and cash equivalents on the statement of net position are investments in Pennsylvania Local Government Investment Trust (PLGIT). PLGIT operates like a money market and seeks to maintain a stable net asset value of $ 1 per share. At June 30, 2018, the School District held $ 6,898,399 in the PLGIT-Class portfolio. PLGIT portfolio funds are invested in United States Treasury bills; obligations, participations, or other instruments of any Federal agency, instrumentality or United States government-sponsored enterprise; deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund; obligations guaranteed or insured by the United States of America, obligations of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the Commonwealth; and repurchase agreements involving United States Government and agency obligations.

Included in investments on the statement of net position and balance sheet-governmental funds are CD's totaling $ 6,615,000 invested through the PLGIT-CD purchase program, all of which have maturities greater than 3 months and are included in deposits for purposes of this disclosure. The PLGIT-CD purchase program allows participants to directly purchase eligible CD's from various banks or other institutions, with the following guidelines; the bank or other institutions must be a member of FDIC or NCUA, has total assets of at least $ 50 million, has total Tier 1 capital of at least 6%, and has not been subject of any major capital related enforcement actions in the past 12 months. These CD's are fully covered by FDIC insurance.

Investments in PSDLAF and PLGIT are subject to income, market and credit risk related to the potential for decline in current income, the potential for a decline in market value and the potential that an issuer of securities held in the investment portfolios of the fund would fail to make timely payments of principal and interest payments, respectively.

The School District does not have a formal written investment policy that limits its investment choices to certain credit ratings.

Policies Followed at PSDLAF

Regulatory Oversight

The operation of PSDLAF is governed by an eleven member Board of Trustees, nine of whom are elected and two of whom serve ex officio. The Trustees have full, exclusive, and absolute control and authority over the business of the Fund and its assets, subject to rights of the Settlors, as provided in the Declaration of Trust.

PSDLAF is not registered with the Securities and Exchange Commission (SEC); however, PSDLAF follows investment procedures similar to those followed by SEC registered money market funds.

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Policies Followed at PSDLAF (Continued)

Valuation of Investments

In accordance with Government Accounting Standards Board, portfolio securities are valued at amortized cost, which approximates market value. The amortized cost method involves valuing a security at its cost on the date of purchase and recording a constant amortization or accretion to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of the investment.

The School District has no limitations or restrictions on withdrawals on accounts held at PSDLAF.

Policies Followed at PLGIT

Regulatory Oversight

The operation of PLGIT is governed by an eleven member Board of Trustees. The Trustees must be employees or elected officials of a local government or school district and are elected at the annual meeting of investors. The Trustees have exclusive and absolute control over the affairs of the Trust and its' assets, subject to rights of the Investors, as provided in the Declaration of Trust.

PLGIT is not registered with the Securities and Exchange Commission (SEC); however, PLGIT follows investment procedures similar to those followed by SEC registered money market funds.

Valuation of Investments

Portfolios are valued using the net asset value per share. The net asset value per share is computed by dividing the total value of the securities and other assets of the portfolio less liabilities, by the outstanding shares of the portfolio.

The School District has no limitations or restrictions on withdrawals on accounts held at PLGIT.

NOTE 3 TAXES

The School District collects property taxes, earned income taxes, and other taxes and fees primarily from taxpayers located in the Borough of Mercersburg and Townships of Peters, Montgomery, Warren, and St. Thomas in Franklin County, Pennsylvania.

Real estate taxes are considered fully collectible since liens can be filed on properties.

Property taxes are levied as of July 1 on assessed property values. The tax bills are mailed by the Tax Collectors on August 1 and are payable as follows:

Discount	August 1 - September 30
Face	October 1 – November 30
Penalty	December 1 – December 31

After January 15, the bills are considered delinquent and turned over to the Franklin County Tax Claim Bureau for collection.

NOTE 4 TAXES RECEIVABLE AND DEFERRED INFLOWS OF RESOURCES

Taxes receivable and related deferred inflows of resources in the fund financial statements consist of the following as of June 30, 2018:

Real estate	$ 663,761
Earned income	401,110
Taxes receivable, net	1,064,871
Taxes collected within sixty days, recorded as revenues in governmental funds	(511,402)
Taxes estimated to be collected after sixty days, recorded as deferred inflows of resources - unavailable tax revenue in governmental funds	$ 553,469

NOTE 5 INTERFUND RECEIVABLE AND PAYABLES AND TRANSFERS

Net interfund receivables/payables consist of the following at June 30, 2018:

Funds	Due from Other Funds	Due to Other Funds
General	$ -	$ 552,577
Capital Reserve	550,000	-
Food Service	2,577	-
	$ 552,577	$ 552,577

The General Fund owes the Food Service Fund for reimbursements related to services provided by the Food Service Fund that were not paid back as of June 30, 2018. The General Fund owes the Capital Reserve Fund for a transfer authorized after year-end.

Interfund transfers were as follows for the year ended June 30, 2018:

Funds	Transfer In	Transfer Out
General	$ -	$ 550,000
Capital Reserve	550,000	-
	$ 550,000	$ 550,000

For the year ended June 30, 2018, transfers from the General Fund to the Capital Reserve Fund were made to fund future capital purchases.

NOTE 6 INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2018 consist of the following:

		General Fund	Food Service Fund
Local:	Deed transfer	$ 31,504	$ -
	Tuition receivable	81,521	-
State:	Social security	206,048	-
	Retirement	893,497	-
	Transportation	290,460	
Federal:	Various programs	45,079	5,230
		$ 1,548,109	$ 5,230

NOTE 7 CAPITAL ASSETS

Capital asset activity for the School District consists of the following as of and for the year ended June 30, 2018:

	Restated Beginning Balances	Additions	Retirements	Ending Balances
Governmental Activities				
Cost:				
Assets not being depreciated				
Construction in progress	$ 460,378	$ 1,135,586	$ (1,595,964)	$ -
Assets being depreciated				
Land and improvements	1,748,394	13,477	-	1,761,871
Buildings and building improvements	67,377,082	1,661,767	-	69,038,849
Furniture, fixtures and equipment	2,903,747	203,636	(75,927)	3,031,456
Total cost	72,489,601	3,014,466	(1,671,891)	73,832,176
Less accumulated depreciation:				
Land improvements	(165,370)	(43,494)	-	(208,864)
Building and building improvements	(21,847,870)	(1,525,790)	-	(23,373,660)
Furniture, fixtures and equipment	(2,033,679)	(220,935)	64,940	(2,189,674)
Total accumulated depreciation	(24,046,919)	(1,790,219)	64,940	(25,772,198)
Capital assets, net	$ 48,442,682	$ 1,224,247	$ (1,606,951)	$ 48,059,978

	Restated Beginning Balances	Additions	Retirements	Ending Balances
Business-Type Activities				
Cost:				
Machinery and equipment	$ 424,852	$ 60,117	$ (40,659)	$ 444,310
Less accumulated depreciation:				
Furniture and equipment	(281,444)	(31,855)	40,659	(272,640)
Capital assets, net	$ 143,408	$ 28,262	$ -	$ 171,670

NOTE 7 CAPITAL ASSETS (CONTINUED)

Depreciation expense for the year ended June 30, 2018 was charged to governmental functions as follows:

Instruction	$	1,314,310
Instructional student support		141,305
Administrative and financial support services		279,473
Operation and maintenance of plant services		55,131
	$	1,790,219

NOTE 8 ACCRUED SALARIES AND BENEFITS

Accrued salaries and benefits consist of the following as of June 30, 2018:

		General Fund
Accrued salaries	$	1,003,344
Retirement		1,655,333
Social Security		74,953
Accrued fringe benefits		385,476
Workers' Compensation Insurance		8,510
Payroll deductions and withholdings		56,606
	$	3,184,222

NOTE 9 LONG-TERM LIABILITIES

The changes in long-term liabilities during the year ended June 30, 2018 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Long-term Portion
Governmental Activities:						
A) Series of 2014 GO Bonds	9,890,000	$ -	$ (100,000)	$ 9,790,000	$ 100,000	$ 9,690,000
B) Series of 2015 GO Bonds	3,430,000	-	(795,000)	2,635,000	805,000	1,830,000
C) Series of 2015 GO Note	4,885,000	-	(35,000)	4,850,000	35,000	4,815,000
D) Series of 2016A Bonds	3,055,000	-	(1,205,000)	1,850,000	5,000	1,845,000
E) Series of 2016B Note	9,845,000	-	(1,330,000)	8,515,000	1,355,000	7,160,000
F) Series of 2017A Note	-	1,525,000	(170,000)	1,355,000	335,000	1,020,000
G) Series of 2017B Note	-	2,925,000	(5,000)	2,920,000	5,000	2,915,000
Unamortized bond premium/(discount)	36,895	-	(8,206)	28,689	8,206	20,483
H) Suntrust Loan	1,395,851	-	(1,395,851)	-	-	-
I) Suntrust Loan	209,679	-	(209,679)	-	-	-
Subtotal - bonds	32,747,425	4,450,000	(5,253,736)	31,943,689	2,648,206	29,295,483
Compensated absences:						
Vacation leave	406,108	319,220	(325,405)	399,923	223,359	176,564
Sick leave	487,789	448,954	(496,191)	440,552	73,169	367,383
Subtotal - compensated absences	893,897	768,174	(821,596)	840,475	296,528	543,947
Retirement incentive	146,699	-	(64,786)	81,913	81,913	-
Total governmental activities	$ 33,788,021	$ 5,218,174	$ (6,140,118)	$ 32,866,077	$ 3,026,647	$ 29,839,430
Business-Type Activities:						
Compensated absences:						
Vacation leave	$ 6,035	$ 2,518	$ (8,553)	$ -	$ -	$ -
Sick leave	13,892	660	(14,552)	-	-	-
Subtotal - compensated absences	19,927	3,178	(23,105)	-	-	-
Total business-type activities	$ 19,927	$ 3,178	$ (23,105)	$ -	$ -	$ -

Bonds and Notes

The School District uses the General Fund to pay for principal and interest payments related to the bonds and notes.

(A) On July 31, 2014, the School District issued general obligation bonds (Series 2014) in the amount of $ 9,995,000. The proceeds were used to advance refund a portion of the 2009 Series general obligation bonds and pay the related costs of issuing the bonds. The bonds are due in varying amounts on April 1, 2016 to 2030. The bonds bear interest at rates ranging from 1.00% to 3.50%.

(B) On February 25, 2015, the School District issued general obligation bonds (Series of 2015) in the amount of $ 4,670,000. The proceeds were used to currently refund a portion of the 2009 Series general obligation bonds and pay the related costs of issuing the bonds. The bonds are due in varying amounts on April 1, 2016 to 2022. The bonds bear interest at rates ranging from 0.57% to 2.00%.

NOTE 9 LONG-TERM LIABILITIES (CONTINUED)

Bonds and Notes (Continued)

(C) On October 15, 2015, the School District issued the Series of 2015 General Obligation Note in the amount of $ 4,925,000. The proceeds were used to advance refund the outstanding general obligation bonds (Series 2011) and pay the cost of issuing and insuring the note. The bonds are due in varying amounts on April 1, 2016 to 2027. The note bears interest at a rate of 2.40%. The defeased balance of the 2011 general obligation bonds as of June 30, 2018 is $4,635,000.

(D) On September 9, 2016, the School District issued the Series of 2016A General Obligation Bond in the amount of $ 3,060,000. The proceeds were used for the acquisition, design, construction, furnishing, and equipping alterations, additions, and renovations to the Saint Thomas Elementary School and the James Buchanan Middle School, and other such improvements to the School District's existing school buildings and facilities and to pay the costs of issuing the bonds. The bonds are due in varying amounts on April 1, 2017 to 2030. The bonds bear interest at a rate of 2.67%.

(E) On September 29, 2016, the School District issued the Series of 2016B General Obligation Note in the amount of $10,000,000. The proceeds were used to currently refund the 2011A Series general obligation bonds and pay the related costs of issuing the note. The note is due in varying amounts on April 1, 2017 to 2024. The note bears interest at a rate of 1.78%.

(F) On September 25, 2017, the School District issued the Series of 2017A General Obligation Note in the amount of $ 1,525,000. The proceeds were used for the current refunding of the SunTrust Leasing Corporation loans and to pay the costs of issuing the note. The note is due in varying amounts on February 1, 2018 to 2022. The note bears interest at a rate of 1.90%.

(G) On September 25, 2017, the School District issued the Series of 2017B General Obligation Note in the amount of $ 2,925,000. The proceeds were used for the planning, design, engineering, purchase, acquisition, construction, furnishing and equipping of improvements, alterations, repairs, replacement and renovations to school buildings, facilities and grounds, including, but not limited to, a natural gas line project, the partial refunding of the Series of 2016A General Obligation Bond, and pay the related costs of issuing the note. The note is due in varying amounts on February 1, 2018 to 2030. The note bears interest at a rate of 2.51%.

As a result of the refunding through the Series of 2017A and 2017B issuances, the School District will have the following benefits:

(1) Cash flow gain	$ 293,208
(2) Economic gain	$ 333,884

(1) Represents the difference between the cash flows required to service the old debt and the new debt, less bond issue costs.
(2) Represents the difference in present values of the old debt and new debt, less bond issue costs.

NOTE 9 LONG-TERM LIABILITIES (CONTINUED)

Bonds and Notes (Continued)

On each of the above bond/note issues (A-G), the School District covenants to pay the debt service on the bonds by including these payments in its annual budget, and pledging its full faith, credit, and taxing power.

(H) During 2004, SunTrust Leasing Corporation loaned $ 4,070,032 to the School District to pay for an energy performance contract. The loan had an interest rate of 4.2%. The loan was paid in full with the issuance of the Series of 2017B Note.

(I) During 2005, SunTrust Leasing Corporation loaned $ 622,275 in additional funds to the School District to pay for an energy performance contract. The loan had an interest rate of 4.2%. The loan was paid in full with the issuance of the Series of 2017B Note.

The annual debt requirements for future general obligation bonds and notes as of June 30, 2018 are as follows:

Fiscal Year Ended	GO Bonds - 2014		GO Bonds - 2015		GO Note - 2015	
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2019	$ 100,000	$ 297,225	$ 805,000	$ 48,675	$ 35,000	$ 116,400
2020	105,000	295,725	820,000	36,600	35,000	115,560
2021	105,000	293,625	840,000	20,200	35,000	114,720
2022	790,000	291,525	170,000	3,400	35,000	113,880
2023	980,000	273,750	-	-	40,000	113,040
2024-2028	5,325,000	948,563	-	-	4,670,000	328,920
2029-2030	2,385,000	125,825	-	-	-	-
	$ 9,790,000	$ 2,526,238	$ 2,635,000	$ 108,875	$ 4,850,000	$ 902,520

Fiscal Year Ended	GO Bonds - 2016A		GO Note - 2016B		GO Note - 2017A		GO Note - 2017B		Totals	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2019	$ 5,000	$ 49,395	$ 1,355,000	$ 151,566	$ 335,000	$ 25,745	$ 5,000	$ 73,292	$ 2,640,000	$ 762,298
2020	5,000	49,262	1,385,000	127,448	335,000	19,380	5,000	73,166	2,690,000	717,141
2021	5,000	49,128	1,405,000	102,796	340,000	13,015	5,000	73,041	2,735,000	666,525
2022	5,000	48,994	1,425,000	77,786	345,000	6,555	15,000	72,916	2,785,000	615,056
2023	5,000	48,861	1,460,000	52,420	-	-	355,000	72,539	2,840,000	560,610
2024-2028	1,555,000	236,028	1,485,000	26,433	-	-	1,670,000	233,680	14,705,000	1,773,624
2029-2030	270,000	7,209	-	-	-	-	865,000	34,262	3,520,000	167,296
	$ 1,850,000	$ 488,877	$ 8,515,000	$ 538,449	$ 1,355,000	$ 64,695	$ 2,920,000	$ 632,896	$ 31,915,000	$ 5,262,550

Compensated Absences

Compensated absences represent the earned vacation and vested sick pay as of June 30, 2018 for applicable employees. To be eligible for payment, employees must meet the eligibility provisions set by the Public School Employees' Retirement System.

In accordance with the School District's use of the vesting method for recording the sick leave liability, for employees who have vested in PSERS and have reached age 40 as of June 30, 100% of their sick leave balance is accrued. For employees who have not met these thresholds, no sick leave liability is recorded.

NOTE 9 LONG-TERM LIABILITIES (CONTINUED)

Retirement Incentive

In the 2013/2014 fiscal year, a retirement incentive was offered to employees, which offered $ 20,000 being available in increments up to $ 5,000 annually over a four-year period, through a health reimbursement account. In addition, employees who accepted the retirement incentive were also required to utilize their sick/personal leave balance through the health reimbursement account. These funds are available to the retired employee for up to 10 years, at which time, the unused balance is no longer available.

Operating Leases

The School District is leasing several printers and postage machines through long-term operating leases with a vendor. Rent expense for the year was $ 54,064. Total future payments are as follows at June 30, 2018:

2019	$ 54,213
2020	53,588
	$ 107,801

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS

Plan Descriptions and Benefits Provided

School District Plan

The School District has a healthcare plan for retired employees of the School District, which is a single employer defined benefit healthcare plan administered by the School District. The plan provides medical and prescription drug coverage for both the retiree and spouse. To continue coverage upon retirement, the retiree must reimburse the School District 102% of the premium. The coverage shall discontinue when the retiree qualifies for Medicare coverage.

Retirees opting to participate pay a premium amount that is less than the School District's actual cost to provide health care coverage to retirees. The premium amount for retirees is based on a blended rate for covering both active and retired Plan members. The fact that the blended rate that retirees pay is less than the cost of covering retired members and their beneficiaries results in what is known as the "implicit rate subsidy" provided by the School District, which gives rise to the benefit to be recorded under generally accepted accounting principles.

The plan provides medical and prescription drug coverage upon retirement if hired prior to January 1, 2006, otherwise, the employee must be 62 years old or have 30 years of PSERS service or have taken disability retirement if hired after January 1, 2006. The employee is required to pay 102% of the premium and includes spouses as dependents. The employee or spouse may continue coverage until eligible for Medicare.

No assets are accumulated in a trust that meets the criteria of GASB standards.

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Plan Descriptions and Benefits Provided (Continued)

PSERS

In addition to the other postemployment benefit detailed above, the Public School Employees' Retirement System (PSERS) also provides a health insurance premium assistance program for all eligible employees, which is a governmental cost-sharing multiple employer defined benefit plan. 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. Healthcare cost trends were applied to retirees receiving less than $ 1,200 in annual premium assistance. The annual premium assistance reimbursement for qualifying retirees is capped at a maximum of $ 1,200. As of June 30, 2018, there were no assumed future benefit increases to participating eligible retirees.

Retirees of the System can participate in the premium assistance program if they 1) have 24 ½ or more years of service, 2) are a disability retiree, 3) have 15 or more years of service and retired after reaching superannuation age, or 4) participate in the PSERS' health option program.

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.

Plan Membership

Membership in the School District's plan consisted of the following at July 1, 2016, the date of the latest actuarial valuation:

Active participants	243
Vested former participants	0
Retired participants	25
Total	268

Contributions

PSERS

The School District's contractually required contribution rate for the fiscal year ended June 30, 2018 was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year with an additional amount to finance the unfunded accrued liability. Contributions to the OPEB plan from the employer were $ 117,603 for the year ended June 30, 2018.

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

School District Plan

The School District's total OPEB liability was measured as of July 1, 2017, and the total OPEB liability was determined by rolling forward the total liability from July 1, 2016 to July 1, 2017 based on an actuarial valuation as of July 1, 2016, which was based on census information as of March 2016. The plan has no assets that are accumulated in a trust that meets the criteria established in GASB Statement No. 75. At June 30, 2018, the School District reported a total OPEB liability of $ 2,004,987.

For the year ended June 30, 2018, the School District recognized OPEB expense of $ 191,371.

PSERS

At June 30, 2018, the School District reported a liability of $ 2,245,230 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 School 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 School District's proportion was 0.1102 percent, which was an increase of 0.0002 percent from its proportion measured as of June 30, 2017.

For the year ended June 30, 2018, the School District recognized OPEB expense of $ 95,559.

The table below summarizes the combined OPEB liability and OPEB expense:

	Total OPEB/ Net OPEB Liability	OPEB Expense
School District Plan	$ 2,004,987	$ 191,371
PSERS	2,245,231	95,559
Total	$ 4,250,218	$ 286,930

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Changes in the Total OPEB Liability

School District Plan

	Total OPEB Liability
Beginning Balance	$ 1,873,798
Changes for the year:	
Service cost	137,586
Interest	48,400
Changes in assumptions	70,004
Benefit payments	(124,801)
Net changes	131,189
Ending Balance	$ 2,004,987

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	School District Plan		PSERS		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ -	$ -	$ -	$ -	$ -
Changes in assumptions	64,619	-	-	104,480	64,619	104,480
Net difference between projected and actual investment earnings	-	-	2,374	-	2,374	-
Changes in proportions - plan	-	-	3,692	-	3,692	-
Difference between employer contributions and proportionate share of total contributions	-	-	-	3,165	-	3,165
Benefit payments/contributions subsequent to the measurement date	147,837	-	117,603	-	265,440	-
	$ 212,456	$ -	$ 123,669	$ 107,645	$ 336,125	$ 107,645

The amount of $ 265,440 is reported as a deferred outflows of resources related to OPEB resulting from School District benefit payments/contributions subsequent to the measurement date and will be recognized as a reduction in the total/net OPEB liability in the year ended June 30, 2019 related to the School District and PSERS plans. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Year ended June 30:	School District Plan	PSERS	Total
2019	$ 5,385	$ (16,528)	$ (11,143)
2020	5,385	(16,528)	(11,143)
2021	5,385	(16,528)	(11,143)
2022	5,385	(16,528)	(11,143)
2023	5,385	(17,528)	(12,143)
Thereafter	37,694	(17,939)	19,755
Total	$ 64,619	$ (101,579)	$ (36,960)

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial Methods and Assumptions

School District Plan

The total OPEB liability was determined based on an actuarial valuation dated July 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified.

PSERS

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.

	School District Plan	PSERS
Actuarial Cost Method	Entry age normal	Entry age normal – level % of pay.
Investment Rate of Return	3.13%	3.13% - S&P 20 year municipal bond rate.
Salary	An assumption for salary increase is used for spreading contributions over future pay under the entry age normal cost method. For this purpose, salary increases are composed of a 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%.	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	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.	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.
Percentage of Eligible Employees Electing Coverage in Plan	70% of employees are assumed to elect coverage at retirement.	Eligible retirees will elect to participate pre-age 65 at 50% and eligible retirees will elect to participate post-age 65 at 70%.
Health Care Cost Trend Rate	6.00% in 2017, and 5.5% in 2018 through 2023. Rates gradually decrease from 5.4% in 2024 to 3.9% in 20175 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.	Applied to retirees with less than $ 1,200 in premium assistance per year. Benefit is capped at $ 1,200 per year.

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial Methods and Assumptions (Continued)

Per Capita Claims Cost	The per capita claims cost for medical and prescription drug is based on the expected portion of the group's overall cost attributed to individuals in the specified age and gender brackets. The resulting costs are as follows: age 45-49, $ 5,690 for males and $ 8,218 for females; 50-54, $ 7,536 for males and $ 9,287 for females; 55-59, $ 9,178 for males and $ 9,718 for females; and 60-64, $ 11,977 for males and $ 11,164 for females.	N/A

PSERS

Investment Return

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.

OPEB – Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	76.4%	0.6%
Fixed Income	23.6%	1.5%
	100.0%	

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 OPEB liability was 3.13% for both the School District's Plan and PSERS. The School District Plan is not funded, therefore, the S&P 20 year municipal bond rate of 3.13% as of June 30, 2017 is applicable discount rate. Under the PSERS 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's plan 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%

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Discount Rate (Continued)

which represents the S&P 20 year municipal bond rate at June 30, 2017, was applied to all projected benefit payments to measure the OPEB liability.

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

The following presents the total and net OPEB liabilities of the School District, as well as what the School District's liabilities would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate.

	1% Decrease 2.13%	Current Discount Rate 3.13%	1% Increase 4.13%
School District Plan - Total OPEB liability	$ 2,156,590	$ 2,004,987	$ 1,863,193
PSERS - School District's proportionate share of the net OPEB liability	2,552,000	2,245,231	1,990,000

Sensitivity of the Total and Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the total and net OPEB liabilities of the plans, as well as what the plans' total OPEB liability would be if it were calculated using the healthcare cost trend rate that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

School District Plan

	1% Decrease (5.0% decreasing to 2.9%)	Healthcare Cost Trend Rate (6.0% decreasing to 3.9%)	1% Increase (7.0% decreasing to 4.9%)
School District Plan - Total OPEB Liability	$ 1,763,594	$ 2,004,987	$ 2,297,460

PSERS

	1% Decrease (Between 4% to 7%)	Healthcare Cost Trend Rate (Between 5% to 8%)	1% Increase (Between 6% to 9%)
PSERS - School District's proportionate share of the net OPEB liability	$ 2,246,000	$ 2,245,231	$ 2,245,000

OPEB Plan Fiduciary Net Position

PSERS

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

NOTE 10 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Payables to the OPEB Plan

School District Plan

As of June 30, 2018, the School District had no amounts payable to the School District OPEB Plan.

PSERS

As of June 30, 2018, the School District had $ 42,173 included in accrued wages liability, of which $ 33,877 is for the contractually required contribution for the second quarter of 2018 and $ 8,296 is related to the accrued payroll liability for wages incurred as of June 30, 2018.

NOTE 11 PENSION PLAN

General Information About the Pension Plan

Plan Description

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

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 by 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 rights to benefits is vested after ten years of service.

NOTE 11 PENSION PLAN (CONTINUED)

General Information About the Pension Plan (Continued)

Contributions

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 by the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefits 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 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions

The School 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 from the School District to the pension plan from the School District were $ 4,475,163 for the year ended June 30, 2018.

NOTE 11 PENSION PLAN (CONTINUED)

General Information About the Pension Plan (Continued)

State Funding

The Commonwealth of Pennsylvania generally reimburses the School District for 50%-60% of its retirement expense. This arrangement does not meet the criteria of a special funding situation in accordance with GASB standards. Therefore, the net pension liabilities and related pension expense represent 100% of the School District's share of these amounts. During the year ended June 30, 2018, the School District recognized revenue of $ 2,544,947 as reimbursement from the State for its current year pension payments.

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

At June 30, 2018, the School District reported a liability of $ 54,426,023 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 School 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, 2017, the School District's proportion was 0.1102 percent, which was a increase of 0.0002 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the School District recognized pension expense as follows:

Governmental Activities	$ 6,050,878
Business-Type Activities	14,061

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 567,467	$ 328,872
Changes in assumptions	1,479,000	-
Net difference between projected and actual investment earnings	1,261,000	-
Changes in proportions - plan	1,461,949	593,744
Changes in proportions - governmental activities/business-type activities	12,061	12,061
Difference between employer contributions and proportionate share of total contributions	78,488	47,025
Contributions subsequent to the measurement date	4,497,241	-
	$ 9,357,206	$ 981,702

NOTE 11 PENSION PLAN (CONTINUED)

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

The deferred outflows of resources related to pension of $ 4,497,241 resulting from School 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:	
2019	$ 1,156,260
2020	1,590,386
2021	1,300,574
2022	(168,957)
Total	$ 3,878,263

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 expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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 suing the fulling actuarial assumptions, applied to all periods included in the measurement.

- Actuarial cost method – Entry Age Normal – level percent of pay
- Investment rate of 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 and seniority increases
- Mortality rates were based on RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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

NOTE 11 PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

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

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

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

Sensitivity of the School 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:

NOTE 11 PENSION PLAN (CONTINUED)

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

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
District's proportionate share of the net pension liability	$ 66,994,000	$ 54,426,023	$ 43,815,000

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.

Payables to the Pension Plan

As of June 30, 2018, the School District had $ 1,612,720 included in accrued wages liability, of which $ 1,295,477 is for the contractually required contribution for the second quarter of 2018 and $ 317,243 is related to the accrued payroll liability for wages incurred as of June 30, 2018.

NOTE 12 RISK MANAGEMENT

The School District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The School District has purchased commercial insurance to cover general liability, directors' and officers' liability, unemployment compensation and employees' health coverage. For these insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or three prior years.

Lincoln Benefit Trust

The School District is a member of the Lincoln Benefit Trust. The Trust is a public entity risk pool currently operating as a claims-servicing pool which pays claims for hospital benefits, medical coverage for physicians' services, certain dental coverage, major medical coverage, and certain other benefits submitted by employees of the 20 participating school districts and Lincoln Intermediate Unit. Each participating employer contributes to the trust amounts determined by actuarial principles which will be adequate to cover annual claim costs, operating costs, and reserves sufficient to provide stated benefits. Since each district is responsible for its own risk, additional assessments would be charged to make up any deficiency; thus, this functions like a retrospectively rated program.

Because Lincoln Benefit Trust acts as a claim-servicing pool, the School District remains responsible for the economic risk of providing stated benefits to employees. However, claims incurred between $ 150,000 and $ 300,000 are paid from the Trust mini-pool. Claims incurred over $ 300,000 are paid from a stop loss insurance policy purchased by the Trust.

NOTE 12 RISK MANAGEMENT (CONTINUED)

Changes in net position for the School District's account at Lincoln Benefit Trust (based on audited financial statements of Lincoln Benefit Trust) were as follows for the year ended June 30, 2018:

Net position - June 30, 2017	$ 1,873,603
Contributions and interest income	3,325,568
PA Trust reimbursements	10,655
Claims paid	(1,744,089)
Stop-loss insurance	(189,057)
Minipool premium	(87,643)
Contracted services	(3,150)
Administrative fees	(146,258)
Net position - June 30, 2018	$ 3,039,629

Overall, the Lincoln Benefit Trust has net position of $ 96,069,429 as of June 30, 2018 and showed an increase in net position of $ 362,893 for the year ended. Financial statements of the Trust are available at the School District.

The School District also utilizes a "claims-based" funding plan for vision benefits. Under this plan, the School District pays the insurance company based on actual claims paid, or in essence, self-insures.

All expenditures for the School District's risk management are recorded in the general fund or food service fund.

NOTE 13 AFFILIATES

Payments to fund the operating costs of affiliated entities for 2017/2018 were as follows:

Franklin County Career and Technology Center	$ 457,521
Franklin Learning Center	31,498
	$ 489,019

During the year ended June 30, 2011, the Franklin County Career and Technology Center issued a note in the amount $ 2,360,000 to refinance a previous note that was issued for building improvements. The Center also issued bonds during that year in the amount of $ 14,090,000 to finance building additions and renovations. Each member district adopted resolutions approving the project and the related debt issues and is responsible for their individual share of the Center's debt. Under the Articles of Agreement, each member district's share of rental (debt) payments is based on the district's ratio of market valuation of real estate to the total market valuation of real estate of all participating school districts. The Tuscarora School District's share of rental payments for 2017/2018 was $ 135,164. Based on the latest market valuation available, Tuscarora's School District's share is 11.20%, which represents $ 1,402,800 of the outstanding debt of the Tech Center as of June 30, 2018.

NOTE 14 COMMITMENTS AND CONTINGENCIES

The School District has entered into a solar power purchase agreement related to their future electricity needs. The agreement requires total payments of $ 1,206,000 due in various amounts at various points throughout the installation of solar panels at the School District. As of June 30, 2018, the total payments made by the School District totaled $ 300,000, leaving $ 906,000 to be paid prior to the solar panels being in operation. The total payments of $ 1,206,000 will be credited to the School District as a prepayment towards future energy payment obligations and will offset future invoices for kilowatt hours produced from the system or will be used to offset the future buyout prices the School District has the option to exercise.

The School District is subject to real estate tax assessment appeals on an ongoing basis. If tax appeals are successful, the result is a loss of tax revenue to the School District. It is anticipated that any material loss of tax revenue on individual tax appeals will be offset with additional revenues from other properties or other sources of revenue and would not create a financial hardship to the School District.

At times, the School District is involved with various lawsuits in the normal course of operations. Management cannot predict the outcome of the lawsuits or estimate the amount of any loss that may result. Accordingly, no provision for any contingent liabilities that may result have been made in the financial statements. Management believes that losses resulting from these matters, if any, would be substantially covered under the School District's professional liability insurance policy and would not have a material effect on the financial position of the School District.

The School District participates in numerous state and federal programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School District has not complied with rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2018 may be impaired. In the opinion of management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

NOTE 15 RESTATEMENTS

A restatement was necessary in the General Fund to correct taxes receivable as of June 30, 2017 relating to real estate and earned income taxes. A restatement was also necessary in the General Fund to correct the unemployment liability and to accrue employee benefit expenditures at June 30, 2017. A restatement was necessary to correct a due to/from between the Capital Projects Fund and Capital Reserve Fund as of June 30, 2017. Restatements were necessary in the Governmental Activities and Business Type Activities to correct capital assets. During the year ended June 30, 2018, the School District adopted *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which required the School District to report previously unreported information. The restatement of beginning balances does not include deferred inflows or deferred outflows with the exception of a deferred outflow for contributions subsequent to the measurement date. As a result, the beginning net position amount reflects the changes as of June 30, 2017 resulting from the addition of the previously unrecorded information.

	General Fund	Capital Projects Fund	Capital Reserve Fund	Governmental Activities	Food Service Fund/Business-Type Activities
Fund balance/net position, as originally stated, June 30, 2017	$ 5,672,312	$ (435,221)	$ 5,621,776	$ (17,192,294)	$ 333,962
Restatement of Real Estate and Earned Income Taxes	(102,152)	-	-	(459,713)	-
Restatement of due to/from between the Capital Projects Fund and Capital Reserve Fund	-	10,884	(10,884)	-	-
Restatement of unemployment liability	81,815	-	-	81,815	-
Restatement for accrual of employee benefit expenditures/expense	(366,341)	-	-	(366,341)	-
Restatement for implementation of GASB 75	-	-	-	(3,680,122)	(12,515)
Restatement of capital assets	-	-	-	(11,232)	(5,114)
Fund balance/net position, as restated, June 30, 2017	$ 5,285,634	$ (424,337)	$ 5,610,892	$ (21,627,887)	$ 316,333

REQUIRED SUPPLEMENTARY INFORMATION

TUSCARORA SCHOOL DISTRICT
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2018

	BUDGET ORIGINAL	BUDGET FINAL	ACTUAL (BUDGETARY/ GAAP BASIS)	VARIANCE WITH FINAL BUDGET
REVENUES				
Local Sources				
Taxes	$ 20,095,700	$ 20,095,700	$ 20,469,600	$ 373,900
Investment earnings	21,500	21,500	134,547	113,047
Federal revenue from intermediate sources	367,828	367,828	352,423	(15,405)
Other	226,832	226,832	242,575	15,743
State sources	16,313,719	16,313,719	16,923,756	610,037
Federal sources	467,915	467,915	518,914	50,999
Total revenues	37,493,494	37,493,494	38,641,815	1,148,321
EXPENDITURES				
INSTRUCTION				
Regular programs	16,785,933	16,651,123	15,623,157	1,027,966
Special programs	3,409,027	3,272,970	3,063,475	209,495
Vocational education programs	600,457	600,457	560,807	39,650
Other instructional programs	767,417	767,417	798,019	(30,602)
Total Instruction	21,562,834	21,291,967	20,045,458	1,246,509
SUPPORT SERVICES				
Pupil personnel	1,306,662	1,307,662	1,195,582	112,080
Instructional staff	1,505,031	1,656,349	1,390,339	266,010
Administration	1,993,496	1,999,258	1,995,415	3,843
Pupil health	443,111	578,111	594,391	(16,280)
Business	527,716	527,716	513,599	14,117
Operation and maintenance of plant	2,934,294	2,924,096	2,947,435	(23,339)
Student transportation	2,247,056	2,247,056	2,309,760	(62,704)
Central	978,065	978,065	894,323	83,742
Other support services	22,124	22,124	22,127	(3)
Total support services	$ 11,957,555	$ 12,240,437	$ 11,862,971	$ 377,466
OPERATION OF NONINSTRUCTIONAL SERVICES				
Student activities	$ 86,925	$ 74,910	$ 77,859	($ 2,949)
School sponsored athletics	599,889	599,889	580,733	19,156
Community services	42,975	42,975	83,513	(40,538)
Total operation of noninstructional services	729,789	717,774	742,105	(24,331)
DEBT SERVICE				
Principal	2,265,000	2,265,000	2,440,000	(175,000)
Interest	796,307	796,307	802,606	(6,299)
Prepayment charge on extinguishment of debt	-	-	70,951	(70,951)
Total debt service	3,061,307	3,061,307	3,313,557	(252,250)
Total expenditures	37,311,485	37,311,485	35,964,091	1,347,394
OTHER FINANCING SOURCES (USES)				
Issuance of long term financing	-	-	1,525,000	1,525,000
Payment to refund debt	(376,936)	(376,936)	(1,611,600)	(1,234,664)
Interfund transfers	-	-	(550,000)	(550,000)
Total other financing sources (uses)	(376,936)	(376,936)	(636,600)	(259,664)
Net change in fund balances	$ (194,927)	$ (194,927)	$ 2,041,124	$ 2,236,051

TUSCARORA SCHOOL DISTRICT

Schedule of School District's Proportionate Share of Net Pension Liability - Public School Employee' Retirement System

Last 10 Fiscal Years

For the Fiscal Year Ended June 30	School District's Proportion of the Net Pension Liability (Asset)	School District's Proportionate Share of the Net Pension Liability (Asset)	School District's Covered Payroll - measurement period	School District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.1102%	$ 54,426,023	$ 14,261,696	381.62%	51.84%
2017	0.1100%	$ 54,512,510	$ 14,249,206	382.57%	50.14%
2016	0.1064%	$ 46,087,489	$ 13,687,902	336.70%	54.36%
2015	0.1099%	$ 43,499,208	$ 14,025,860	310.14%	57.24%

NOTES

The amounts presented for each fiscal year were determined as of the measurement period year-end that was used for the fiscal year. For PSERS, the measurement period year-end is one year prior to the fiscal year-end.

This schedule will be expanded to show 10 fiscal years once information becomes available in the future.

Changes in Actuarial Assumptions

The following actuarial assumptions were changed during the 2016/2017 fiscal year:

- Actuarial cost method – Entry Age Normal – level percent of pay
- Investment rate of 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 and seniority increases
- Mortality rates were based on RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-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.

TUSCARORA SCHOOL DISTRICT
Schedule of School District's Contributions - Public School Employee' Retirement System
Last 10 Fiscal Years

For the Fiscal Year Ended June 30	Contractually Required Contribution	Contributions in Relation to the Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll - Fiscal Year	Contributions as a Percentage of Covered Employee Payroll
2018	$ 4,475,163	$ 4,475,163	$ -	$ 14,204,182	31.51%
2017	$ 4,199,573	$ 4,199,573	$ -	$ 14,261,696	29.45%
2016	$ 3,480,962	$ 3,480,962	$ -	$ 14,249,206	24.43%
2015	$ 2,742,071	$ 2,742,071	$ -	$ 13,687,902	20.03%
2014	$ 2,202,237	$ 2,202,237	$ -	$ 14,025,860	15.70%

NOTES

This schedule will be expanded to show 10 fiscal years once information becomes available in the future.

Schedule of Changes in the School District's Total OPEB Liability and Related Ratios – School District Plan
Last 10 Fiscal Years

	2018
Total OPEB liability	
Service cost	$ 137,586
Interest	48,400
Changes in assumptions	70,004
Benefit payments	(124,801)
Net change in total OPEB liability	131,189
Total OPEB liability - beginning	1,873,798
Total OEPB liability - ending	$ 2,004,987
Covered employee payroll	$ 13,865,682
Total OPEB liability as a percentage of covered employee payroll	14.46%

Notes

This schedule will be expanded to show multi-year trends as additional information becomes available in the future.

The amounts presented for each fiscal year were determined as of the measurement period year-end that was used for the fiscal year. For the school district plan, the measurement period year-end is one year prior to the fiscal year-end.

TUSCARORA SCHOOL DISTRICT
Schedule of School District's Proportionate Share of Net OPEB Liability - PSERS
Last 10 Fiscal Years

For the Fiscal Year Ended June 30	School District's Proportion of the Net OPEB Liability (Asset)	School District's Proportionate Share of the Net OPEB Liability (Asset)	School District's Covered Payroll - measurement period	School District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2018	0.1102%	$ 2,245,231	$ 14,675,127	15.30%	5.47%

Notes

The amounts presented for each fiscal year were determined as the measurement period year-end that was used for the fiscal year. For PSERS, the measurement period year-end is one year prior to the fiscal year-end.

This schedule with be expanded to show 10 fiscal years once information becomes available in the future.

TUSCARORA SCHOOL DISTRICT
Schedule of School District's OPEB Contributions - PSERS
Last 10 Fiscal Years

For the Fiscal Year Ended June 30	Contractually Required Contribution	Contributions in Relation to the Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll - Fiscal Year	Contributions as a Percentage of Covered Employee Payroll
2018	$ 117,603	$ 117,603	$ -	$ 14,261,696.00	0.83%

Notes

This schedule with be expanded to show 10 fiscal years once information becomes available in the future.

OTHER SUPPLEMENTARY INFORMATION

TUSCARORA SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Grantor Program Title	Source Code	Federal CFDA Number	Pass Through Grantor's Number	Grant Period Beginning/ Ending Date	Program or Award Amount	Total Received for the Year	Receivable (Payable) (Restated) July 1, 2017	Revenue Recognized	Expenditures Recognized	Receivable (Payable) June 30, 2018	Total Passed-Through to Subrecipients
U.S. Department of Education											
Passed through the Pennsylvania Department of Education											
ESEA Title I	I	84.010	013-17-0437	7/1/16-9/30/17	$ 378,874	$ 48,921	$ 41,602	$ 7,319	$ 7,319	$ -	$ -
ESEA Title I	I	84.010	013-18-0437	7/1/17-9/30/18	382,435	326,665	-	358,924	358,924	32,259	-
Total Title I						375,586	41,602	366,243	366,243	32,259	-
Title II - Improving Teacher Quality	I	84.367	020-17-0437	7/1/16-9/30/17	98,593	39,223	(5,139)	44,362	44,362	-	-
Title II - Improving Teacher Quality	I	84.367	020-18-0437	7/1/17-9/30/18	86,552	73,732	-	86,552	86,552	12,820	-
Total Title II						112,955	(5,139)	130,914	130,914	12,820	-
Title IV, Part A - Student Support and Academic Enrichment Program	I	84.424	144-18-0437	7/1/17-9/30/18	10,000	10,000	-	10,000	10,000	-	-
Total passed through Pennsylvania Department of Education						498,541	36,463	507,157	507,157	45,079	-
Passed through Lincoln Intermediate Unit											
Special Education Cluster (IDEA)											
I.D.E.A.	I	84.027	N/A	7/1/17-6/30/18	346,196	346,196	-	346,196	346,196	-	-
I.D.E.A. - Preschool	I	84.173	N/A	7/1/17-6/30/18	6,227	6,227	-	6,227	6,227	-	-
Total Special Education Cluster						352,423	-	352,423	352,423	-	-
Total U.S. Department of Education						**850,964**	**36,463**	**859,580**	**859,580**	**45,079**	**-**
U.S. Department of Agriculture											
Passed through Pennsylvania Department of Education											
School Breakfast Program	I	10.553	N/A	7/1/16-6/30/17	N/A	16,094	16,094	-	-	-	-
School Breakfast Program	I	10.553	N/A	7/1/17-6/30/18	N/A	112,681	-	112,681	112,681	-	-
Total School Breakfast Program						128,775	16,094	112,681	112,681	-	-
Summer Food Program	I	10.559	N/A	7/1/16-6/30/17	N/A	13,285	4,910	8,375	8,375	-	-
Summer Food Program	I	10.559	N/A	7/1/17-6/30/18	N/A	-	-	5,230	5,230	5,230	-
Total Summer Food Program						13,285	4,910	13,605	13,605	5,230	-
National School Lunch Program - cash	I	10.555	N/A	7/1/16-6/30/17	N/A	61,886	61,886	-	-	-	-
National School Lunch Program - cash	I	10.555	N/A	7/1/17-6/30/18	N/A	484,386	-	484,386	484,386	-	-
Passed through Pennsylvania Department of Agriculture											
National School Lunch Program - commodities	I(B)	10.555	N/A	7/1/17-6/30/18	N/A	102,479	-	102,479	102,479	-	-
Total National School Lunch Program						648,751	61,886	586,865	586,865	-	-
Total Child Nutrition Cluster						790,811	82,890	713,151	713,151	5,230	-
Total U.S. Department of Agriculture						**790,811**	**82,890**	**713,151**	**713,151**	**5,230**	**-**
Total Federal Expenditures						**$ 1,641,775**	**$ 119,353**	**$ 1,572,731**	**$ 1,572,731**	**$ 50,309**	**$ -**

NOTE 1 REFERENCES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

(I) Indirect funding

(B) Based on USDA valuation

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The schedule of expenditures of federal awards is presented using the modified accrual basis in accordance with accounting principles prescribed by the Pennsylvania Department of Education, which conform to generally accepted governmental accounting principles. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable. Revenues designated for payment of specific School District expenditures are recognized when the related expenditures are incurred. Any excess of revenues or expenditures at the fiscal year end is recorded as a liability or a receivable, respectively.

Indirect Cost Rate

The School District has not elected to use the 10% de minimus indirect cost rate for its federal programs.

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

Board of Directors
Tuscarora School District
Mercersburg, 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 Tuscarora School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Tuscarora School District's basic financial statements, and have issued our report thereon dated October 30, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
October 30, 2018

Smith Elliott Kearns & Company, LLC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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

Board of Directors
Tuscarora School District
Mercersburg, Pennsylvania

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

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

Opinion on Each Major Federal Program

In our opinion, Tuscarora 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 Tuscarora 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 Tuscarora 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 Tuscarora 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.

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania
October 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	**Unmodified**	
Internal control over financial reporting:		
• Material weakness(es) identified?	☐ Yes	☒ No
• Significant deficiencies identified?	☐ Yes	☒ None Reported
Noncompliance material to financial statements noted?	☐ Yes	☒ No

Federal Awards

Internal control over major programs:		
• Material weakness(es) identified?	☐ Yes	☒ No
• Significant deficiencies identified?	☐ Yes	☒ None Reported
Type of auditor's report issued on compliance for the major programs:	**Unmodified**	
• Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516?	☐ Yes	☒ No

Identification of the major programs:

CFDA Number(s)	Name of Federal Program
	Special Education Cluster:
84.027	IDEA
84.173	IDEA – Preschool
84.010	ESEA Title I

Dollar threshold used to distinguish between type A and type B programs	$ 750,000	
Auditee qualified as low-risk auditee?	☐ Yes	☒ No

Section II – Financial Statement Findings

A. Significant Deficiencies or Material Weaknesses in Internal Control

None noted

B. Compliance Findings

There were no compliance findings related to the financial statement audit required to be reported.

Section III – Federal Findings and Questioned Costs

C. Significant Deficiencies or Material Weaknesses in Internal Control Over Compliance

None noted

D. Compliance Findings

There were no findings relating to the major federal awards as required to be reported in accordance with the Uniform Guidance by 2 CFR Section 200.516.

Tuscarora School District
100 West Seminary St.
Mercersburg PA 17236

Summary Schedule of Prior Audit Findings

Findings related to financial statements:

Finding 2017-001 – Lack of Reconciliations of Balance Sheet Accounts

Condition: There were reconciliations performed after year-end, but there were assets and liabilities on the general ledger that did not match the supporting detail balance on the reconciliation.

Status: Corrective action was taken.

Finding 2017-002 – Improper Recording of Retainage Payable

Condition: The School District improperly recorded the amount of the retainage payable as of June 30, 2017.

Status: Corrective action was taken.

Finding 2017-003 – Real Estate Tax Reconciliation Discrepancy

Condition: The School District appropriately performed a reconciliation of real estate taxes received during the 2016/2017 fiscal year. During that reconciliation, a discrepancy between the tax collector records and the School District's records was identified; however, this was deemed to be an internal error and was not resolved during the year. Upon performing audit procedures, it was ultimately determined that an unexplained duplicate payment was received erroneously from a tax collector.

Status: Corrective action was taken.

Finding 2017-004 – Failure to Establish a Capital Projects Fund

Condition: There was a debt issuance that occurred in September of the 2016/2017 fiscal year that was authorized by the Board of Education in April 2016 for which the debt proceeds were recorded in the Capital Reserve Fund. The 2015/2016 expenditures recorded in the Capital Reserve Fund were not identified as debt reimbursable expenditures until the 2016/2017 fiscal year.

Status: Corrective action was taken.

Findings related to federal awards:

Finding 2017-005 – Lack of Review for Reporting Quarterly Cash on Hand Reports

Condition: We noted that the two of the Quarterly Cash on Hand Reports that were tested included expenditures recorded that did not match the general ledger expenditures recorded for the Title I program.

Status: Corrective action was taken.

Rodney N Benedick ■ Dr. Marcia D Stokes ■ Loretta A Martin
Acting Superintendent Business Manager Board Secretary
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