

**REPORT ON  
EAST PENN SCHOOL DISTRICT  
SINGLE AUDIT REPORT  
FISCAL YEAR ENDED JUNE 30, 2018**

**EAST PENN SCHOOL DISTRICT**  
**Single Audit Report**  
**For the Fiscal Year Ended June 30, 2018**

**TABLE OF CONTENTS**

---

---

	<u>PAGE (S)</u>
<b>Introductory Section</b>	
Transmittal Letter .....	1
Letter to Governance/Management.....	2 - 7
Report Distribution List .....	8
<b>Financial Section</b>	
Independent Auditor's Report.....	9 - 11
Management's Discussion and Analysis .....	12 - 21
<b>Basic Financial Statements</b>	
District-wide Financial Statements:	
Statement of Net Position .....	22
Statement of Activities.....	23
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	24
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	25
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	26
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.....	27 - 28
Statement of Fund Net Position - Proprietary Funds .....	29
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds .....	30
Statement of Cash Flows - Proprietary Funds.....	31 - 32
Statement of Net Position - Fiduciary Funds .....	33

EAST PENN SCHOOL DISTRICT

Single Audit Report

For the Fiscal Year Ended June 30, 2018

TABLE OF CONTENTS (continued)

---

	<u>PAGE (S)</u>
Statement of Changes in Net Position - Fiduciary Funds.....	34
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund.....	35
Notes to Basic Financial Statements .....	36 - 91
<b>Required Supplemental Information:</b>	
Schedule of the District's Proportionate Share of Net Pension Liability.....	92
Schedule of District Contributions - Pensions.....	93
Schedule of Changes in the District's Defined Contribution Pension Liability.....	94
Schedule of the District's Proportionate Share of Net Defined Contribution Pension Liability.....	95
Schedule of the District's Proportionate Share of Net OPEB Liability - Multiple Employer Plan.....	96
Schedule of District Contributions – Multiple Employer Plan.....	97
Schedule of the District's Proportionate Share of Net OPEB Liability - Single Employer Plan.....	98
Notes to Required Supplemental Information.....	99 - 101
<b>Supplemental Information:</b>	
Combining Balance Sheet – All Non-Major Governmental Funds.....	102
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - All Non-Major Governmental Funds .....	103
Combining Statement of Fiduciary Net Position - Private Purpose Trust Funds .....	104
Combining Statement of Changes in Fiduciary Net Position - Private Purpose Trust Funds.....	104
Combining Balance Sheet - All Agency Funds .....	105

**EAST PENN SCHOOL DISTRICT**

**Single Audit Report**

**For the Fiscal Year Ended June 30, 2018**

**TABLE OF CONTENTS (continued)**

---

	<b><u>PAGE (S)</u></b>
Combining Statement of Changes in Assets and Liabilities - All Agency Funds.....	106
General Fund - Schedule on Tax Collectors' Receipts.....	107
General Fund - Statement of Revenue, Expenditures, and Changes in Fund Balance – Budget vs Actual .....	108 - 111
Capital Reserve Fund - Statement of Revenues and Expenditures .....	112
Food Service Fund - Statement of Revenues, Expenses, and Changes in Fund Net Position.....	113
Consolidated Memorial Fund - Statement of Additions and Deductions .....	114
Agency Fund - Payroll Fund - Balance Sheet .....	115
Commencement Awards Fund - Statement of Additions and Deductions .....	115
2018 GOB Bond Fund - Statement of Revenues and Expenditures .....	116
<b>General Long-Term Debt:</b>	
Schedule on General Obligation Bonds – Series of 2012 .....	117
Schedule on General Obligation Bonds – Series A of 2012.....	117
Schedule on General Obligation Bonds – Series of 2013 .....	117
Schedule on General Obligation Bonds – Series of 2014 .....	118
Schedule on General Obligation Bonds – Series B of 2015.....	118
Schedule on General Obligation Notes – Series of 2016 .....	118
Schedule on General Obligation Bonds – Series of 2018 .....	119
Statistical Tables.....	120 - 121

**EAST PENN SCHOOL DISTRICT**

**Single Audit Report**

**For the Fiscal Year Ended June 30, 2018**

**TABLE OF CONTENTS (continued)**

---

---

	<b><u>PAGE (S)</u></b>
<b>Single Audit Section</b>	
Schedule of Expenditures of Federal Awards .....	122
Notes to the Schedule of Expenditures of Federal Awards.....	123 - 124
Independent Auditor's Report Under Government Auditing Standards .....	125 - 126
Independent Auditor's Report Under Uniform Guidance.....	127 - 128
Schedule of Findings and Questioned Costs .....	129 - 130
Corrective Action Plan .....	

## INTRODUCTORY SECTION



# GORMAN & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Members of  
American Institute of Certified Public Accountants  
Pennsylvania Institute of Certified Public Accountants  
Florida Institute of Certified Public Accountants

Members of the Board  
East Penn School District  
800 Pine Street  
Emmaus, PA 18049

We have performed the Single Audit of the East Penn School District for the fiscal year ended June 30, 2018, and have enclosed the Single Audit reporting package.

The Single Audit was done to fulfill the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, which entailed:

An audit of the basic financial statements, and our opinion thereon;

A review of compliance and of internal control over financial reporting based on an audit of the financial statements performed in accordance with Governmental Auditing Standards, and our report thereon;

An examination of the Schedule of Expenditures of Federal Awards and our report thereon; and,

An opinion on compliance with requirements applicable to each major program, and a review of internal control over compliance in accordance with the Uniformed Guidance, explained above, and our report thereon.

As part of our report, we have enclosed our management letter.

Respectfully submitted,

November 26, 2018



# GORMAN & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Members of  
American Institute of Certified Public Accountants  
Pennsylvania Institute of Certified Public Accountants  
Florida Institute of Certified Public Accountants

Board of School Directors  
Ms. Kristen Campbell, Superintendent  
East Penn School District  
800 Pine Street  
Emmaus, PA 18049

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the East Penn School District for the year ended June 30, 2018, and have issued our report thereon dated November 26, 2018.

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether your financial statements are fairly presented, in all material respects, in conformity with the U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities, including having compensating controls in place to ensure our preparation of your financial statements and note disclosures are not materially misstated.

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matter on June 11, 2018.

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the East Penn School District are described in the notes to the financial statements. No new accounting policies were adopted during this past year and the existing policies were properly applied. We did not discover any transactions entered into by the District that lacked authoritative guidance or consensus. In addition, there are no significant transactions affecting the financial statements that have been recognized incorrectly in the wrong year.

Accounting estimates, which are part of the significant accounting policies, are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events may differ significantly from those expected. The most sensitive estimates affecting the financial statements was depreciation taken on capital assets based upon the estimated useful life of each asset and calculated on the straight-line basis of depreciation and the actuary's reports on Other Post-Employment Benefits, and the Net Pension Liability. We have evaluated the factors and assumptions used to develop these estimates and have determined the estimates to be reasonable in relation to the financial statements taken as a whole.

We wish to inform you that the disclosures in your financial statements are neutral, consistent, and clear. From time to time, certain disclosures are more sensitive than others due to their significance to financial statement users. The most sensitive disclosures involve capital assets and long-term debt.

We have requested certain representations from management that are included in the management representation letter provided to us on November 26, 2018. We advise the governing body to request this letter from management for their review. In conjunction with their representation, we wish to inform you we did not encounter any significant difficulties in dealing with management and had no disagreements with your management. To our knowledge, management did not find a need to converse with any other independent accountant on any related accounting or auditing issue.



## **Board of School Directors – Ms. Kristen Campbell, Superintendent**

---

In addition, the representation letter provided to us, by management, confirmed there were no uncorrected misstatements. Management has recorded all of our adjusting journal entries, and has agreed to the conversion entries necessary to convert governmental funds and proprietary funds to governmental activities and business-type activities, respectively.

In accordance with auditing standards, generally accepted in the United States of America, we have acquired a sufficient understanding of the District and its environment, including its internal control, to assess the risk of material misstatements of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures that were necessary to express an opinion on the 2017-18 basic financial statements.

Our consideration of the District's internal control components was not designed for the purpose of making detailed recommendations and would not necessarily disclose all significant deficiencies within the components. Our audit procedures have been appropriately adjusted to compensate for any observed significant deficiencies. The following three paragraphs define the three different types of deficiencies that can occur:

**A control 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 significant deficiency is a deficiency, or 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.**

**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.**

As the primary purpose of our audit is to form an opinion on the basic financial statements, you will appreciate that reliance must be placed on adequate methods of internal control as your principal safeguard against errors and fraud which audit procedures may not disclose. The objective of internal control over financial reporting is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use and that financial records are reliable for preparing financial statements in accordance with generally accepted accounting principles and for maintaining the accountability for assets. The concept of reasonable assurance recognizes that the cost of internal control should not exceed the related benefits; to operationalize this concept, management is required to formulate estimates and judgments of the cost/benefit ratios of alternative controls.

There are inherent limitations that should be recognized in considering the potential effectiveness of internal control over financial reporting. Errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, fatigue, and other personnel factors. Control procedures whose effectiveness depends upon the segregation of duties can be circumvented by collusion or by management. What's more, any projection of internal control evaluations to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions or due to the deterioration of the degree of compliance with control procedures.

As an adjunct to our audit, we remained alert throughout for opportunities to enhance internal controls and operating efficiency. These matters were discussed with management as the audit progressed and have subsequently been reviewed in detail to formulate practical recommendations. We wish to thank your staff for their courtesies and cooperation, which facilitated the efficient performance of audit procedures. The remainder of this letter will explain any internal control deficiencies discovered during the audit, other auditor recommendations, and other information pertinent to the District.

## **Board of School Directors – Ms. Kristen Campbell, Superintendent**

A control deficiency is determined to be considered a material weakness or significant deficiency based upon the magnitude of the problem as it pertains to a particular opinion unit. In other words, what is considered a significant deficiency in one fund may only be a control deficiency in another fund of greater size.

**The following section in this governance/management letter is separated by categories based on importance, with any material weaknesses or significant deficiencies listed in the beginning:**

### ***CONTROL DEFICIENCIES***

#### ***Food Service Fund - Net Cash Resources Test***

During our review of the Food Service Fund, we discovered the District is not in compliance with the three months of expenditures rule found in 7CFR part 210.19. This ensures that net cash resources do not exceed three months average expenses for the school food service. As such, we have to disclose this as a federal finding in the Schedule of Findings and Questioned Costs.

We would like to suggest management work on reducing the net cash resources to an acceptable level, and to prevent an excess from occurring in the future.

#### ***General Ledger – General Fund Control Accounts & Fund Balance***

We discovered the general ledger was not in balance upon our arrival for the audit. After further investigation it was discovered a control account (0813) opened the year with a beginning balance from the prior year which was not reported on the audited financial statements. This error resulted from an encumbrance being posted after we retrieved the client's general ledger account balances. The amount of the discrepancy was \$4,400.00. In tracing the error, we discovered the client's opening fund balance did not match our prior year audited financial statements by that same amount. Management was made aware of this issue and will make the correction as part of this year's ending journal entries.

In the future, we suggest management compare the total in these control accounts to the total revenue and expenditure individual account totals on a monthly basis to ensure future issues are resolved on a timely basis. We also advise management to review all control account balances at beginning of the year to verify no control accounts have a beginning balance.

#### ***Payroll Fund - Bank Reconciliations***

While reviewing the bank statements and reconciliations in the Payroll Fund, we discovered the District had a list of "Adjustments" to reconcile the Book balance to what was reported on the general ledger. Generally, any differences between the reconciled book balance and the G/L should be resolved and eliminated so that the two amounts match, especially by fiscal year-end. Some of these "Adjustments" have been on the reconciliations for multiple months, indicating a lack of oversight to resolve the issues. Two of the adjustments were overpayments to the State that should have been shown as receivables and another adjustment was a payment to Alternative Benefits on June 28, 2018, that had not been recorded in the computer system by June 30<sup>th</sup>. All of these items should have been resolved and cleared up by year-end.

## **Board of School Directors – Ms. Kristen Campbell, Superintendent**

---

### *VOIDS – Payroll Errors*

After some investigating, a few of the adjustments shown on the bank reconciliations were the result of how payroll errors are being handled. How a payroll error is handled depends on when it is caught and the type of error. The mistakes affecting cash in the payroll fund were the result of either the wrong employees being paid who shouldn't have been or employees being paid more than they were entitled to. When these errors were caught, the employees' pays were voided, affecting both the General Fund and Payroll Fund. However, an entry was needed in the Payroll Fund to put the payroll liabilities back on the books since they were already paid. The offset for this entry should be to receivables, and should be eliminated when the refunds are issued back to the payroll for those liabilities. The same is true for overpayments to employees owed back to the Payroll Fund.

We recommend management review how payroll overpayments to employees are being handled, and establish a consistent approach as far as where the refund from the employee is deposited, what entries are to be made, how the due to and due from accounts are to be tracked, and consider the different scenarios for when these errors are caught (e.g. – error caught after employee is paid but before payroll liabilities are paid vs error caught after both employee and liabilities are paid).

## **RECOMMENDATIONS**

### *Interfund Payables and Interfund Receivables*

We would like to recommend that management separately track interfund payable and interfund receivable accounts to each individual fund using sub accounts, as opposed to showing the net amount comprised in one account. It would help management to better reconcile amounts due back and forth to each fund. During our testing it was discovered that many of the interfund payables and receivables were not coded correctly, but instead were posted to accounts payable (0421) and accounts receivable (0153).

### *Athletic Season Pass Sales*

While testing the athletic game receipts, it was discovered that there is no valid documentation pertaining to the sales of season tickets for Girls and Boys Basketball. The only verification the athletic director was able to provide were deposits. This lack of documentation can create fraud or errors to occur without being detected by the sale of season tickets for cash.

We would like to suggest the season tickets be printed with sequential numbers on them, as well as a spreadsheet prepared to track all sales of these pre-numbered season tickets, to whom they are sold to; and if the revenue was collected in cash or check. Using these controls, the District will be able to verify how much season ticket revenue collected should be deposited into the account by verifying the number of tickets sold to the cash receipts.

### *Tax Collector Reports*

During our review of Current Real Estate and Interim Taxes we discovered management is reviewing the monthly tax collectors reports; however, the reports being filed are not in compliance. After summarizing the monthly reports, many of the reports showed discounts well past July and August of 2017. In accordance with tax law, the tax collectors should only be collecting payments with discounts for payments received in July and August at a 2% discount rate, collections in September and October should be collected at face, and collections occurring in November and December should be collected at

---

**Board of School Directors – Ms. Kristen Campbell, Superintendent**

---

a 10% penalty rate. The above said rule applies to both current and interim taxes with the exception being interims are levied at different periods through the year. The 2% discount, face, and 10% penalty rules still apply, but can change due to the timing of the levy. As an example, the tax collector bills a taxpayer for interim taxes in February, they are to accept payments for February and March at a 2% discount, April and May would be at face, June and July with a 10% penalty.

Management should make sure the tax collectors are following all of the proper procedures regarding the tax collection process and presentation. The monthly tax collectors report should be presented in a unified fashion showing all tax collections on one single summarized report. The report should have current real estate and interim taxes reported on the Act 169 report, any additional schedules supporting the figures should be filed as well, i.e. exonerations, insufficient funds/returned checks, and unpaid or collected balance reports. The balance from the prior month's ending should match the current month's beginning collectible amount and at the end of the tax collection period any amounts turned over to the delinquent tax collector be shown on the "less liens" line item of the tax collector's report.

Management should also make the tax collectors aware they are to file monthly reports and payments in a timely manner. The current law extends 10 days after month end to the tax collectors to make final payments and send the district their monthly reports. The reports should be signed and, if during the district's review, a mistake or error is found that information should be supplied to the tax collector and the tax collector should submit a revised report. Any unpaid bills needing to be turned over to the delinquent tax collector should be turned over by the 15<sup>th</sup> day following the closeout of the collection process.

We also wish to make the District aware, there are penalties that can be charged to each tax collector on a monthly basis when they are not following tax collection or reporting procedures based upon Tax Collection Law. Please contact your solicitor for further information.

*Tax Duplicate Reconciliation – Borough of Macungie*

During our review of the Borough of Macungie current and interim tax duplicates, it was discovered the amounts recorded as returned to the county did not match the delinquent list provided by the tax collector. The tax collector reported \$108,687.14 as turned over to the delinquent collector, the amount turned over should have been \$109,664.57, thus resulting in a difference of \$977.44.

We recommend management reconcile all tax duplicates to the monthly tax collectors reports in the future to alleviate any differences from occurring again and contact the tax collector to correct their report or delinquent list.

*Function Coding – Community College Tuition*

During our review of the General Fund's general ledger, we discovered management is recording community college payments to function 1700. Per the PA School Chart of accounts the proper function to be used is 1693.

We advise management to update their coding in the accounting system so that future payments are coded under function 1693 rather than 1700.

***OTHER INFORMATION***

*Activity Funds*

GASB Statement No. 84 on Fiduciary Activities becomes effective for the 2019-20 fiscal year. Since this date is a few years away, you might wonder why we are bringing it to your attention now. The reason is to provide the District ample time to change their recordkeeping on Student Clubs. When this Statement goes into effect, the Student Clubs will be considered Custodial Funds and there will be two financial statements: Statement of Net Position and Statement of Changes in Net Position. To make this easier think of a balance sheet and income statement.

Currently, most Districts report their disbursements as Deletions by School without breaking the disbursements into categories similar to the Food Service Fund. Receipts are reported as Additions without breaking out the categories of receipts. This new Statement will require management to separate receipts into revenue categories and disbursements into expense categories.

We wanted to give our clients ample time to revise their recordkeeping and computer systems to accommodate these changes.

*Leases*

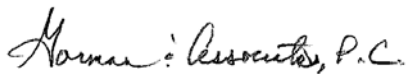
The Governmental Accounting Standards Board has issued Statement No. 87 dealing with Operating and Financing Leases. Under current accounting principles, only Financing Leases are recorded on the financial statements as assets and liabilities. Operating leases are shown as rent expense. As such, we have only been interested in capital or financing leases in past years, but the new standard below will require the need to audit all leases.

The new standard defines a lease as a contract that conveys control of the right to use another entity's non-financial asset as specified in the contract for a period of time. As such, all leases will be recorded on the financial statements as either a tangible or intangible asset with a corresponding liability for future present value of lease payments.

The effective date of this new standard occurs in the 2020-21 fiscal year.

This letter is required by our standards and has been combined with, what we previously referred to as the management letter. The intent of this letter is to communicate with those charged with governance on matters pertaining to the audit and includes information that we believe can help you correct or improve operating efficiency, under the limitations of staff availability, within the School District.

Respectively submitted,



November 26, 2018

**REPORT DISTRIBUTION LIST**

The East Penn School District has distributed copies of the Single Audit Act Package to the following:

ONE COPY TO:  
(Submitted Electronically)

BUREAU OF THE CENSUS  
DATA PREPARATION DIVISION

ONE COPY TO:  
(Submitted Electronically)

COMMONWEALTH OF PENNSYLVANIA  
OFFICE OF THE BUDGET/BUREAU OF AUDITS

ONE COPY TO :

CARBON-LEHIGH INTERMEDIATE UNIT  
4210 INDEPENDENCE DRIVE  
SCHNECKSVILLE, PA 18078

ONE COPY TO:

INTERMEDIATE UNIT 1  
ONE INTERMEDIAT UNIT DRIVE  
COAL CENTER, PA 15423-9642

ONE COPY TO:

LANCASTER - LEBANON I.U. #13  
ATTN: KEITH EARLE  
1020 NEW HOLLAND AVENUE  
LANCASTER, PA 17601

**FINANCIAL SECTION**



**GORMAN & ASSOCIATES, P.C.**

**CERTIFIED PUBLIC ACCOUNTANTS**

Members of  
American Institute of Certified Public Accountants  
Pennsylvania Institute of Certified Public Accountants  
Florida Institute of Certified Public Accountants

## **INDEPENDENT AUDITOR'S REPORT**

Board of School Directors  
East Penn School District  
800 Pine Street  
Emmaus, PA 18049

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the general fund budgetary comparison statement of the East Penn School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### ***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, the aggregate remaining fund information, and the general fund budgetary comparison statement of the East Penn 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 2-G to the financial statements, effective July 1, 2017, the East Penn School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, Financial Reporting for Postemployment Benefits by Employers, Governmental Accounting Standards Board Statement No. 81, Irrevocable Split-Interest Agreements, Governmental Accounting Standards Board Statement No. 85, Omnibus, Governmental Accounting Standards Board Statement No. 86, Certain Debt Extinguishment Issues and Implementation Guide 2017-1.

***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 12-21, the Schedules pertaining to the Defined Benefit Pension Plan, the Defined Contribution Pension Plan, the Multiple Employer OPEB Plan, and the Single Employer OPEB Plan on pages 92-98, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the East Penn School District's basic financial statements. The *combining and individual fund statements and schedules, and schedule of expenditures of federal awards, by Title 2 U.S. Code of Federal Regulations Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for federal awards, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The *combining and individual fund financial statements, schedules, and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for federal awards*, are the responsibility of management and were derived from and related to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, *the combining and individual fund financial statements, schedules, and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for federal awards*, are fairly stated in all material respects in relation to the basic financial statements as a whole.


*Supplementary Information – Statistical Tables*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the East Penn School District's basic financial statements. The Statistical Tables on pages 120-121, are presented for additional analysis pertaining to the District's annual submission to the National Repository, known as EMMA (Electronic Municipal Market Access) to satisfy the Securities and Exchange Commission requirements. This supplemental information is not part of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on this information.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2018, on our consideration of the East Penn 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 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 East Penn School District's internal control over financial reporting and compliance.

Respectfully submitted,



November 26, 2018

**East Penn School District  
Management's Discussion and Analysis**

---

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
(UNAUDITED)  
For the Year Ended June 30, 2018**

The discussion and analysis of East Penn School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the financial statements and notes to enhance their understanding of the District's financial performance.

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

**FINANCIAL HIGHLIGHTS**

- \* The District-wide total net position decreased by \$18,572,867 to a balance of (\$105,848,003).
- \* The governmental net position has decreased by \$18,609,734 to a balance of (\$104,006,278).
- \* The business type net position has increased by \$36,867 to a balance of (\$1,841,725).
- \* The District's General Fund Balances have increased by \$4,162,270 to a balance of \$14,620,016.

**USING THE ANNUAL FINANCIAL REPORT**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand East Penn School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The first two statements are government-wide financial statements - the Statement of Net Position and the Statement of Activities. These provide both long-term and short-term information about the District's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the District's operations in more detail than the government-wide statements. The governmental funds statements tell how general District 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 that the District operates like a business. For this District this is our Food Service Fund. Fiduciary fund statements provide information about financial relationships where the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

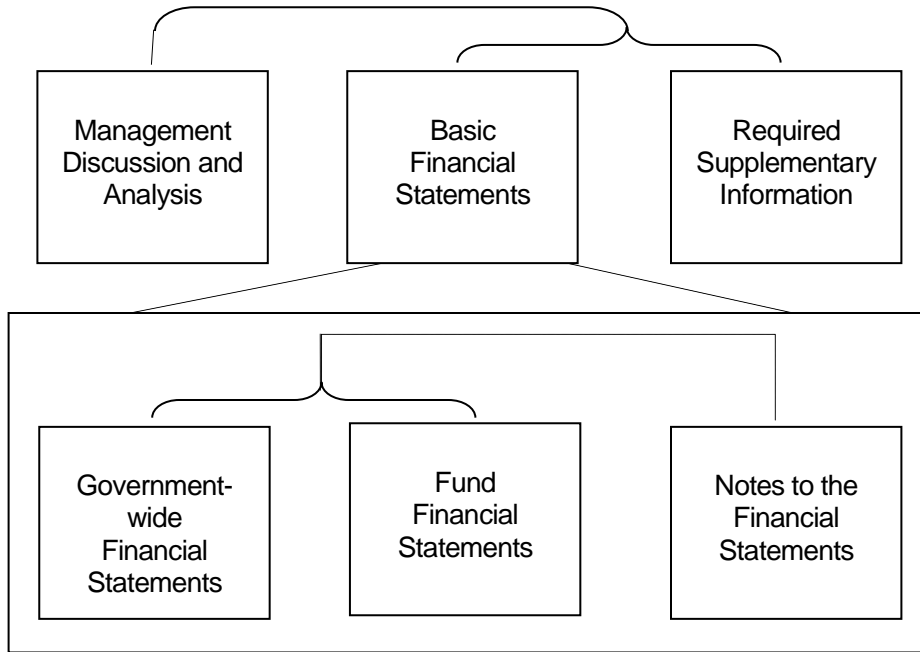
The financial statements also include notes that explain some of the information in the financial statements.

**East Penn School District  
Management's Discussion and Analysis**

---

Figure A-1 shows how the required parts of the Financial Section are arranged and relate to one another:

**Figure A-1  
Required components of  
East Penn School District's  
Financial Report**



**East Penn School District  
Management's Discussion and Analysis**

---

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District they cover and the types of information they contain. The remainder of this overview section of management discussion and analysis explains the structure and contents of each of the statements.

**Figure A-2  
Major Features of East Penn School District's  
Government-wide and Fund Financial Statements**

	Fund Statements			
	Government-wide Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as education, administration and community services	Activities the District operates similar to private business - Food Services	Instances in which the District is the trustee or agent to someone else's resources - Scholarship Funds
Required financial statements	Statement of net position Statement of activities	Balance Sheet Statement of revenues, expenditures, and changes in fund balance	Statement of net position Statement of revenues, expenses and changes in net position Statement of cash flows	Statement of fiduciary net position Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow-outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

## **OVERVIEW OF FINANCIAL STATEMENTS**

### *Government-wide Statements*

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government'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 cash is received or paid.

The two government-wide statements report the District's net position and how they have changed. Net Position, the difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, are one way to measure the District's financial health or position.

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

To assess the overall health of the District, you need to consider additional factors, such as the increasing property tax base, outlook for future growth, strength of financial policies and planning, and student performance and achievement.

The government-wide financial statements of the District are divided into two categories:

- **Governmental activities** - All of the District's basic services are included here, such as instruction, administration and community services. Property taxes and state and federal subsidies and grants finance most of these activities.
- **Business type activities** -The District operates a food service operation and charges fees to staff, students and visitors to help it cover the costs of the food service operation.

### *Fund Financial Statements*

The District's fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required by state law and by bond requirements.

*Governmental funds* - Most of the District's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

*Proprietary funds* - These funds are used to account for the District activities that are similar to business operations in the private sector; or where the reporting is on determining net income, financial position, changes in financial position, and a significant portion of funding through user charges. When the District charges customers for services it provides - whether to outside customers or to other units in the District - these services are generally reported in proprietary funds. The Food Service Fund is the District's proprietary fund and is the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows.

**East Penn School District  
Management's Discussion and Analysis**

---

*Fiduciary funds* - The District is the trustee, or fiduciary, for some scholarship funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position. We exclude these activities from the District's other financial statement because the District cannot use these assets to finance its operations.

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

The District's total net position is (\$105,848,003) at June 30, 2018. This reflects a decrease in net position of \$18,272,867 from the previous fiscal year.

**Table A-1  
Fiscal Year ended June 30, 2018  
Net Position**

	<u>2018</u>			<u>2017</u>		
	Govern- mental Activities	Business- Type Activities	Total Primary Government	Govern- mental Activities	Business- Type Activities	Total Primary Government
Current assets	\$ 32,858,529	\$ 1,819,011	\$ 34,677,540	\$ 29,860,634	\$ 1,228,121	\$ 31,088,755
Non-Current assets	144,076,114	322,628	144,398,742	146,935,623	318,977	147,254,600
Deferred Outflow of Resources	36,161,394	620,787	36,782,181	46,148,495	805,855	46,954,350
<b>Total Assets &amp; Deferred Outflow of Resources</b>	<b>\$ 213,096,037</b>	<b>\$ 2,762,426</b>	<b>\$ 215,858,463</b>	<b>\$ 222,944,752</b>	<b>\$ 2,352,953</b>	<b>\$ 225,297,705</b>
Current and other liabilities	\$ 23,348,235	\$ 433,117	\$ 23,781,352	\$ 25,782,541	\$ 163,012	\$ 25,945,553
Long-term liabilities	292,765,405	4,160,518	296,925,923	279,838,285	4,027,077	283,865,362
Deferred Inflow of Resources	988,675	10,516	999,191	2,720,470	41,456	2,761,926
<b>Total Liabilities &amp; Deferred Inflow of Resources</b>	<b>317,102,315</b>	<b>4,604,151</b>	<b>321,706,466</b>	<b>308,341,296</b>	<b>4,231,545</b>	<b>312,572,841</b>
<b>Net Position</b>						
Net Investment in Capital Assets	86,760,856	322,628	87,083,484	78,487,377	318,977	78,806,354
Retirement of Long-Term Debt	-	-	-	-	-	-
Other Restrictions	2,310,444	-	2,310,444	3,288,018	-	3,288,018
Unrestricted	<u>(193,077,578)</u>	<u>(2,164,353)</u>	<u>(195,241,931)</u>	<u>(167,171,939)</u>	<u>(2,197,569)</u>	<u>(169,369,508)</u>
<b>Total Net Position</b>	<b><u>104,006,278</u></b>	<b><u>(1,841,725)</u></b>	<b><u>(105,848,003)</u></b>	<b><u>(85,396,544)</u></b>	<b><u>(1,878,592)</u></b>	<b><u>(87,275,136)</u></b>
<b>Total Liabilities, Deferred Inflow of Resources, &amp; Net Position</b>	<b>\$ 213,096,037</b>	<b>\$ 2,762,426</b>	<b>\$ 215,858,463</b>	<b>\$ 222,944,752</b>	<b>\$ 2,352,953</b>	<b>\$ 225,297,705</b>

Most of the District's net position is invested in capital assets (buildings, land, and equipment) totaling \$87,083,484. The remaining unrestricted net portion is a combination of designated and undesignated amounts. The designated capital projects balance of \$2,310,444 is set aside to fund capital projects as planned by the district. The unrestricted net position reflects a negative balance of (\$195,241,931).

The results of this year's operations as a whole are reported in the Statement of Activities. All expenses are reported in the first column. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are represented to determine the final amount of the District's activities that are supported by other general revenues. The two largest general revenues are the Basic Education Subsidy provided by the State of Pennsylvania, and the local taxes assessed to community taxpayers.

Additional information is provided in the notes to the financial statements.

**East Penn School District  
Management's Discussion and Analysis**

Table A-2 takes the information from that Statement and rearranges it slightly, so that you can see our total revenues for the year.

**Table A-2  
Fiscal Year ended June 30, 2018  
Changes in Net Position**

	<u>2018</u>			<u>2017</u>		
	Govern- mental Activities	Business- Type Activities	Total Primary Government	Govern- mental Activities	Business- Type Activities	Total Primary Government
<b>REVENUES</b>						
<i>Program revenues</i>						
Charges for services	\$ 386,984	\$ 2,137,069	\$ 2,524,053	\$ 363,147	\$ 2,087,011	\$ 2,450,158
Operating grants and contributions	20,964,046	1,743,012	22,707,058	20,052,921	1,602,717	21,655,638
Capital grants and contributions	1,279,910	-	1,279,910	1,362,029	-	1,362,029
<i>General revenues</i>						
Property taxes	94,738,640	-	94,738,640	90,987,106	-	90,987,106
Other taxes	11,404,874	-	11,404,874	10,702,685	-	10,702,685
Grants, subsidies and contributions, unrestricted	13,639,880	-	13,639,880	13,403,405	-	13,403,405
Other	810,967	602	811,569	950,087	(1,690)	948,397
<b>TOTAL REVENUES</b>	<b>\$ 143,225,301</b>	<b>\$ 3,880,683</b>	<b>\$ 147,105,984</b>	<b>\$ 137,821,380</b>	<b>\$ 3,688,038</b>	<b>\$ 141,509,418</b>
<b>EXPENSES</b>						
Instruction	\$ 90,137,356	\$ -	\$ 90,137,356	\$ 89,872,518	\$ -	\$ 89,872,518
Instructional student support	11,093,585	-	11,093,585	11,298,430	-	11,298,430
Administrative and financial support	9,468,552	-	9,468,552	9,531,412	-	9,531,412
Operation and maintenance of plant	12,657,154	-	12,657,154	12,871,472	-	12,871,472
Pupil transportation	7,657,170	-	7,657,170	7,267,866	-	7,267,866
Student activities	2,109,091	-	2,109,091	1,806,572	-	1,806,572
Community services	50,102	-	50,102	63,501	-	63,501
Scholarships and awards	250	-	-	-	-	-
Interest on long-term debt	1,404,121	-	1,404,121	1,480,312	-	1,480,312
Unallocated depreciation expense	4,356,647	-	4,356,647	4,292,103	-	4,292,103
Food Services	-	3,668,363	3,668,363	-	3,620,275	3,620,275
<b>TOTAL EXPENSES</b>	<b>138,934,028</b>	<b>3,668,363</b>	<b>142,602,141</b>	<b>138,484,186</b>	<b>3,620,275</b>	<b>142,104,461</b>
<b>Increase (decrease) in net position</b>	<b>\$ 4,291,273</b>	<b>\$ 212,320</b>	<b>\$ 4,503,593</b>	<b>\$ (662,806)</b>	<b>\$ 67,763</b>	<b>\$ (595,043)</b>
Total Net Position - Beginning	\$ (85,396,544)	\$ (1,878,592)	\$ (87,275,136)	\$ (84,733,738)	\$ (1,946,355)	\$ (86,680,093)
Prior Period Adjustment	(22,901,007)	(175,453)	(23,076,460)	-	-	-
<b>Total Net Position - Ending</b>	<b>\$ (104,006,278)</b>	<b>\$ (1,841,725)</b>	<b>\$ (105,848,003)</b>	<b>\$ (85,396,544)</b>	<b>\$ (1,878,592)</b>	<b>\$ (87,275,136)</b>

The tables below present the expenses of both the Governmental Activities and the Business-type Activities of the District.

Table A-3 shows the District's eight largest functions - instructional programs, instructional student support, administrative, operation and maintenance of plant, pupil transportation, student activities, community services, food service as well as each program's net cost (total cost less revenues generated by the activities). This table also shows the net costs offset by the other unrestricted grants, subsidies, and contributions to show the remaining financial needs supported by local taxes and other miscellaneous revenues.



**East Penn School District  
Management's Discussion and Analysis**

**Table A-3  
Fiscal Year ended June 30, 2018  
Governmental Activities**

<b>Functions/Programs</b>	<b>2018</b>		<b>2017</b>	
	<b>Total Cost of Services</b>	<b>Net Cost of Services</b>	<b>Total Cost of Services</b>	<b>Net Cost of Services</b>
Instruction	\$ 90,137,356	\$ 75,422,119	\$ 89,872,518	\$ 75,289,654
Instructional student support	11,093,585	8,945,052	11,298,430	9,881,256
Administrative	9,468,552	8,527,082	9,531,412	8,675,115
Operation and maintenance	12,657,154	11,674,279	12,871,472	11,939,072
Pupil transportation	7,657,170	5,478,732	7,267,866	4,967,472
Scholarships and awards	2,109,091	1,733,069	1,806,572	1,488,716
Student activities	50,102	41,647	63,501	54,418
Community services	250	-	-	-
Interest on long-term debt	1,404,121	124,211	1,480,312	118,283
Unallocated depreciation expense	4,356,647	4,356,647	4,292,103	4,292,103
<b>Total governmental activities</b>	<b>\$ 138,934,028</b>	<b>\$ 116,303,088</b>	<b>\$ 138,484,186</b>	<b>\$ 116,706,089</b>
Less:				
Unrestricted grants, subsidies		13,639,880		13,403,405
<b>Total needs from local taxes and other revenues</b>		<b>\$ 102,663,208</b>		<b>\$ 103,302,684</b>

Table A-4 reflects the activities of the Food Service program, the only Business-type activity of the District.

**Table A-4  
Fiscal Year ended June 30, 2018  
Business – Type Activities**

<b>Functions/Programs</b>	<b>2018</b>		<b>2017</b>	
	<b>Total Cost of Services</b>	<b>Net Cost of Services</b>	<b>Total Cost of Services</b>	<b>Net Cost of Services</b>
Food Services	\$ 3,668,363	\$ 212,718	\$ 3,620,275	\$ (69,453)
Less:				
Investment earnings & other misc.		602		1,690
<b>Total business-type activities</b>		<b>\$ 213,320</b>		<b>\$ (67,763)</b>

The Statement of Revenues, Expenses and Changes in Fund Net Position for this proprietary fund will provide further detail on the actual results of operations.

**THE DISTRICT FUNDS**

At June 30, 2018, the District governmental funds reported a combined fund balance of \$16,939,027, an increase of \$3,193,263 from the previous year.

General fund revenues and other sources exceeded expenditures by \$4,162,270 which resulted in an ending total General Fund balance of \$14,620,016.

**East Penn School District  
Management's Discussion and Analysis**

---

With the implementation of GASB Statement #54, Capital Reserve Fund balances are now reported as part of the Capital Projects balances. The overall Capital Projects Fund balances have decreased by \$969,007, which resulted in ending balances of \$2,319,011.

The District utilizes the Capital Reserve Fund to actively prepare for unexpected and proposed capital projects each year. In order to fund these projects without the need for additional borrowing issues, the district has established this fund and makes transfers from available fund balance of the General Fund to this fund. Capital outlay projects and support costs of \$981,010 were covered by the Capital Reserve Fund, while no transfer was received from the General Fund, so the Capital Reserve Fund's fund balance decreased by \$977,574.

#### General Fund Budget

During the fiscal year, the Board of School Directors (The Board) authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the District. All adjustments are again confirmed at the time the annual audit is accepted, which is after the end of the fiscal year. These types of adjustments are not prohibited by state law. The District's original and final budget amounts compared with amounts actually paid and received is provided on the Statement of Revenues' Expenditures and Changes in Fund Balance-Budget and Actual-General Fund.

The General Fund overall operating revenues of \$143,357,721 were \$2,485,783 greater than originally budgeted. Local revenues were \$2,621,941 higher than budgeted due to real estate, earned income taxes and other revenues exceeding budgeted levels. State subsidy revenues were \$35,505 less than budgeted. Higher than budgeted basic education, special education, orphan, PlanCon and safe school revenues offset by lower than budgeted reimbursements for transportation, FICA and retirement. Federal grant revenues were 100,653 less than budgeted. Title 1 and Title 3 and ACCESS revenues were less than budgeted which offset increase funding from other federal grants.

Total expenditures and financing uses of \$139,195,451 (excluding budgetary reserve) were \$2,322,028 lower than originally budgeted. Charter school and special education costs exceeded original budget projections offset by positive budget variances in a majority of other categories.

Further, the budgeted budgetary reserve amount of \$7,069,700 was not needed, as there were no significant, unexpected expenditures during the year. While the District does prepare a budget with a reserve each year for unexpected emergencies, this expenditure is dependent upon actual experience during the fiscal year.

Transfers between specific categories of expenditures/financing uses occur during the year. The most significant transfers occur due to use of grant funds, whose amounts are not known at the time that the budget must be approved.

**East Penn School District  
Management's Discussion and Analysis**

---

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**CAPITAL ASSETS**

At June 30, 2018, the District had \$144,076,114 invested in a broad range of capital assets, including land, buildings, furniture and equipment. This amount represents a net decrease (including additions, deletions and depreciation) of \$2,859,509, or 1.94% from last year.

**Table A-5  
Governmental Activities  
Fiscal Year Ended June 30, 2018  
Capital Assets - Net of Depreciation**

	<b>2018</b>	<b>2017</b>
Land	\$ 10,665,048	\$ 10,665,048
Site Improvements	6,614,099	6,614,099
Buildings	196,612,424	196,322,613
Furniture & Equipment	6,472,559	5,059,121
Construction in Progress	<u>35,388</u>	<u>7,181</u>
<b>Total Capital Assets</b>	<b>\$ 220,399,518</b>	<b>\$ 218,668,062</b>
Less: Accumulated Depreciation	<u>(76,323,404)</u>	<u>(71,732,439)</u>
<b>Total Capital Assets, net of Accum. Depr.</b>	<b>\$ 144,076,114</b>	<b>\$ 146,935,623</b>

**DEBT ADMINISTRATION**

As of July 1, 2017, the District had total outstanding debt of \$68,724,000. During the year, the District issued \$22,920,000 in additional debt, but retired and repaid \$34,980,000 resulting in ending outstanding debt as of June 30, 2018 of \$56,664,000.

**Table A-6  
Outstanding Debt**

	<b>2018</b>	<b>2017</b>
General Obligation Notes/Bonds:		
- Bonds, Series of 2018	\$ 22,920,000	\$ -
- Notes, Series of 2016	6,519,000	6,524,000
- Bonds, Series B of 2015	3,570,000	4,040,000
- Bonds, Series A of 2015	-	1,910,000
- Bonds, Series A of 2014	-	2,660,000
- Bonds, Series of 2014	7,080,000	7,595,000
- Bonds, Series of 2013	420,000	1,610,000
- Bonds, Series A of 2012	7,455,000	8,100,000
- Bonds, Series of 2012	8,700,000	9,095,000
- Notes, Series A of 2007	-	11,600,000
- Notes, Series A of 2004	-	7,100,000
- Notes, Series A of 2003	-	7,000,000
- Notes, Series of 1998	<u>-</u>	<u>1,490,000</u>
<b>TOTAL</b>	<b>\$ 56,664,000</b>	<b>\$ 68,724,000</b>

**East Penn School District  
Management's Discussion and Analysis**

---

Other obligations include accrued vacation pay and sick leave for specific employees of the District. More detailed information about our long-term liabilities is included in the notes to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The revenue budget for the 2018-2019 year is \$5,103,376 higher than the original budget of 2017 - 2018, representing a 3.62% increase in budget revenues and includes a 0.2958 mil or 1.64% real estate tax increase.

With the passage of Act 1, the District was required to pass a preliminary budget in January and obtain approval for increasing taxes above an allowed index or pass a resolution stating that the index would not be exceeded. The 2018-2019 Act 1 index was 2.8% and the District approved a preliminary budget resolution which limited the final tax rate increase to the 2.8% Act 1 index. The 2017-2018 final budget adopted reflects a real estate tax rate of 18.3808 mils, a 1.63% rate increase.

The expenditure budget for the 2018-2019 year is \$4,693,935 higher than the original budget for 2017-2018, or a 3.16% increase. The budgetary reserve accounts for \$7,069,700 of the total expenditure budget.

The comparison of original budgeted revenue and expenditure categories is as follows:

**Table A-7  
BUDGETED REVENUES**

	<b>2018-2019</b>	<b>2017-2018</b>
Local	75.6%	75.4%
State	23.6%	23.7%
Federal/Other	0.8%	0.9%

**BUDGETED EXPENDITURES**

	<b>2018-2019</b>	<b>2017-2018</b>
Instruction	59.6%	58.0%
Support Services	26.9%	27.1%
Non-Instruction/Community	1.3%	1.3%
Fund Transfers/Debt	12.2%	13.6%

**CONTACTING THE DISTRICT FINANCIAL MANAGEMENT**

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Robert E. Saul, Business Administrator at East Penn School District, 800 Pine Street, Emmaus, PA 18049, and (610) 966-8307

**BASIC FINANCIAL STATEMENTS**

**East Penn School District**  
**Statement of Net Position**  
**As of June 30, 2018**

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 21,950,888	\$ 1,663,137	\$ 23,614,025
Restricted Cash	1,700,943	-	1,700,943
Investments	500,000	-	500,000
Receivables, net	2,413,892	-	2,413,892
Internal Balances	294,954	40,737	-
Due From Other Governments	5,811,459	58,384	5,869,843
Other Receivables	80,213	1,353	81,566
Inventories	9,488	55,400	64,888
Prepaid Expenses	85,853	-	85,853
Other Current Assets	10,839	-	10,839
<b>Total Current Assets</b>	<b>32,858,529</b>	<b>1,819,011</b>	<b>34,341,849</b>
<b>Non-Current Assets</b>			
Other Long-Term Receivables	-	-	-
Land	10,665,048	-	10,665,048
Site Improvements (net of depreciation)	1,950,697	-	1,950,697
Building and Bldg. Improvements (net of depreciation)	128,972,329	-	128,972,329
Furniture and Equipment (net of depreciation)	2,452,652	322,628	2,775,280
Construction in Progress	35,388	-	35,388
<b>Total Non-Current Assets</b>	<b>144,076,114</b>	<b>322,628</b>	<b>144,398,742</b>
<b>Total Assets</b>	<b>\$ 176,934,643</b>	<b>\$ 2,141,639</b>	<b>\$ 178,740,591</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Outflows of Resources - Change in Proportion of NPL	4,065,588	80,412	4,146,000
Deferred Outflows of Resources - Current Year Contributions	20,080,696	330,577	20,411,273
Deferred Outflows of Resources - Changes in Assumptions	5,680,045	109,320	5,789,365
Deferred Outflows of Resources - Diff. in Projected vs Actual Invest. Earnings	4,954,069	84,931	5,039,000
Deferred Outflows of Resources - Diff. between Expected vs Actual Experience	906,907	15,547	922,454
Deferred Amount on Debt Refundings, net	474,089	-	474,089
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 213,096,037</b>	<b>\$ 2,762,426</b>	<b>\$ 215,522,772</b>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Internal Balances	\$ 40,737	\$ 294,954	\$ -
Due to other governments	522,110	-	522,110
Accounts Payable	754,275	53,284	807,559
Current Portion of Long-Term Obligations	9,154,619	-	9,154,619
Accrued Salaries and Benefits	12,686,814	-	12,686,814
Payroll Deductions and Withholdings	-	-	-
Prepayments	-	84,879	84,879
Deposit Payable	-	-	-
Other Current Liabilities	189,680	-	189,680
<b>Total Current Liabilities</b>	<b>23,348,235</b>	<b>433,117</b>	<b>23,445,661</b>
<b>Non-Current Liabilities</b>			
Bonds and Notes Payable	48,826,347	-	48,826,347
Lease Purchase Obligations	-	-	-
Long-Term Portion of Compensated Absences	1,802,945	34,034	1,836,979
Net OPEB Liability - Single Employer Plan	21,653,162	38,712	21,691,874
Net OPEB Liability - Multiple Employer Plan	8,798,405	154,347	8,952,752
Net Defined Benefit Pension Liability	211,125,063	3,933,425	215,058,488
Net Defined Contribution Pension Liability	559,483	-	559,483
<b>Total Liabilities</b>	<b>316,113,640</b>	<b>4,593,635</b>	<b>320,371,584</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Inflows of Resources - Diff. in Projected vs Actual Contributions	587,762	10,516	598,278
Deferred Inflows of Resources - Diff. between Expected vs Actual Experience	-	-	-
Deferred Inflows of Resources - Diff. between Proportionate Share vs Actual Pd. - POS	86,626	-	86,626
Deferred Inflows of Resources - Change in Proportion of NPL	-	-	-
Unearned Revenue from TIF arrangement/Deposit on Sale	314,287	-	314,287
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>317,102,315</b>	<b>4,604,151</b>	<b>321,370,775</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	86,760,856	322,628	87,083,484
<b>Restricted For:</b>			
Retirement of Long-Term Debt	-	-	-
Capital Projects	2,310,444	-	2,310,444
Other Restrictions	-	-	-
Unrestricted (deficit)	(193,077,578)	(2,164,353)	(195,241,931)
<b>TOTAL NET POSITION</b>	<b>(104,006,278)</b>	<b>(1,841,725)</b>	<b>(105,848,003)</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>\$ 213,096,037</b>	<b>\$ 2,762,426</b>	<b>\$ 215,522,772</b>

The Accompanying Notes are an integral part of these financial statements.

(1) Internal balances represent the amount owed to or from the two types of activities within the Primary Government. Since internal balances do not represent assets or liabilities of the total Primary Government, their balances are eliminated in the "total" column (GASB Statement No. 34, para. 58).

**East Penn School District  
Statement of Activities  
For the Year Ended June 30, 2018**

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>GOVERNMENTAL ACTIVITIES:</b>							
Instruction	\$ 90,137,356	\$ 162,241	\$ 14,552,996	\$ -	\$ (75,422,119)	\$ -	\$ (75,422,119)
Instructional Student Support	11,093,585	-	2,148,533	-	(8,945,052)	-	(8,945,052)
Admin. & Fin'l Support Services	9,468,552	-	941,470	-	(8,527,082)	-	(8,527,082)
Oper. & Maint. of Plant Svcs.	12,657,154	-	982,875	-	(11,674,279)	-	(11,674,279)
Pupil Transportation	7,657,170	-	2,178,438	-	(5,478,732)	-	(5,478,732)
Student activities	2,109,091	224,743	151,279	-	(1,733,069)	-	(1,733,069)
Community Services	50,102	-	8,455	-	(41,647)	-	(41,647)
Scholarships and Awards	250	-	-	-	(250)	-	(250)
Interest on Long-Term Debt	1,404,121	-	-	1,279,910	(124,211)	-	(124,211)
Unallocated Depreciation Expense	4,356,647	-	-	-	(4,356,647)	-	(4,356,647)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>138,934,028</b>	<b>386,984</b>	<b>20,964,046</b>	<b>1,279,910</b>	<b>(116,303,088)</b>	<b>-</b>	<b>(116,303,088)</b>
<b>BUSINESS-TYPE ACTIVITIES:</b>							
Food Services	3,668,363	2,137,069	1,743,012	-	-	211,718	211,718
Other Enterprise Funds	-	-	-	-	-	-	-
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 142,602,391</b>	<b>\$ 2,524,053</b>	<b>\$ 22,707,058</b>	<b>\$ 1,279,910</b>	<b>\$ (116,303,088)</b>	<b>\$ 211,718</b>	<b>\$ (116,091,370)</b>
<b>GENERAL REVENUES:</b>							
Property taxes Levied for general purposes, net					\$ 94,738,640	\$ -	\$ 94,738,640
Taxes levied for specific purposes					11,404,874	-	11,404,874
Grants, subsidies, & contributions not restricted					13,639,880	-	13,639,880
Investment Earnings					449,092	602	449,694
Miscellaneous Income					361,875	-	361,875
Special item - Gain (Loss) on sale of capital assets					-	-	-
Extraordinary Items					-	-	-
Transfers					-	-	-
<b>TOTAL GENERAL REVENUES, SPECIAL ITEMS, EXTRAORDINARY ITEMS, AND TRANSFERS</b>					<b>120,594,361</b>	<b>602</b>	<b>120,594,963</b>
<b>CHANGES IN NET POSITION</b>					<b>4,291,273</b>	<b>212,320</b>	<b>4,503,593</b>
<b>NET POSITION - BEGINNING</b>					<b>(85,396,544)</b>	<b>(1,878,592)</b>	<b>(87,275,136)</b>
<b>Prior Period Adjustment</b>					<b>(22,901,007)</b>	<b>(175,453)</b>	<b>(23,076,460)</b>
<b>NET POSITION - ENDING</b>					<b>\$ (104,006,278)</b>	<b>\$ (1,841,725)</b>	<b>\$ (105,848,003)</b>

The Accompanying Notes are an integral part of these financial statements.

**East Penn School District  
Balance Sheet  
Governmental Funds  
As of June 30, 2018**

	GENERAL	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 21,787,481	\$ 163,408	\$ 21,950,889
Restricted Cash	-	1,700,943	1,700,943
Investments	-	500,000	500,000
Taxes Receivable, net	2,413,892	-	2,413,892
Due from other funds	297,947	-	297,947
Due from Other Governments	5,811,459	-	5,811,459
Other Receivables	76,075	1,145	77,220
Inventories	-	-	-
Prepaid Expenditures	85,853	-	85,853
Other Current Assets	10,839	-	10,839
<b>TOTAL ASSETS</b>	<b>\$ 30,483,546</b>	<b>\$ 2,365,496</b>	<b>\$ 32,849,042</b>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Deferred Charges of Bond Refundings, net	-	-	-
<b>TOTAL ASSETS &amp; DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 30,483,546</b>	<b>\$ 2,365,496</b>	<b>\$ 32,849,042</b>
<b><u>LIABILITIES</u></b>			
Due to Other Funds	\$ 40,737	\$ -	\$ 40,737
Due to Other Governments	522,110	-	522,110
Accounts Payable	707,791	46,485	754,276
Current Portion of Long-Term Debt	191,619	-	191,619
Accrued Salaries and Benefits	12,686,814	-	12,686,814
Payroll Deductions and Withholdings	-	-	-
Deposit Payable	-	-	-
Other Current Liabilities	8,367	-	8,367
<b>TOTAL LIABILITIES</b>	<b>14,157,438</b>	<b>46,485</b>	<b>14,203,923</b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Unearned Revenue from Property Taxes	1,706,092	-	1,706,092
<b>TOTAL LIABILITIES &amp; DEFERRED INFLOWS OF RESOURCES</b>	<b>15,863,530</b>	<b>46,485</b>	<b>15,910,015</b>
<b><u>FUND BALANCES:</u></b>			
Nonspendable Fund Balance	85,853	-	85,853
Restricted Fund Balance	48,975	2,310,444	2,359,419
Committed Fund Balance	-	-	-
Assigned Fund Balance	7,305,800	8,567	7,314,367
Unassigned Fund Balance	7,179,388	-	7,179,388
<b>TOTAL FUND BALANCES</b>	<b>14,620,016</b>	<b>2,319,011</b>	<b>16,939,027</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 30,483,546</b>	<b>\$ 2,365,496</b>	<b>\$ 32,849,042</b>

The Accompanying Notes are an integral part of these financial statements.



**East Penn School District  
Reconciliation of the Governmental Funds Balance Sheet  
to the Statement of Net Position  
As of June 30, 2018**

**TOTAL FUND BALANCES - GOVERNMENTAL FUNDS** \$ 16,939,027

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$220,399,518 and the accumulated depreciation is \$76,323,404. 144,076,114

Additional receivables established that do not meet the availability criteria reflected in the fund financial statements. This amount represents the difference between the prior year receivables and the current year receivables established under the accrual basis of accounting. -

This represents deferred outflows of resources resulting in deferred charges on refunding prior bond issues. 474,089

Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. 1,391,805

The governmental funds follow the purchase method of inventory; therefore no inventory is reflected on the balance sheet. However, the statement of net position uses the consumption method of inventory. 9,488

This represents the deferred outflows of resources, net of deferred inflows of resources pertaining to the Net Pension/OPEB Liabilities 35,012,917

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Bonds payable	\$ (57,789,347)	
Accrued interest on the bonds	(181,313)	
Compensated absences	(1,802,945)	
Net Defined Contribution Pension Obligation	(559,483)	
Net Defined Benefit Pension Liability	(211,125,063)	
Net OPEB Liability - Single Employer Plan	(21,653,162)	
Net OPEB Liability - Multiple Employer Plan	(8,798,405)	
	(301,909,718)	(301,909,718)

**TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES** **\$ (104,006,278)**

The Accompanying Notes are an integral part of these financial statements.

**East Penn School District**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2018**

	<u>GENERAL</u>	<u>NON-MAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>REVENUES</b>			
Local Sources	\$ 108,894,020	\$ 3,436	\$ 108,897,456
State Sources	33,375,810	-	33,375,810
Federal Sources	1,087,891	-	1,087,891
<b>TOTAL REVENUES</b>	<u>143,357,721</u>	<u>3,436</u>	<u>143,361,157</u>
<b>EXPENDITURES</b>			
Instruction	84,992,247	-	84,992,247
Support Services	39,413,735	348,358	39,762,093
Operation of Non-Instructional Services	2,072,749	-	2,072,749
Capital Outlay	-	872,398	872,398
Debt Service	12,716,720	-	12,716,720
<b>TOTAL EXPENDITURES</b>	<u>139,195,451</u>	<u>1,220,756</u>	<u>140,416,207</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>4,162,270</u>	<u>(1,217,320)</u>	<u>2,944,950</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from Bond Issues	-	-	-
Refunding Bond Proceeds	-	22,920,000	22,920,000
Bond Premiums	-	888,313	888,313
Interfund Transfers In	-	-	-
Sale/Compensation for Fixed Assets	-	-	-
Payment to bond refunding escrow agent	-	(23,560,000)	(23,560,000)
Bond Discounts	-	-	-
Refunds of Prior Year Receipts	-	-	-
Operating Transfers Out	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>248,313</u>	<u>248,313</u>
<b>SPECIAL/EXTRAORDINARY ITEMS</b>			
Special Items	-	-	-
Extraordinary Items	-	-	-
<b>NET CHANGE IN FUND BALANCES</b>	4,162,270	(969,007)	3,193,263
<b>FUND BALANCES - BEGINNING</b>	<u>10,457,746</u>	<u>3,288,018</u>	<u>13,745,764</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 14,620,016</u>	<u>\$ 2,319,011</u>	<u>\$ 16,939,027</u>

The Accompanying Notes are an integral part of these financial statements.

**East Penn School District  
Reconciliation of the Governmental Funds  
Statement of Revenues, Expenditures, and Changes In Fund Balances  
to the Statement of Activities  
For the Year Ended June 30, 2018**

**NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS** \$ 3,193,263

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Depreciation expense	\$ 4,590,965	
less - capital outlays	<u>1,731,456</u>	(2,859,509)

In the statement of activities, only the gain on the sale of the capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the cost of fixed assets sold.

-

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred inflows of resources increased by this amount this year.

(135,856)

Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

11,420,000

In the statement of activities, certain operating expenses--compensated absences (vacations) and special termination benefits (early retirement) - are measured by the amounts earned during the year. In the governmental funds; however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used.

46,614

**SUB-TOTAL IN CHANGES BETWEEN BASIS OF ACCOUNTING** **11,664,512**

**East Penn School District  
Reconciliation of the Governmental Funds  
Statement of Revenues, Expenditures, and Changes In Fund Balances  
to the Statement of Activities  
For the Year Ended June 30, 2018**

**SUB-TOTAL IN CHANGES BETWEEN BASIS OF ACCOUNTING** \$ 11,664,512  
**(cont'd)**

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. This would include accumulated interest accreted on capital appreciation bonds. The additional interest accrued in the statement of activities over the amount due is shown here. (107,401)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Refunding bond issues becomes a use of current financial resources in governmental funds, but refundings represent payments of long-term debt in the statement of net position. This figure represents the difference between bond proceeds and refunding payments made to paying agents. (248,313)

In the statement of activities, certain operating revenues are recognized when earned versus the revenues using the modified accrual basis of accounting in the fund statements that are recognized when the funds are available. As such, the amount shown here represents the difference between earned revenues and revenues that are earned, but not available. -

The governmental funds use the purchase method of inventory, where all items purchased are charged to expenditures. However, the statement of activities is reflected on the consumption method of recording inventory type items; therefore, this adjustment reflects the inventory difference. (3,258)

The difference between current year pension/OPEB expense reported on the governmental activities column of the government-wide financial statements and the pension/OPEB contributions made this past year reported as expenditures in the governmental funds. (7,014,267)

**CHANGE IN NET POSITION ON GOVERNMENTAL ACTIVITIES** **\$ 4,291,273**

The Accompanying Notes are an integral part of these financial statements.

**East Penn School District**  
**Statement of Fund Net Position - Proprietary Funds**  
**As of June 30, 2018**

	<b>FOOD SERVICE</b>	<b>NON-MAJOR FUNDS</b>	<b>TOTAL</b>
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	\$ 1,663,137	\$ -	\$ 1,663,137
Investments	-	-	-
Due from other funds	41,772	-	41,772
Due From Other Governments	58,384	-	58,384
Other Receivables	318	-	318
Inventories	55,400	-	55,400
Prepaid expenses	-	-	-
Other Current Assets	-	-	-
<b>TOTAL CURRENT ASSETS</b>	1,819,011	-	1,819,011
<b>NON-CURRENT ASSETS:</b>			
Building & Bldg. Improvements (net)	-	-	-
Machinery & Equipment (net)	322,628	-	322,628
Other Long-Term Receivables	-	-	-
<b>TOTAL NON-CURRENT ASSETS</b>	322,628	-	322,628
<b>TOTAL ASSETS</b>	\$ 2,141,639	\$ -	\$ 2,141,639
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Outflows of Resources - Change in Proportion of NPL	80,412	-	80,412
Deferred Outflows of Resources - Current Year Contributions	330,577	-	330,577
Deferred Outflows of Resources - Changes in Assumptions	109,320	-	109,320
Deferred Outflows of Resources - Diff. in Projected vs Actual Contributions	-	-	-
Deferred Outflows of Resources - Diff. in Projected vs Actual Invest. Earnings	84,931	-	84,931
Deferred Outflows of Resources - Diff. between Expected vs Actual Experience	15,547	-	15,547
<b>TOTAL ASSETS &amp; DEFERRED OUTFLOWS OF RESOURCES</b>	\$ 2,762,426	\$ -	\$ 2,762,426
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES:</b>			
Due to Other Funds	\$ 294,954	\$ -	\$ 294,954
Due to Other Governments	-	-	-
Accounts Payable	53,284	-	53,284
Compensated Absences	-	-	-
Accrued Salaries and Benefits	-	-	-
Other Current Liabilities	-	-	-
Prepayments	84,879	-	84,879
<b>TOTAL CURRENT LIABILITIES</b>	433,117	-	433,117
<b>NON-CURRENT LIABILITIES:</b>			
Long-Term Portion of Compensated Absences	34,034	-	34,034
Net Pension Liability	3,933,425	-	3,933,425
Net OPEB Liability - Single Employer Plan	38,712	-	38,712
Net OPEB Liability - Multiple Employer Plan	154,347	-	154,347
<b>TOTAL NON-CURRENT LIABILITIES</b>	4,160,518	-	4,160,518
<b>TOTAL LIABILITIES</b>	4,593,635	-	4,593,635
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Inflows of Resources - Diff. in Projected vs Actual Invest. Earnings	-	-	-
Deferred Inflows of Resources - Change in Proportion of NPL	-	-	-
Deferred Inflows of Resources - Change in Assumptions	-	-	-
Deferred Inflows of Resources - Diff. in Projected vs Actual Contributions	10,516	-	10,516
Deferred Inflows of Resources - Diff. between Expected vs Actual Experience	-	-	-
<b>TOTAL LIABILITIES &amp; DEFERRED INFLOWS OF RESOURCES</b>	4,604,151	-	4,604,151
<b>FUND NET POSITION</b>			
Net Investment in Capital Assets	322,628	-	322,628
Restricted for Legal Purposes	-	-	-
Unrestricted	(2,164,353)	-	(2,164,353)
<b>TOTAL FUND NET POSITION</b>	(1,841,725)	-	(1,841,725)
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND NET POSITION</b>	\$ 2,762,426	\$ -	\$ 2,762,426

The Accompanying Notes are an integral part of these financial statements.

**East Penn School District**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds**  
**For the Year Ended June 30, 2018**

	<b>FOOD SERVICE</b>	<b>NON-MAJOR FUNDS</b>	<b>TOTAL</b>
<b>OPERATING REVENUES:</b>			
Food Service Revenue	\$ 2,137,069	\$ -	\$ 2,137,069
Charges for Services	-	-	-
Other Operating Revenues	-	-	-
<b>TOTAL OPERATING REVENUES</b>	2,137,069	-	2,137,069
<b>OPERATING EXPENSES:</b>			
Salaries	1,101,700	-	1,101,700
Employee Benefits	616,346	-	616,346
Purchased Professional and Technical Services	3,225	-	3,225
Purchased Property Service	74,201	-	74,201
Other Purchased Services	1,526,573	-	1,526,573
Supplies	292,415	-	292,415
Depreciation	24,354	-	24,354
Dues and Fees	-	-	-
Equipment	-	-	-
Other Operating Expenses	29,549	-	29,549
<b>TOTAL OPERATING EXPENSES</b>	3,668,363	-	3,668,363
<b>OPERATING INCOME (LOSS)</b>	(1,531,294)	-	(1,531,294)
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Earnings on investments	602	-	602
Contributions and Donations	-	-	-
Gain/Loss on Sale of Fixed Assets	-	-	-
State Sources	299,158	-	299,158
Federal Sources	1,443,854	-	1,443,854
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	1,743,614	-	1,743,614
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS</b>	212,320	-	212,320
Capital Contributions	-	-	-
Transfers in (out)	-	-	-
<b>CHANGES IN FUND NET POSITION</b>	212,320	-	212,320
<b>FUND NET POSITION - BEGINNING</b>	(1,878,592)	-	(1,878,592)
<b>Prior Period Adjustment</b>	(175,453)	-	(175,453)
<b>FUND NET POSITION - ENDING</b>	\$ (1,841,725)	\$ -	\$ (1,841,725)

The Accompanying Notes are an integral part of these financial statements.

**East Penn School District  
Statement of Cash Flows - Proprietary Funds  
As of June 30, 2018**

	<b>FOOD SERVICE</b>	<b>NON-MAJOR FUNDS</b>	<b>TOTAL</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash Received from Users	\$ 2,105,710	\$ -	\$ 2,105,710
Cash Received from Assessments made to Other Funds	-	-	-
Cash Received from Earnings on Investments	-	-	-
Cash Received from Other Operating Revenue	-	-	-
Cash Payments to Employees for Services	(1,605,930)	-	(1,605,930)
Cash Payments for Insurance Claims	-	-	-
Cash Payments to Suppliers for Goods and Services	(1,396,887)	-	(1,396,887)
Cash Payments to Other Operating Expenses	-	-	-
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<u>(897,107)</u>	<u>-</u>	<u>(897,107)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>			
Local Sources	-	-	-
State Sources	297,858	-	297,858
Federal Sources	1,179,619	-	1,179,619
Capital Contributions	-	-	-
Interest Paid on Notes/Loans	-	-	-
Operating Transfers In (Out)	-	-	-
<b>NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES</b>	<u>1,477,477</u>	<u>-</u>	<u>1,477,477</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchase of Equipment	(28,005)	-	(28,005)
Gain/Loss on Sale of Fixed Assets (Proceeds)	-	-	-
<b>NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(28,005)</u>	<u>-</u>	<u>(28,005)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Earnings on Investments	602	-	602
Purchase of Investment Securities/Deposits to Investment Pools	-	-	-
Withdrawals from Investment Pools	-	-	-
Proceeds from Sale and Maturity of Investment Securities	-	-	-
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>	<u>602</u>	<u>-</u>	<u>602</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	552,967	-	552,967
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>1,110,170</u>	<u>-</u>	<u>1,110,170</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 1,663,137</u>	<u>\$ -</u>	<u>\$ 1,663,137</u>

**East Penn School District**  
**Statement of Cash Flows - Proprietary Funds**  
**As of June 30, 2018**

**RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES**

	<b>FOOD SERVICE</b>	<b>NON-MAJOR FUNDS</b>	<b>TOTAL</b>
<b>OPERATING INCOME (LOSS)</b>	\$ (1,531,294)	\$ -	(1,531,294)
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>			
Depreciation and Net Amortization	24,354	-	24,354
Provision for Uncollectible Accounts	-	-	-
Donated Commodities Used	259,072	-	259,072
<b>CHANGE IN ASSETS AND LIABILITIES:</b>			
(Increase) Decrease in Accounts Receivable	(238)	-	(238)
(Increase) Decrease in Advances to Other Funds	(31,121)	-	(31,121)
(Increase) Decrease in Inventories	(100)	-	(100)
(Increase) Decrease in Prepaid Expenses	-	-	-
(Increase) Decrease in Other Current Assets	-	-	-
(Increase) Decrease in Deferred Outflows of Resources - Change in Proportion of NPL	81,303	-	81,303
(Increase) Decrease in Deferred Outflows of Resources - Current Year Contributions	(35,201)	-	(35,201)
(Increase) Decrease in Deferred Outflows of Resources - Changes in Assumptions	30,197	-	30,197
(Increase) Decrease in Deferred Outflows of Resources - Diff. in Projected vs Actual Contributions	-	-	-
(Increase) Decrease in Deferred Outflows of Resources - Diff. in Projected vs Actual Invest. Earnings	124,316	-	124,316
(Increase) Decrease in Deferred Outflows of Resources - Diff. between Expected vs Actual Experience	(15,547)	-	(15,547)
Increase (Decrease) in Accounts Payable	(8,454)	-	(8,454)
Increase (Decrease) in Accrued Salaries and Benefits	2,617	-	2,617
Increase (Decrease) in Advances from Other Funds	287,798	-	287,798
Increase (Decrease) in Net OPEB Liability - Single Employer Plan	14,792	-	14,792
Increase (Decrease) in Net OPEB Liability - Multiple Employer Plan	(1,948)	-	(1,948)
Increase (Decrease) in Net Pension Liability	(57,473)	-	(57,473)
Increase (Decrease) in Deferred Inflows of Resources - Diff. in Projected vs Actual Invest. Earnings	-	-	-
Increase (Decrease) in Deferred Inflows of Resources - Diff. in Projected vs Actual Contributions	1,491	-	1,491
Increase (Decrease) in Deferred Inflows of Resources - Changes in Proprtion to NPL	-	-	-
Increase (Decrease) in Deferred Inflows of Resources - Diff. between Expected vs Actual Experience	(32,431)	-	(32,431)
Increase (Decrease) in Deferred Inflows of Resources - Changes in Assumptions	-	-	-
Increase (Decrease) in Other Current Liabilities	(9,240)	-	(9,240)
<b>TOTAL ADJUSTMENTS</b>	<b>634,187</b>	<b>-</b>	<b>634,187</b>
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<b>\$ (897,107)</b>	<b>\$ -</b>	<b>\$ (897,107)</b>

The Accompanying Notes are an integral part of these financial statements.



**East Penn School District**  
**Statement of Net Position - Fiduciary Funds**  
**As of June 30, 2018**

	<b>PRIVATE PURPOSE TRUST</b>	<b>PENSION AND OTHER EMPLOYEE BENEFIT TRUST</b>	<b>AGENCY FUNDS</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 156,164	\$ -	\$ 700,311
Investments	-	-	-
Due from Other Funds	-	-	-
Other Receivables	-	-	4,782
Prepaid Expenses	-	-	-
Other Current Assets	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 156,164</b>	<b>\$ -</b>	<b>\$ 705,093</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Charges on Refundings, net	-	-	-
<b>TOTAL ASSETS &amp; DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 156,164</b>	<b>\$ -</b>	<b>\$ 705,093</b>
<b>LIABILITIES</b>			
Accounts Payable	\$ -	\$ -	\$ -
Due to Other Funds	-	-	4,028
Due to Student Clubs	-	-	232,480
Other Current Liabilities	-	-	468,585
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>705,093</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unearned Revenue	-	-	-
<b>TOTAL LIABILITIES &amp; DEFERRED INFLOWS OF RESOURCES</b>	<b>-</b>	<b>-</b>	<b>705,093</b>
<b>NET POSITION</b>			
Restricted	-	-	-
Unrestricted	156,164	-	-
<b>TOTAL NET POSITION</b>	<b>\$ 156,164</b>	<b>\$ -</b>	<b>\$ -</b>

The Accompanying Notes are an integral part of these financial statements.

**East Penn School District**  
**Statement of Changes in Net Position - Fiduciary Funds**  
**For the Year Ended June 30, 2018**

	<b>PRIVATE-PURPOSE TRUST FUND</b>	<b>PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS</b>
<b>ADDITIONS</b>		
Contributions	\$ 28,296	\$ -
Transfers from other funds	-	-
<b>INVESTMENT EARNINGS:</b>		
Interest and Dividends	715	-
Net increase (decrease) in fair value of investments	-	-
Less investment expense	-	-
<b>TOTAL ADDITIONS</b>	29,011	-
	-----	-----
<b>DEDUCTIONS</b>		
Transfers to other funds	-	-
Administrative charges	-	-
Scholarships	25,033	-
<b>TOTAL DEDUCTIONS</b>	25,033	-
<b>CHANGES IN NET POSITION</b>	3,978	-
<b>NET POSITION - BEGINNING OF YEAR</b>	152,186	-
<b>NET POSITION - END OF YEAR</b>	<b>\$ 156,164</b>	<b>\$ -</b>

The Accompanying Notes are an integral part of these financial statements.

**East Penn School District**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual -**  
**General Fund**  
**For the Year Ended June 30, 2018**

	<u>BUDGET AMOUNTS</u>		<u>ACTUAL (BUDGETARY BASIS)</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>	<u>BUDGET TO GAAP DIFFERENCE</u>	<u>ACTUAL AMOUNTS GAAP BASIS</u>
	<u>ORIGINAL</u>	<u>FINAL</u>				
<b>REVENUES</b>						
Local Sources	\$ 106,272,079	\$ 106,272,079	\$ 108,894,020	\$ 2,621,941	\$ -	\$ 108,894,020
State Sources	33,411,315	33,411,315	33,375,810	(35,505)	-	33,375,810
Federal Sources	1,188,544	1,188,544	1,087,891	(100,653)	-	1,087,891
<b>TOTAL REVENUES</b>	<u>140,871,938</u>	<u>140,871,938</u>	<u>143,357,721</u>	<u>2,485,783</u>	<u>-</u>	<u>143,357,721</u>
<b>EXPENDITURES</b>						
Regular Instruction	60,579,699	60,073,665	59,092,547	981,118	-	59,092,547
Special Programs	20,358,405	21,088,955	20,976,202	112,753	-	20,976,202
Vocational Programs	3,711,020	3,712,520	3,663,824	48,696	-	3,663,824
Other Instructional Programs	477,975	516,975	305,646	211,329	-	305,646
Nonpublic School Programs	65,494	32,348	30,730	1,618	-	30,730
Adult Education Programs	31,964	31,964	18,902	13,062	-	18,902
Community College Sponsorship	904,500	904,500	904,396	104	-	904,396
Pupil Personnel Services	4,938,964	4,948,564	4,870,540	78,024	-	4,870,540
Instructional Staff Services	4,027,787	4,091,254	3,829,871	261,383	-	3,829,871
Administrative Services	5,937,237	5,991,847	5,891,998	99,849	-	5,891,998
Pupil Health	1,788,536	1,761,980	1,700,429	61,551	-	1,700,429
Business Services	1,050,038	1,055,238	1,028,054	27,184	-	1,028,054
Operation & Maintenance of Plant Services	12,605,883	12,160,383	12,128,962	31,421	-	12,128,962
Student Transportation Services	7,752,410	7,852,410	7,657,170	195,240	-	7,657,170
Central Support Services	1,985,164	2,180,962	2,169,944	11,018	-	2,169,944
Other Support Services	138,994	138,994	136,767	2,227	-	136,767
Student Activities	1,927,917	2,029,467	2,023,889	5,578	-	2,023,889
Community Services	43,500	52,961	48,610	4,351	-	48,610
Scholarships and Awards	-	500	250	250	-	250
Facilities, Acquisition and Construction	-	-	-	-	-	-
Debt Service	13,191,992	12,851,992	12,716,720	135,272	-	12,716,720
<b>TOTAL EXPENDITURES</b>	<u>141,517,479</u>	<u>141,477,479</u>	<u>139,195,451</u>	<u>2,282,028</u>	<u>-</u>	<u>139,195,451</u>
Excess (deficiency) of revenues over expenditures	(645,541)	(605,541)	4,162,270	4,767,811	-	4,162,270
<b>OTHER FINANCING SOURCES (USES)</b>						
Interfund Transfers In	-	-	-	-	-	-
Sale/Compensation for Fixed Assets	-	-	-	-	-	-
Insurance Recoveries	-	-	-	-	-	-
Refund of Prior Year Receipts	-	(40,000)	-	40,000	-	-
Fund Transfers Out	-	-	-	-	-	-
Budgetary Reserve	(7,069,700)	(7,069,700)	-	7,069,700	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(7,069,700)</u>	<u>(7,109,700)</u>	<u>-</u>	<u>7,109,700</u>	<u>-</u>	<u>-</u>
Special Items	-	-	-	-	-	-
Extraordinary Items	-	-	-	-	-	-
<b>NET CHANGE IN FUND BALANCES</b>	<u>(7,715,241)</u>	<u>(7,715,241)</u>	<u>4,162,270</u>	<u>11,877,511</u>	<u>-</u>	<u>4,162,270</u>
<b>FUND BALANCE - JULY 1, 2017</b>	<u>\$ 8,935,911</u>	<u>\$ 8,935,911</u>	<u>\$ 10,457,746</u>	<u>\$ 1,521,835</u>	<u>\$ -</u>	<u>\$ 10,457,746</u>
<b>FUND BALANCE - JUNE 30, 2018</b>	<u>\$ 1,220,670</u>	<u>\$ 1,220,670</u>	<u>\$ 14,620,016</u>	<u>\$ 13,399,346</u>	<u>\$ -</u>	<u>\$ 14,620,016</u>

The Accompanying Notes are an integral part of these financial statements.

**East Penn School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2018**

---

**Note 1 - Description of the School District and Reporting Entity**

***School District***

The East Penn School District is located in eastern Pennsylvania in the southern portion of Lehigh County, approximately seven miles to the south and west of Allentown, the county seat of Lehigh County. Encompassing 45.4 square miles in Lehigh County, the School District is comprised of Alburtis, Emmaus, and Macungie Boroughs, and Lower Macungie and Upper Milford Townships.

Prior to 1966 and pursuant to law, the former School Districts of the Boroughs of Emmaus, Alburtis, and Macungie, and the Townships of Lower Macungie and Upper Milford, Lehigh County, formed the East Penn Union School District. Pursuant to Act 299 of the 1963 Pennsylvania Legislature requiring a consolidation of school districts, effective July 1, 1966, the East Penn Union School District formed the East Penn School District. The reorganized School District has assumed all rights and obligations of the predecessor school district.

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

As specified under the School Law Code of the Commonwealth of Pennsylvania, this and all other school districts of the state "shall be and hereby are vested as, bodies corporate, with all necessary powers to carry out the provisions of this act." (Article II, Section 211).

***Board of School Directors***

The public school system of the Commonwealth shall be administered by a board of school directors, to be elected or appointed, as hereinafter provided. At each election of school directors, each qualified voter shall be entitled to cast one vote for each school director to be elected.

The East Penn School District is governed by a board of nine School Directors who are residents of the School District and who are elected every two years, on a staggered basis, for a four-year term.

The Board of School Directors has the power and duty to establish, equip, furnish, and maintain a sufficient number of elementary, secondary, and other schools necessary to educate every person, residing in such district, between the ages of six and twenty-one years, who may attend.

In order to establish, enlarge, equip, furnish, operate, and maintain any schools herein provided, or to pay any school indebtedness which the school district is required to pay, or to pay any indebtedness that may at any time hereafter be created by the school district, the board of school directors are vested with all the necessary authority and power annually to levy and collect the necessary taxes required and granted by the legislature, in addition to the annual State appropriation, and are vested with all necessary power and authority to comply with and carry out any or all of the provisions of the Public School Code of 1949.

***Administration***

The Superintendent of Schools shall be the executive officer of the Board of School Directors and, in that capacity shall administer the School District in conformity with Board policies and the School Laws of Pennsylvania. The Superintendent shall be directly responsible to, and therefore appointed by, the

**East Penn School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2018**

---

Board of School Directors. The Superintendent shall be responsible for the overall administration, supervision, and operation of the School District.

The Business Administrator, recommended by the Superintendent and appointed by the Board of School Directors, shall supervise and coordinate all business and operational aspects of the School District. In this capacity, he or she shall be responsible to insure that all work accomplished by him/her, or by persons under his/her supervision, is in the best interests of the East Penn School District. The Business Administrator is directly responsible to the Superintendent.

***Reporting Entity***

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

East Penn School District is a municipal Corporation governed by an elected nine-member board. As required by generally accepted accounting principles, these financial statements are to present East Penn School District (the primary government) and organizations for which the primary government is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are financially dependent on the School District in that the School District approved the budget, the issuance of debt, or the levying of taxes. The East Penn School District does not have any component units.

***Joint Ventures***

***Lehigh Career and Technical Institute***

The School District is a participating member of the Lehigh Career and Technical Institute (LCTI). The LCTI is run by a joint committee consisting of members from each participating district. No participating district appoints a majority of the joint committee. The board of directors of each participating district must approve the LCTI's annual operating budget. Each participating district pays a pro-rata share of the LCTI's operating costs based on the number of students attending the LCTI for each District. The District's share of the LCTI operating costs for 2017-18 was \$2,401,778.

On dissolution of the Lehigh Career and Technical Institute, the net position of LCTI will be shared on a pro-rata basis of each participating district's current market value of taxable real property as certified by the Pennsylvania State Tax Equalization Board. However, the District does not have an equity interest in LCTI as defined by GASB Statement No. 14, except a residual interest in the net position upon dissolution that should not be reflected on the basic financial statements. Complete financial statements for the LCTI can be obtained from the LCTI's administrative office at 2300 Main Street, Schnecksville, PA.

**East Penn School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2018**

---

*Lehigh-Carbon Community College.*

The District is a participating member of the Lehigh-Carbon Community College (LCCC). The LCCC is run by a Board of Trustees elected by the participating member districts' boards of directors. No participating district appoints a majority of the Board of Trustees. A vote of two-thirds of all member districts shall be required for approval of the LCCC's annual operating budget. The amount of the annual operating costs of the LCCC shall be apportioned among the member districts on the basis of the number of full-time equivalent students enrolled in LCCC and residing in the respective geographical areas of each of the member districts. The District's share of LCCC's operating costs for 2017-18 was \$904,396.

On dissolution of the Lehigh-Carbon Community College, the net position of LCCC will be shared on a pro-rata basis of each member district's current market value of taxable real property as certified by the Pennsylvania State Tax Equalization Board. However, the District does not have an equity interest in LCCC as defined by GASB Statement No. 14, except a residual interest in the net position upon dissolution that should not be reflected on the basic financial statements. Complete financial statements for the LCCC can be obtained from the LCCC's administrative office at 2300 Main Street, Schnecksville, PA.

***Jointly Governed Organizations***

*Carbon-Lehigh Intermediate Unit*

The School District is a participating member of the Carbon-Lehigh Intermediate Unit (CLIU). The CLIU is run by a joint committee consisting of members from each participating district. No participating district appoints a majority of the joint committee. The board of directors of each participating district must approve the CLIU's annual operating budget. The CLIU is a self-sustaining organization that provides services for fees to participating districts. As such, the District has no on-going financial interest or financial responsibility in the CLIU. The CLIU contracts with participating districts to supply special education services, computer services, and acts as a conduit for certain federal programs.

**Note 2 - Summary of significant accounting policies**

The financial statements of the District have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. On June 15, 1987, the GASB issued a codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced. GASB Statement No. 62 was issued to include all prior Financial Accounting Standards Board's statements and interpretations, along with predecessors' statements and interpretations pertaining to governments into the hierarchy of the Governmental Accounting Standards Board's jurisdiction.

**A. Basis of Presentation**

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

**East Penn School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2018**

---

**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 statement of net position presents the financial condition of the governmental and business-type activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities and for one business-type activity of the School District. 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, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support 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 activity or governmental function is self-financing or draws from the general revenues of the School District.

**Fund Financial Statements** During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

**B. Fund Accounting**

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

**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Deferred outflows of resources is recorded in a particular governmental fund where costs are spent for a future period. Current Liabilities are assigned to the governmental fund from which they will be paid. Deferred inflows of resources is recorded in a particular governmental fund that has received resources for a future period. The difference between the sum of assets and deferred outflows of resources minus the sum of liabilities and deferred inflows of resources is reported as fund balance. The following are the School District's major governmental funds.

**General Fund**

The General Fund should be used to account for and report all financial resources not accounted for and reported in another fund.

**Special Revenue Fund** Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term proceeds of specific revenue sources establish that one or more specific restricted or committed revenues should be the foundation for a special revenue fund. The restricted or committed proceeds of specific revenue sources should be expected to continue to comprise a substantial portion of the inflows reported in the fund. Other resources also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund.

**East Penn School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2018**

---

Under this new definition, the District does not have any special revenue funds.

***Capital Project Funds***

Capital Project Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital project funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

The District has the following Capital Project Funds:

a) *Capital Reserve Fund*

This fund was created in accordance with Section 1432 of the Municipal Code. The Municipal Code restricts how the resources are spent within this fund.

***Proprietary Funds*** Proprietary funds focus on the determination of changes in net position, financial position and cash flows and are classified as enterprise funds.

***Enterprise Funds*** Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The School District's major enterprise fund is:

*Food Service Fund* - This fund accounts for the financial transactions related to the food service operations of the School District.

***Fiduciary Funds*** Fiduciary funds 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 has two private purpose trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Measurement Focus

***Government-wide Financial Statements*** The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of the School District are included on the statement of net position.

***Fund Financial Statements*** All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet, along with deferred outflows of resources or deferred inflows of resources required to be reported. The statement of revenues, expenditures, and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation's with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.



**East Penn School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2018**

---

Like the government-wide statements, all enterprise funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities, including required deferred outflows of resources or required deferred inflows of resources, associated with the operation of these funds are included on the statement of fund net position. The statement of revenues, expenses, and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its enterprise activities.

**C. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows of resources, and in the presentation of expenses versus expenditures.

**Revenues - Exchange and Non-Exchange Transactions.** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year.

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

**D. Budgetary Process**

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

In accordance with Act 1 of 2006, the Board shall annually, but not later than the first business meeting of January, decide the budget option to be used for the following fiscal year. The Board shall approve either the Accelerated Budget Process Option or the Board Resolution Option.

**Accelerated Budget Process Option**

Under this option, a preliminary budget must be prepared 150 days prior to the primary election. Under this Option, the preliminary budget must be available for public inspection at least 110 days prior to the primary election. The Board shall give public notice of its intent to adopt the preliminary budget at least 10 days prior to the adoption. The adoption must occur at least 90 days prior to the primary election.

**East Penn School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2018**

---

If the preliminary budget exceeds the increase authorized by the Index, an application for an exception may be filed with either a Court of Common Pleas with jurisdiction or PDE and made available for public inspection. The Board may opt to forego applying for an exception by submitting a referendum question seeking voter approval for a tax increase, in accordance with Act 1.

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

**Board Resolution Option**

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

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the PDE 2028 when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all 2017-18 budget transfers.

**F. Use of Estimates**

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

**G. Changes in Accounting Principles**

During the 2017-18 fiscal year the District implemented the following new generally accepted accounting principles:

- GASB Statement No. 75 (*Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*), which establishes new reporting requirements about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental employers.

**East Penn School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2018**

---

- GASB Statement No. 81 (*Irrevocable Split-Interest Agreements*). The purpose of this standard is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of this type of agreement.
- GASB Statement No. 85 (*Omnibus 2017*). This Statement amends previous standards associated with blending component units, goodwill, fair value measurement and application, and postemployment benefits. Specifically, blending a component unit in circumstances in which the primary government is a business-type activity, reporting amounts previously reported as goodwill and “negative” goodwill, measuring certain money market investments at amortized cost, timing of the measurement of pension or OPEB liabilities using the current resources measurement focus, recognizing on-behalf payments for pensions or OPEB, presenting payroll-related measures in required supplementary information for purposes of reporting OPEB, and accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.
- GASB Statement No. 86 (*Certain Debt Extinguishment Issues*). This Statement addresses accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt.
- GASB Implementation Guide 2017-1. This is the latest Implementation Guide to be utilized in answering pertinent questions about the previously issued standards.

**H. Pensions**

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

**I. Other Postemployment Benefits**

*Multiple Employer Cost Sharing OPEB Plan*

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

**East Penn School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2018**

---

*Single Employer OPEB Plan*

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information was obtained from the Actuary Report conducted by Conrad Siegel. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. The single employer plan is not funded.

**J. Assets, Liabilities, and Net Position**

*Cash and Cash Equivalents*

For purposes of the Statement of Cash Flows, the Proprietary Fund type considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents.

*Investments*

In accordance to GASB Statement No. 72, investments generally are to be measured at fair value. An investment is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has the present service capacity based solely on its ability to generate cash or to be sold to generate cash. Investments not measured at fair value continue to include, for example, money market investments, 2a7-like external investment pools, investments in life insurance contracts, common stock meeting the criteria for applying the equity method, unallocated insurance contracts, and synthetic guaranteed investment contracts.

A government is permitted in certain circumstances to establish the fair value of an investment that does not have a readily determinable fair value by using the net asset value per share of the investment.

This Statement requires measurement at acquisition value (an entry price) for donated capital assets, donated works of art, historical treasures, and similar assets. These assets were previously required to be measured at fair value.

Fair Value is measured using a hierarchy of inputs using valuation techniques. The hierarchy has three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices, that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs

The valuation techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts (such as cash flows or income and expenses) to a single current (discounted) amount.

*Receivables and Payables*

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

**East Penn School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2018**

---

*Property Tax Levy*

Property taxes, which were levied during the fiscal year ended June 30, 2018, are recognized as revenue in the fund financial statements when received by the District during the fiscal year and also estimated to be received by the District within sixty (60) days after the fiscal year ended.

Property taxes that were levied during the current fiscal year, which are not estimated to be received within sixty (60) days after the fiscal year-end, are recorded as receivable and deferred inflows of resources in the fund financial statements.

In the government-wide financial statements, all property taxes levied during the fiscal year are recognized as revenue, net of estimated uncollectible amount.

*Inventories*

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis, and are expensed when used. As of June 30, 2018, the inventory shown in the governmental activities column of the government-wide statement of net position is \$9,488 and \$55,400 is shown as inventory in the business-type activities column of the government-wide statement of net position.

Inventory type items in governmental funds utilize the purchase method, that is, they are charged to expenditures when purchased. There was no physical inventory taken as of June 30, 2018; therefore, there is no offsetting nonspendable fund balance in the General Fund.

Inventory type items in Proprietary Funds use the consumption method, in which items are purchased for inventory and charged to expenses when used. The only Proprietary Fund of the District is the Food Service Fund. Inventory within this fund consists of supplies, purchases, food, and donated commodities, which are valued at U.S.D.A.'s approximate costs. Inventories on hand at June 30, 2018, consist of:

Donated Commodities	\$	35,253
Supplies		7,395
Food		<u>12,752</u>
TOTAL	<b>\$</b>	<b><u>55,400</u></b>

*Prepaid Expenses*

In both the government-wide and fund financial statements, prepaid expenses are recorded as assets in the specific governmental fund in which future benefits will be derived.

*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 enterprise funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

**East Penn School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2018**

---

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their acquisition values as of the date received. The School District maintains a capitalization threshold of two thousand-five hundred (\$2,500) dollars. 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 not. Interest incurred during the construction of capital assets utilized by the enterprise funds is also capitalized.

All reported capital assets, except land, certain land improvements, and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<b>Description</b>	<b>Governmental Activities Estimated Lives</b>	<b>Business-Type Activities Estimated Lives</b>
Buildings and Improvements	10 - 50 years	10 - 50 years
Furniture and Equipment	5 - 20 years	5 - 20 years
Vehicles	8 years	8 years

*Compensated Absences*

The School District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. In enterprise funds, the entire amount of compensated absences is reported as a fund liability.

**East Penn School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2018**

---

*Long-Term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position. Bond premiums and discounts, and deferred amounts on refunding's are deferred and amortized over the life of the bonds using modification of the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Any deferred amount on refunding's are reported as deferred outflows of resources and amortized over the life of the bond issue. Bond issuance costs are expensed in the year they are incurred.

In the governmental fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts and premiums on debt issuances are reported as other financing uses and other financing sources, respectively. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as support service expenditures.

*Reclassification*

Certain amounts have been reclassified to conform to the June 30, 2018, presentation of government-wide financial statements on the accrual basis of accounting versus the governmental fund financial statements reported on the modified accrual basis of accounting.

*Net Position*

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

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

*Fund Balance Categories*

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Below are the potential categories of fund balance the government may use with their definitions, the actual categories used is explained in Note 9 to the financial statements:

**East Penn School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2018**

---

*Nonspendable Fund Balance*

This category includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

*Restricted Fund Balance*

Fund balance should be reported as restricted when constraints placed on the use of resources are externally imposed by creditors, grantors, contributors, or other government laws or regulations, or the constraint is imposed by enabling legislation or constitutional provisions.

*Committed Fund Balance*

This category pertains to amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. The committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action.

This government's governing body is the School Board and the formal action taken to commit resources is done by resolution.

*Assigned Fund Balance*

This category includes all remaining amounts that are reported in governmental funds, except the general fund, that are not classified in one of the above-mentioned categories. In the general fund, this category represents the District's intent to use resources for a specific purpose, which does not require formal action by the governing body. The District's policy dictates the Superintendent and Business Manager are responsible to make these assignments.

*Unassigned Fund Balance*

This category of fund balance represents the residual classification for the general fund after segregating resources used in the other categories listed above. Unassigned fund balance will only be shown in other governmental funds if those governmental funds have a negative net fund balance.

The District's policy on fund balance does not dictate which category of unrestricted fund balance is spent first, when resources are available to be spent in various categories. As such, committed amounts will be reduced first, followed by assigned amounts, and then unassigned amounts. The District's policy also does not dictate whether restricted (nonspendable or restricted) or unrestricted (committed, assigned, and unassigned) is spent first when resources are available in both categories. As such, in these circumstances, restricted will be assumed to have been spent first followed by the unrestricted categories.

*Contributions of Capital*

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction. The proprietary funds did not receive any capital contributions during this fiscal year.



**East Penn School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2018**

---

**Note 3 - Reconciliation of government-wide and fund financial statements**

*A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.*

The governmental fund balance sheet includes reconciliation between "fund balance -total governmental funds" and "net position - governmental activities" as reported in the government-wide statement of net position. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds". The details of this \$301,909,718 differences are:

Bonds payable	\$	56,664,000
Less: Issuance discount (to be amortized as interest expense)		(2,699)
Add: Issuance premium (to be amortized as a contra to interest expense)		1,128,046
Accrued interest payable		181,313
Defined Benefit Net Pension Liability		211,125,063
Net Defined Contribution Pension Liability		559,483
Net OPEB Liability - Single Employer Plan		21,653,162
Net OPEB Liability - Multiple Employer Plan		8,798,405
Compensated absences		1,802,945
Net adjustment to reduce "fund balance - total governmental funds" to arrive at "net position - governmental activities"		<b>\$ 301,909,718</b>

*B. Explanation of Differences between Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Statement of Activities*

Due to the differences in the measurement focus and basis of accounting used on the governmental fund statements and district-wide statements certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. Differences between the governmental funds statement of revenues, expenditures, and changes in fund balance and the statement of activities fall into one of three broad categories. The amounts shown in the columns on the following page represent:

- a) Long-term revenue differences arise because governmental funds report revenues only when they are considered "available", whereas the statement of activities reports revenues when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis whereas the accrual basis of accounting is used on the statement of activities. The long-term expenses reported below recognize the change in vested employee benefits.
- b) Capital related differences include (1) the difference between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets as reported on the statement of activities, and (2) the difference between recording an expenditure for the purchase of capital items in the governmental fund statements, and capitalization and recording of depreciation expense on those items as recorded in the statement of activities.
- c) Long-term debt transaction differences occur because long-term debt proceeds are recorded as revenue and both interest and principal payments are recorded as expenditures in the governmental fund statements. In the statement of activities, long-term debt proceeds are recorded as a liability; principal payments are recorded as a reduction of liabilities.

**East Penn School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2018**

	TOTAL GOVERN- MENTAL FUNDS	LONG-TERM REVENUES/ EXPENSES	CAPITAL RELATED ITEMS	LONG-TERM DEBT TRANS- ACTIONS	TOTAL FOR STATEMENT OF ACTIVITIES
<b>REVENUES AND OTHER SOURCES</b>					
<b>LOCAL SOURCES:</b>					
Property Taxes	\$ 94,874,496	\$ (135,856)	\$ -	\$ -	\$ 94,738,640
Taxes levied for specific purposes	11,404,874	-	-	-	11,404,874
Interest and investment earnings	449,092	-	-	-	449,092
Miscellaneous	218,227	-	-	-	218,227
Contributions and Donations	143,648	-	-	-	143,648
Charges for Services	386,984	-	-	-	386,984
Grants, subsidies & contributions not restricted	13,639,880	-	-	-	13,639,880
<b>INTERMEDIATE SOURCES:</b>					
Charges for Services	-	-	-	-	-
Capital grants and contributions	-	-	-	-	-
<b>STATE SOURCES:</b>					
Operating & Capital grants and contributions	19,735,930	-	-	-	19,735,930
<b>FEDERAL SOURCES:</b>					
Operating & Capital grants and contributions	2,508,026	-	-	-	2,508,026
<b>SPECIAL AND EXTRAORDINARY SOURCES:</b>					
Bond Premium	888,312	-	-	(888,312)	-
Proceeds from Refunding of Bonds	22,920,000	-	-	(22,920,000)	-
Gain or (Loss) on disposal of assets	-	-	-	-	-
<b>TOTAL REVENUES</b>	<b>167,169,469</b>	<b>(135,856)</b>	<b>-</b>	<b>(23,808,312)</b>	<b>143,225,301</b>
<b>EXPENDITURES/EXPENSES</b>					
Instruction	84,992,247	5,089,071	56,038	-	90,137,356
Instructional Student Support	10,400,840	670,767	21,978	-	11,093,585
Admin. & Fin'l Support Services	9,466,509	540,659	(538,616)	-	9,468,552
Oper. & Maint. Of Plant Svcs.	12,237,573	587,476	(167,895)	-	12,657,154
Pupil Transportation	7,657,170	-	-	-	7,657,170
Student activities	2,023,889	82,638	2,564	-	2,109,091
Community Services	48,610	303	1,189	-	50,102
Scholarships and Awards	250	-	-	-	250
Capital Outlay	872,398	-	(872,398)	-	-
Debt Service	36,276,720	-	-	(34,872,599)	1,404,121
Transfers Out	-	-	-	-	-
Depreciation - unallocated	-	-	4,356,647	-	4,356,647
<b>TOTAL EXPENDITURES/EXPENSES</b>	<b>163,976,206</b>	<b>6,970,914</b>	<b>2,859,507</b>	<b>(34,872,599)</b>	<b>138,934,028</b>
<b>NET CHANGE FOR THE YEAR</b>	<b>\$ 3,193,263</b>	<b>\$ (7,106,770)</b>	<b>\$ (2,859,507)</b>	<b>\$ 11,064,287</b>	<b>\$ 4,291,273</b>

**Note 4 - Stewardship, Compliance, and Accountability**

**A. Compliance with finance related legal and contractual provisions**

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

**B. Deficit fund balance or net position of individual funds**

No individual fund contains a deficit fund balance or net position at June 30, 2018, except the governmental activities had a deficit of \$104,006,278, and the business-type activity (Food Service Fund) had a deficit of \$1,841,725.

**C. Excess of expenditures over appropriations in individual funds**

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

**East Penn School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2018**

---

**D. Budgetary compliance**

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

**Note 5 - Detailed notes on all funds and account groups**

*Cash*

*Custodial Credit Risk - Deposits*

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2018, \$15,899,324, of the District's bank balance of \$16,658,629 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$	-
Collateralized with securities held by the pledging financial institution		-
Uninsured and collateral held by the pledging bank's trust department not in the District's name		15,899,324
<b>TOTAL</b>	<b>\$</b>	<b><u>15,899,324</u></b>

*Reconciliation to Financial Statements*

Uncollateralized Amount above	\$	15,899,324
Plus: Insured Amount		759,305
Less: Outstanding Checks		<u>(616,145)</u>
Carrying Amount - Cash Balances		16,042,484
Plus: Petty Cash		600
Deposit in Pooled Investments Considered Cash Equivalents		10,128,359
Less: Certificates of Deposit considered Investments by School Code		<u>-</u>
<b>TOTAL CASH PER FINANCIAL STATEMENTS</b>	<b>\$</b>	<b><u>26,171,443</u></b>

*Investments*

Permitted investments for East Penn School District are defined in the Public School Code of 1949, as amended by Act 10 of 2016 as:

1. United States Treasury Bills;
2. Short-term obligations of the United States Government or its agencies or instrumentalities;

**East Penn School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2018**

---

3. Deposits in savings accounts or time deposits or share accounts of institutions insured by the F.D.I.C; and,
4. Obligations of the United States of America or any of its agencies or instrumentalities, the Commonwealth of Pennsylvania or any of its agencies or instrumentalities or any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities.
5. Obligations, participations or other instruments of any Federal Agency, instrumentality or United States government sponsored enterprise, including those issued or fully guaranteed as the principal and interest by Federal agencies, instrumentalities or United States government sponsored enterprises, if the debt obligations are rated at least "A" or its equivalent by at least two nationally recognized statistical ratings organizations.
6. Repurchase agreements with respect to United States Treasury bills or obligations, participations or other instruments of or guaranteed by the United States or any Federal agency, instrumentality or United States government sponsored enterprise.
7. Negotiable certificates of deposit or other evidences of deposit, with a remaining maturity of three years or less, issued by a nationally or State-chartered bank, a Federal or State savings and loan association or a State-licensed branch of a foreign bank. For obligations with a maturity of one year or less, the debt obligations of the issuing institution or its parent must be rated in the top short-term rating category by at least two nationally recognized statistical ratings organizations. For obligations with a maturity in excess of one year, the senior debt obligations of the issuing institution or its parent must be rated at least "A" or its equivalent by at least two nationally recognized statistical ratings organizations.
8. 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 and the accepting bank is rated in the top short-term category by at least two nationally recognized statistical ratings organizations.
9. 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, if the paper is rated in the top short-term category by at least two nationally recognized statistical ratings organizations.
10. Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933 and, if all of the following conditions are met:
  - The investments of the company are the authorized investments listed above.
  - The investment company is managed in accordance with 17 CFR 270.2a-7 (related to money market funds).
  - The investment company is rated in the highest category by a nationally recognized rating agency.

**East Penn School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2018**

---

11. Savings or demand deposits placed in accordance with the following conditions:

- The money is initially deposited and invested through a federally insured institution having a place of business in this Commonwealth, which is selected by the public corporation or municipal authority.
- The selected institution arranges for the redeposit of the money in savings or demand deposits in one or more financial institutions insured by the Federal Deposit Insurance Corporation, for the account of the public corporation or municipal authority.
- The full amount of principal and any accrued interest of each such deposit is insured by the Federal Deposit Insurance Corporation.
- On the same date that the money is redeposited pursuant to above, the selected institution receives an amount of deposits from customers of other financial institutions equal to or greater than the amount of money initially invested through the selected institution by the public corporation or municipal authority.

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

<i>Investment</i>	<b>Maturities</b>	<b>Fair Value</b>
PLGIT		\$ 20
PSDLAF		10,128,339
PSDLAF - Collateralized CD Pool		500,000
<b>TOTAL</b>		<b>\$ 10,628,359</b>

*Interest Rate Risk*

The District has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk*

The District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2018, the District's investment in PLGIT was rated AAA by Standard & Poor's.

*Concentration of Credit Risk*

The District places no limit on the amount the District may invest in any one issuer. Of the Capital Reserve Fund's investments, 99.9% were invested in a collateralized CD pool with PSDLAF.

**East Penn School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2018**

---

*Reconciliation to Financial Statements*

Total Investments Above	\$ 10,628,359
Less: Deposits in Investment Pool Considered Cash Equivalents	<u>(10,128,359)</u>
<b>Total Investments Per Financial Statements</b>	<b><u>\$ 500,000</u></b>

*Fair Value Reporting*

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

The District did not have any recurring fair value investments at June 30, 2018. The District did have Cash Equivalents in 2a7-like external investment pools, which GASB Statement No. 72 allows to be recorded at amortized cost as provided in paragraph 16 of GASB Statement No. 31.

Property Taxes

Property taxes are levied on July 1, on the assessed value listed, as of that date, for all taxable real property located in the District. Assessed values are established by the County Board of Assessments. All taxable real property was assessed at \$5,387,368,900. The tax rate for the year was \$1.8085 per \$100 of assessed valuation or 18.085 mills. In accordance with Act 1 of 2006, the District received \$1,826,552 in property tax reduction funds for the 2017-2018 fiscal year. The property tax calendar is:

- July 1 - Full year tax assessed for current year.
- July 1 - August 31 - Discount period during which a 2% discount is allowed.
- September 1 - October 31 - Face amount of tax is due
- November 1 - January 15 - A 10% penalty is added to all payments.
- January 15 - All unpaid taxes become delinquent and are turned over to the County Tax Claim Bureau for Collection.

The School District, in accordance with GAAP, recognized the delinquent and unpaid taxes receivable reduced by an allowance for uncollectible taxes was determined by the administration. A portion of the net amount estimated to be collectible, which was measurable and available within 60 days, was recognized as revenue and the balance deferred in the financial statements.

**East Penn School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2018**

*Receivables*

Receivables, as of year-end, for the government's individual major funds and non-major, and fiduciary funds, in the aggregate, including the applicable allowances for uncollectible accounts, are:

	<b>GENERAL FUND</b>	<b>CAPITAL PROJECT FUNDS</b>	<b>FOOD SERVICE FUND</b>	<b>NON- MAJOR FUNDS</b>	<b>FIDUCIARY FUNDS</b>	<b>TOTAL</b>
<b>RECEIVABLES:</b>						
Interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	2,413,892	-	-	-	-	2,413,892
Accounts	76,075	1,145	318	-	4,782	82,320
Intergovernmental	5,811,459	-	58,384	-	-	5,869,843
<b>GROSS RECEIVABLES</b>	<b>8,301,426</b>	<b>1,145</b>	<b>58,702</b>	<b>-</b>	<b>4,782</b>	<b>8,366,055</b>
Less: Allowance for Uncollectibles	-	-	-	-	-	-
<b>NET RECEIVABLES</b>	<b>\$ 8,301,426</b>	<b>\$ 1,145</b>	<b>\$ 58,702</b>	<b>\$ -</b>	<b>\$ 4,782</b>	<b>\$ 8,366,055</b>

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred inflows of resources reported in the governmental funds are:

	<b>UNAVAILABLE</b>	<b>UNEARNED</b>
Delinquent Property Taxes - General Fund	\$ 1,391,805	\$ -
Deposit on TIF Real Estate Tax Arrangement		314,287
Grants drawdowns prior to meeting eligibility requirements	-	-
<b>TOTAL</b>	<b>\$ 1,391,805</b>	<b>\$ 314,287</b>

*Capital Assets*

Capital asset balances and activity for the year ending June 30, 2018, were:

**East Penn School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2018**

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
<b>GOVERNMENTAL ACTIVITIES:</b>				
Capital Assets not being depreciated:				
Land	\$ 10,665,048	\$ -	\$ -	\$ 10,665,048
Construction in Progress	7,181	198,007	(169,800)	35,388
Total Capital Assets not being depreciated	<u>10,672,229</u>	<u>198,007</u>	<u>(169,800)</u>	<u>10,700,436</u>
Capital Assets being depreciated:				-
Site Improvements	6,614,099	-	-	6,614,099
Buildings and Improvements	196,322,613	289,811	-	196,612,424
Furniture and Equipment	5,059,121	1,413,438	-	6,472,559
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED</b>	<u>207,995,833</u>	<u>1,703,249</u>	<u>-</u>	<u>209,699,082</u>
Less accumulated depreciation for:				
Site Improvements	(4,450,590)	(212,812)	-	(4,663,402)
Buildings and Improvements	(63,528,710)	(4,111,385)	-	(67,640,095)
Furniture and Equipment	(3,753,139)	(266,768)	-	(4,019,907)
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<u>(71,732,439)</u>	<u>(4,590,965)</u>	<u>-</u>	<u>(76,323,404)</u>
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED NET OF ACCUMULATED DEPRECIATION</b>	<u>136,263,394</u>	<u>(2,887,716)</u>	<u>-</u>	<u>133,375,678</u>
 <b>GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION</b>	 <u>\$ 146,935,623</u>	 <u>\$ (2,689,709)</u>	 <u>\$ (169,800)</u>	 <u>\$ 144,076,114</u>
<b>BUSINESS-TYPE ACTIVITIES:</b>				
Capital Assets being depreciated:				
Furniture and Equipment	\$ 1,256,270	\$ 28,005	\$ -	\$ 1,284,275
Less accumulated depreciation	(937,293)	(24,354)	-	(961,647)
<b>BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION</b>	<u>\$ 318,977</u>	<u>\$ 3,651</u>	<u>\$ -</u>	<u>\$ 322,628</u>

**\* DEPRECIATION EXPENSE WAS CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:**

Regular Instruction	\$ 105,214
Special Instruction	945
Vocational Instruction	-
Other Instruction	-
Adult Instruction	-
Community College Instruction	-
Pupil Services	648
Instructional Staff Svcs.	20,997
Administrative Services	915
Health Services	333
Business Services	-
Operation & Maintenance of Plant Svcs.	36,350
Pupil Transportation	-
Central Services	65,163
Other Support Services	-
Student Activities	2,564
Community Services	1,189
Depreciation - unallocated	4,356,647
<b>TOTAL DEPRECIATION FOR GOVERNMENTAL ACTIVITIES</b>	<u><b>\$ 4,590,965</b></u>



**East Penn School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2018**

---

The government did not dispose any capital assets during the year. The business-type activities did not dispose any capital assets during the year.

**Commitments**

*Encumbrances*

Any encumbrances outstanding at year-end do not represent GAAP expenditures or liabilities but represent budgetary accounting controls. The General Fund Budget is maintained on the modified accrual basis of accounting, except that budgetary basis expenditures include any encumbrances issued for goods or services not received at year-end and not terminated.

The actual results of operations are presented in accordance with GAAP and the District's accounting policies do not recognize encumbrances as expenditures until the period in which the goods or services are actually received and a liability is incurred. If budgetary encumbrances exist at year-end, they are included in the fund financial statements to reflect actual revenues and expenditures on a budgetary basis consistent with the District's legally adopted budget.

*Long-Term Construction Commitments*

The District has the following construction commitments in the Capital Project Funds:

	<u>CONTRACT AMOUNT</u>	<u>EXPENDED TO 6/30/18</u>	<u>OUTSTANDING COMMITMENTS</u>
<b><u>MACUNGIE ES CHILLER &amp; PUMP REPLACEMENT</u></b>			
ASL Mechanical	\$ 265,700	\$ 4,000	\$ 261,700
<b>TOTAL</b>	<b>\$ 265,700</b>	<b>\$ 4,000</b>	<b>\$ 261,700</b>

**Short-term debt**

*Interfund receivables and payables*

The following interfund receivables and payables were in existence on June 30, 2018:

**East Penn School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2018**

---

	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 297,947	\$ 40,737
Special Revenue (Capital Reserve) Fund	-	-
Capital Project (2004AA Construction) Fund	-	-
Enterprise (Food Service) Fund	41,772	294,954
Private Purpose (Trust) Fund	-	-
Private Purpose (Memorial) Fund	-	-
Agency (Payroll) Fund	-	1,399
Agency (Activity) Fund	-	2,629
<b>TOTAL</b>	<u>\$ 339,719</u>	<u>\$ 339,719</u>

The District also made the following interfund transfers during the fiscal year ended June 30, 2018:

	<u>TRANSFER IN</u>	<u>TRANSFER OUT</u>
General Fund	\$ -	\$ -
Capital Project (Capital Reserve) Fund	-	-
<b>TOTAL</b>	<u>\$ -</u>	<u>\$ -</u>

**East Penn School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2018**

Long-term liabilities

Long-term liability balances and activity for the year ended June 30, 2018, were:

*Changes in Long-Term Liabilities*

	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	AMOUNTS DUE WITHIN ONE YEAR
<b><u>GOVERNMENTAL ACTIVITIES</u></b>					
<b>General Obligation Debt:</b>					
<i>Bonds and notes payable:</i>					
Capital Projects	\$ 69,096,498	\$ 23,809,069	\$ 35,116,220	\$ 57,789,347	\$ 8,963,000
Other than capital projects	-	-	-	-	-
<b>Total general obligation debt</b>	<b>69,096,498</b>	<b>23,809,069</b>	<b>35,116,220</b>	<b>57,789,347</b>	<b>8,963,000</b>
<i>Other liabilities:</i>					
Vested employee benefits:					
Vacation pay	990,771	35,795	-	1,026,566	64,617
Sick pay	963,476	4,522	-	967,998	127,002
Net Defined Benefit Pension Liability	214,447,269	-	3,322,206	211,125,063	-
Net Defined Contribution Pension Obligation	591,120	-	31,637	559,483	-
Net OPEB Liability - Single Employer Plan	5,273,838	16,379,324	-	21,653,162	-
Net OPEB Liability - Multiple Employer Plan	-	8,798,405	-	8,798,405	-
Other retirement benefits	-	-	-	-	-
<b>Total other liabilities</b>	<b>222,266,474</b>	<b>25,218,046</b>	<b>3,353,843</b>	<b>244,130,677</b>	<b>191,619</b>
<b>TOTAL GOVERNMENTAL ACTIVITY</b>					
<b>LONG-TERM LIABILITIES</b>	<b>\$ 291,362,972</b>	<b>\$ 49,027,115</b>	<b>\$ 38,470,063</b>	<b>\$ 301,920,024</b>	<b>\$ 9,154,619</b>
<b><u>BUSINESS TYPE ACTIVITIES</u></b>					
<i>Other liabilities:</i>					
Vested employee benefits:					
Vacation pay	-	-	-	-	-
Sick pay	31,417	2,617	-	34,034	-
Net Defined Benefit Pension Liability	3,990,898	-	57,473	3,933,425	-
Net OPEB Liability - Single Employer Plan	4,762	33,950	-	38,712	-
Net OPEB Liability - Multiple Employer Plan	-	154,347	-	154,347	-
<b>TOTAL BUSINESS-TYPE ACTIVITY</b>					
<b>LONG-TERM LIABILITIES</b>	<b>\$ 4,027,077</b>	<b>\$ 190,914</b>	<b>\$ 57,473</b>	<b>\$ 4,160,518</b>	<b>\$ -</b>

Payments on bonds and notes are made by the general fund. Vested employee benefits will be liquidated by governmental and proprietary funds. The School District currently does not have any bonds or notes payable in business-type activities.

Total Interest paid and accrued during the year:

<b>GOVERNMENTAL ACTIVITIES:</b>	<b>EXPENSE</b>	<b>PAID</b>
General obligation debt	\$ 1,404,121	\$ 1,296,720
Refund of Prior Year Receipts	-	-
Short-term borrowings	-	-
<b>TOTAL INTEREST PAID BY GOVERNMENTAL ACTIVITIES</b>	<b>\$ 1,404,121</b>	<b>\$ 1,296,720</b>

**East Penn School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2018**

---

**General Obligation Notes - Series of 1998**

On December 30, 1998, the District issued \$10,215,000 of General Obligation Notes - Series of 1998. The purpose of this issue was to provide funds needed to refund the General Obligation Notes - Series A of 1997, capitalized interest, and paying the costs of issuance. A sinking fund has been established with the paying agent in accordance with the Local Governmental Unit Debt Act. The Notes mature from February 1, 2001, to February 1, 2020. The Notes shall bear interest at a variable rate based on the issuer's weekly rate, not to exceed 25% per annum. Interest shall be paid on the third day prior to the end of each month. These Notes were refunded during the 2017-18 fiscal year. See Notes on GON Series A of 2007.

**General Obligation Notes - Series A of 2003**

On November 3, 2003, the District issued \$10,500,000 of General Obligation Notes - Series A of 2003. The purposes of this issue are: (1) to provide a portion of the funds needed for the planning, designing, acquiring, constructing, equipping and furnishing of renovations to (a) the existing Alburdis Elementary School, (b) the existing Shoemaker Elementary School; (c) the existing Emmaus Senior High School; and (d) various other existing school buildings and facilities and, (2) paying the remarketing costs. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The notes mature from August 1, 2012 to August 1, 2023. Interest rate is variable equal to the Issuer's weekly rate plus 0.55% not to exceed 15.55%. In the event of a default, the Credit Note-Series B of 2003 of \$10,760,112 becomes effective. These Notes were refunded during the 2017-18 fiscal year. See notes on GON Series A of 2007.

**General Obligation Notes - Series A of 2004**

On October 1, 2004, the District issued \$15,000,000 of General Obligation Notes – Series A of 2004. The purpose of this issue is to provide funds for: (1) the cost of planning, designing, acquiring, constructing, equipping and furnishing additions and renovations to (a) the existing Shoemaker Elementary School and to (b) the existing Alburdis Elementary School; (2) planning, designing, acquiring, constructing, equipping and furnishing alterations, additions and renovations or improvements to existing school buildings and facilities, or acquiring related land, fixtures, furnishings or equipment for school purposes; (3) capitalizing the interest on the Note; and (4) paying the remarketing costs. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The notes mature from August 1, 2005, to August 1, 2023. Interest rates are variable equal to the issuer's weekly rate plus 0.55% not to exceed 15.55%. In the event of a default, the Credit Note – Series B of 2004 of \$15,388,480 becomes effective. These Notes were refunded during the 2017-18 fiscal year. See Notes of GON Series of 2007.

**General Obligation Notes – Series A of 2007**

On July 2, 2007, the District issued \$12,400,000 of General Obligation Notes – Series A of 2007. The proceeds will be used: (1) for the planning, designing, constructing, equipping & furnishing additions, alterations and for renovations to existing Eyer Middle School; (2) planning, designing, acquiring, constructing, equipping, and furnishing alterations, additions and renovations or improvements to existing school buildings and facilities or acquiring related land, fixtures, furnishings, or equipment for school purposes, (3) paying the remarketing costs. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The Notes mature from August 1, 2009 to August 1, 2022. In the event of default, the Credit Note Series B of 2007 of \$12,721,150 becomes effective. Interest rate is variable equal to the weekly rate plus .55% per annum.

**East Penn School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2018**

---

On June 1, 2018, the District refunded GON Series of 1998, GON Series A of 2003, GON Series A of 2004, and GON Series A of 2007. Aggregate principal amounts are \$760,000, \$6,100,000, \$6,200,000 and \$10,500,000 respectively. The GON Series being refinanced are variable interest rate notes that are being refunded with new debt in the amount of \$22,920,000 with a fixed interest rates that range from 2.0% to 4.0%.

**SOURCES**

Gross Proceeds of Bonds	\$ 22,920,000
Plus: Accrued Interest	-
Premium	888,313
Less: Original Issue Discount	-
Underwriter's Discount	(113,454)
<b>TOTAL SOURCES</b>	<b><u>\$ 23,694,859</u></b>

**USES**

Escrow Deposit	\$ 23,560,000
Issuance Costs	126,292
Sinking Fund Deposit	8,567
<b>TOTAL USES</b>	<b><u>\$ 23,694,859</u></b>

**DIFFERENCE IN CASH FLOW REQUIREMENTS**

Old Debt Service Cash Flows	\$ 25,892,750
Cash Flows From New Debt:	
New Debt Service Cash Flow	\$ 25,200,393
Less: Excess Funds Deposited in Sinking Fund	<u>(8,567)</u>
Net Cash Flows From New Debt	<u>25,191,826</u>
Net Difference in Cash Flows	<u>700,924</u>

**ECONOMIC GAIN/LOSS**

Present Value of Old Debt Service Cash Flows	\$ 23,721,632
Present Value of New Debt Service Cash Flows	\$ 23,568,567
Less: Excess Funds Deposited in Sinking Fund	<u>(8,567)</u>
Total	<u>23,560,000</u>
Economic Gain(Loss)	<u>\$ 161,632</u>

**General Obligation Bonds – Series of 2012**

On January 17, 2012, the District issued \$9,500,000 of General Obligation Bonds – Series of 2012. The proceeds will be used (1) to refund the School District's outstanding GOB Series A of 2006 (2) to pay costs of issuing the bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from September 15, 2013 to September 15, 2024. Interest rates range from 2.00% to 2.25% with total indebtedness of \$1,888,488. The outstanding debt service requirements at June 30, 2018, are:

**East Penn School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2018**

FISCAL YEAR	PRINCIPAL	INTEREST
2018-19	\$ 770,000	\$ 176,426
2019-20	1,375,000	154,976
2020-21	1,405,000	127,176
2021-22	1,430,000	98,826
2022-23	1,465,000	68,961
2023-25	<u>2,255,000</u>	<u>45,824</u>
<b>SUB-TOTAL</b>	<b>\$ 8,700,000</b>	<b>\$ <u>672,189</u></b>
Unamortized Premium	33,295	
Unamortized Discount	<u>(2,699)</u>	
<b>TOTAL OUTSTANDING</b>	<b>\$ <u>8,730,596</u></b>	

**General Obligation Bonds – Series A of 2012**

On August 17, 2012, the District issued \$9,900,000 of General Obligation Bonds – Series A of 2012. The proceeds will be used (1) to refund the School District's outstanding GOB Series AA of 2004 (2) to refund a portion of the District's GOB Series of 2007, and (3) to pay costs of issuing the bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from November 15, 2013 to November 15, 2028. Interest rates range from 2.00% to 2.75% with total indebtedness of 2,185,528. The outstanding debt service requirements at June 30, 2018, are:

FISCAL YEAR	PRINCIPAL	INTEREST
2018-19	\$ 685,000	\$ 162,470
2019-20	600,000	149,620
2020-21	615,000	137,470
2021-22	625,000	125,070
2022-23	640,000	112,420
2023-28	3,520,000	329,287
2028-29	<u>770,000</u>	<u>10,588</u>
<b>SUB-TOTAL</b>	<b>\$ 7,455,000</b>	<b>\$ <u>1,026,925</u></b>
Unamortized Premium	66,391	
<b>TOTAL OUTSTANDING</b>	<b>\$ <u>7,521,391</u></b>	

**General Obligation Bonds – Series of 2013**

On January 1, 2013, the District issued \$7,810,000 of General Obligation Bonds – Series of 2013. The proceeds will be used (1) to refund the School District's outstanding GOB Series of 2007 (2) to refund the District's outstanding GOB Series of 2008, and (3) to pay costs of issuing the bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from October 15, 2013 to October 15, 2018. Interest rate at 2.00% with total indebtedness of \$407,376. The outstanding debt service requirements at June 30, 2018, are:

**East Penn School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2018**

FISCAL YEAR	PRINCIPAL	INTEREST
2018-19	\$ 420,000	\$ 4,200
<b>SUB-TOTAL</b>	<b>\$ 420,000</b>	<b>\$ 4,200</b>
Unamortized Premiums	2,641	
<b>TOTAL OUTSTANDING</b>	<b>\$ 422,641</b>	

**General Obligation Bonds – Series of 2014**

On March 25, 2014, the District issued \$8,535,000 of General Obligation Bonds – Series of 2014. The proceeds will be used (1) to refund the School District's outstanding GOB Series of 2009 (2) to pay costs of issuing the bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from November 15, 2014 to November 15, 2028. Interest rates range from .25% to 3.25% with total indebtedness of \$2,008,618. The outstanding debt service requirements at June 30, 2018, are:

FISCAL YEAR	PRINCIPAL	INTEREST
2018-19	\$ 540,000	\$ 173,841
2019-20	550,000	162,941
2020-21	575,000	151,691
2021-22	600,000	139,941
2022-23	615,000	127,407
2023-28	3,430,000	385,894
2028-29	770,000	12,513
<b>SUB-TOTAL</b>	<b>\$ 7,080,000</b>	<b>\$ 1,154,228</b>
Unamortized Premium	90,058	
Unamortized Discount	-	
<b>TOTAL OUTSTANDING</b>	<b>\$ 7,170,058</b>	

**General Obligation Bonds – Series B of 2015**

On March 30, 2015, the District issued \$4,050,000 of General Obligation Bonds – Series B of 2015. The proceeds will be used (1) to refund the School District's outstanding GOB Series A of 2010 (2) to pay costs of issuing the bonds. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from October 1, 2015 to October 1, 2023. Interest rates at 2% total interest indebtedness of \$481,725.

The outstanding debt service requirements at June 30, 2018, are:

**East Penn School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2018**

FISCAL YEAR	PRINCIPAL	INTEREST
2018-19	\$ 130,000	\$ 70,100
2019-20	655,000	62,250
2020-21	685,000	48,850
2021-22	705,000	34,950
2022-23	720,000	20,700
2023-24	675,000	6,750
<b>SUB-TOTAL</b>	<b>\$ 3,570,000</b>	<b>\$ 243,600</b>
Unamortized Premiums	47,348	
<b>TOTAL OUTSTANDING</b>	<b>\$ 3,617,348</b>	

**General Obligation Note – Series of 2016**

On April 15, 2016, the District issued \$6,524,000 of General Obligation Note, Series of 2016. The proceeds will be used (1) to refund the School District's outstanding GOB Bonds, Series of 2011, and (2) to pay costs of issuing the notes. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The notes mature from November 15, 2017 to November 15, 2020. Interest rates at 2% total interest indebtedness of \$481,725.

The outstanding debt service requirements at June 30, 2018, are:

FISCAL YEAR	PRINCIPAL	INTEREST
2018-19	\$ 2,533,000	\$ 73,010
2019-20	2,558,000	37,627
2020-21	1,428,000	9,925
<b>SUB-TOTAL</b>	<b>\$ 6,519,000</b>	<b>\$ 120,562</b>
Unamortized Premiums	-	
<b>TOTAL OUTSTANDING</b>	<b>\$ 6,519,000</b>	

**General Obligation Bonds – Series of 2018**

On June 1, 2018, the District issued \$22,920,000 of General Obligation Bonds, Series of 2018. The proceeds will be used (1) to refund the School District's outstanding GON Series of 1998. Currently outstanding in the aggregate principal amount of \$760,000 and (2) to currently refund all of the GON Series A of 2003, currently outstanding in the aggregate principal amount of \$6,100,000; and (3) to currently refund all of the Districts' outstanding GON Series A of 2004, currently outstanding in the aggregate principal amount of \$6,200,000; and (4) to currently refund all of the District's GON Series A of 2007, currently outstanding in the aggregate principal amount of \$10,500,000 and (5) to pay costs of issuance. In accordance with the Local Governmental Unit Debt Act, a sinking fund has been established with the paying agent. The bonds mature from February 1, 2019 to August 1, 2023. Interest rates at 2.0% to 4.0% with total interest indebtedness of \$2,280,393.

The future debt service requirements at June 30, 2018, are:



**East Penn School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2018**

---

<b>FISCAL YEAR</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>
2018-19	\$ 3,885,000	\$ 535,296
2019-20	3,150,000	668,494
2020-21	4,435,000	526,744
2021-22	4,625,000	350,163
2022-23	4,815,000	164,493
2023-24	<u>2,010,000</u>	<u>35,203</u>
<b>SUB-TOTAL</b>	<b>\$ 22,920,000</b>	<b>\$ 2,280,393</b>
Unamortized Premiums	<u>888,313</u>	
<b>TOTAL OUTSTANDING</b>	<b><u>\$ 23,808,313</u></b>	

---

*Lease Rental Debt*

The Lehigh Career and Technical Institute (LCTI), with authority of the nine participating school districts, have agreed to borrow up to \$53,715,000 to improve the Institute's facilities. The participating districts, such as East Penn School District, will be required to pay their proportionate shares of the incurred debt under the Articles of Agreement in subsequent years as "Capital Costs" under Section 4.2 of the Articles.

Specifically, Lehigh Career and Technical Institute issued \$32,000,000 of revenue bonds - Series of 2003 dated March 15, 2003, and \$21,715,000 of revenue bonds - Series of 2001 dated September 15, 2001, through the State Public School Building Authority (SPSBA). The bonds are special limited obligations of the SPSBA. During the 2005-06 fiscal year, these issues have been refunded with new issues.

*The LCTI financing translates into an ongoing obligation of the participating districts for credit purposes; however, for purposes of the Local Governmental Unit Debt Act, this borrowing is not considered general obligation debt of the school districts; therefore, the future obligations of debt service are not recorded as a liability on East Penn's financial statements.*

**East Penn School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2018**

**Combined Long-Term Debt**

The combined general long-term debt obligations for subsequent years, except for compensated absences and retirement benefits: are:

SUMMARY OF PRINCIPAL REQUIREMENTS

<u>FISCAL YEAR</u>	<u>G.O.B SERIES OF 2012</u>	<u>G.O.B SERIES A OF 2012</u>	<u>G.O.B SERIES OF 2013</u>	<u>G.O.B SERIES OF 2014</u>	<u>G.O.B SERIES B OF 2015</u>	<u>G.O.N. SERIES OF 2016</u>	<u>G.O.B SERIES OF 2018</u>	<u>TOTAL PRINCIPAL PAYMENTS</u>
2018-19	\$ 770,000	\$ 685,000	\$ 420,000	\$ 540,000	\$ 130,000	\$ 2,533,000	\$ 3,885,000	\$ 8,963,000
2019-20	1,375,000	600,000	-	550,000	655,000	2,558,000	3,150,000	8,888,000
2020-21	1,405,000	615,000	-	575,000	685,000	1,428,000	4,435,000	9,143,000
2021-22	1,430,000	625,000	-	600,000	705,000	-	4,625,000	7,985,000
2022-23	1,465,000	640,000	-	615,000	720,000	-	4,815,000	8,255,000
2023-28	2,255,000	3,520,000	-	3,430,000	675,000	-	2,010,000	11,890,000
2028-33	-	770,000	-	770,000	-	-	-	1,540,000
<b>TOTAL</b>	<b>8,700,000</b>	<b>7,455,000</b>	<b>420,000</b>	<b>7,080,000</b>	<b>3,570,000</b>	<b>6,519,000</b>	<b>22,920,000</b>	<b>56,664,000</b>
LESS PAYABLE WITH- IN ONE YEAR	770,000	685,000	420,000	540,000	130,000	2,533,000	3,885,000	8,963,000
<b>LONG-TERM PRINC. DUE AFTER ONE YEAR</b>	<b>\$ 7,930,000</b>	<b>\$ 6,770,000</b>	<b>\$ -</b>	<b>\$ 6,540,000</b>	<b>\$ 3,440,000</b>	<b>\$ 3,986,000</b>	<b>\$ 19,035,000</b>	<b>\$ 47,701,000</b>

SUMMARY OF PRINCIPAL AND INTEREST REQUIREMENTS

<u>FISCAL YEAR</u>	<u>G.O.B SERIES OF 2012</u>	<u>G.O.B SERIES A OF 2012</u>	<u>G.O.B SERIES OF 2013</u>	<u>G.O.B SERIES OF 2014</u>	<u>G.O.B SERIES B OF 2015</u>	<u>G.O.N. SERIES OF 2016</u>	<u>G.O.B SERIES OF 2018</u>	<u>TOTAL DEBT SVC. PAYMENTS</u>
2018-19	\$ 946,426	\$ 847,470	\$ 424,200	\$ 713,841	\$ 200,100	\$ 2,606,010	\$ 4,420,296	\$ 10,158,343
2019-20	1,529,976	749,620	-	712,941	717,250	2,595,627	3,818,494	10,123,908
2020-21	1,532,176	752,470	-	726,691	733,850	1,437,925	4,961,744	10,144,856
2021-22	1,528,826	750,070	-	739,941	739,950	-	4,975,163	8,733,950
2022-23	1,533,961	752,420	-	742,407	740,700	-	4,979,493	8,748,981
2023-28	2,300,824	3,849,287	-	3,815,894	681,750	-	2,045,203	12,692,958
2028-33	-	780,588	-	782,513	-	-	-	1,563,101
<b>TOTAL</b>	<b>\$ 9,372,189</b>	<b>\$ 8,481,925</b>	<b>\$ 424,200</b>	<b>\$ 8,234,228</b>	<b>\$ 3,813,600</b>	<b>\$ 6,639,562</b>	<b>\$ 25,200,393</b>	<b>\$ 62,166,097</b>

**East Penn School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2018**

---

***Compensated Absences***

*Sick-Pay*

Under the District's various bargaining agreements and plans, professional and eligible support personnel accumulate unused sick days from year to year based on their classification. These accumulated sick days are non-vesting during the employee's tenure. Only administrators employed prior to 7-1-04 who have opted to retain this benefit are eligible for payment. Upon retirement, these employees, except for administrators, are eligible for remuneration for unused sick days under the following bargaining agreements:

1.	East Penn Education Association Members	- \$25 per day
2.	Teamsters Union Members	- \$22 per day
3.	Secretarial & Aide Members	- \$20 per day
4.	Administrative Plan Members	- \$25 per day

The District maintains records of each employee's accumulated sick days that are vested with employees who are eligible to retire, and for those under the administrative plan. In accordance with GASB Statement No. 16, \$34,034, including FICA tax (net of reimbursement), has been recorded in the Food Service (Enterprise) Fund for sick leave termination benefits earned by Cafeteria employees at June 30, 2018. This amount is also included as a long-term liability in the business-type activity column of the government-wide statement of net position. The amount recorded in the General Fund for governmental employees, which will use currently available financial resources, is \$127,002, including FICA tax (net of reimbursement). This amount is reflected as a current liability in the governmental activities column of the government-wide statement of net position. The remaining sick leave termination benefit of \$840,996, including FICA tax (net of reimbursement), is recorded as a long-term liability in the governmental activities column of the government-wide statement of net position.

*Vacation Leave*

Unused vacation leave is paid upon an employee's termination. The District maintains records of each employee's accumulated vacation days. In accordance with GASB Statement No. 16, the portion of vacation pay earned at June 30, 2018, that will use currently available financial resources is \$64,617, including fICA tax and retirement contributions (net of reimbursement), which has been recorded in the General Fund. This amount is also shown as a current liability in the governmental activities column of the government-wide statement of net position. The Enterprise (Food Service) Fund has recorded \$-0-, including fICA tax and retirement contributions (net of reimbursement), which is also reflected as a long-term liability in the business-type activity column of the government-wide statement of net position. The remaining vacation pay earned at June 30, 2018, of \$961,949, including FICA tax and retirement contributions (net of reimbursement), is recorded as a long-term liability in the governmental activities column of the government-wide statement of net position.

**Defined Benefit Pension Plan**

The Government Accounting Standards Board (GASB) requires that state and local governmental employers disclose in their notes to financial statements, certain information about the public employee retirement systems to which they contribute.

**East Penn School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2018**

---

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

*Plan Description*

The Public School Employees' Retirement System (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](http://www.psers.state.pa.us).

*Benefits provided*

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits 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 T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

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

*Contributions*

Member Contributions:

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

**East Penn School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2018**

---

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

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

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

**Employer Contributions:**

The school districts' contractually required contribution rate for fiscal year ended June 30, 2018 was 31.74% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$18,993,974 for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of \$215,058,488 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 an actuarial valuation as of June 30, 2016, with rolling forward the System's total pension liability as of June 30, 2017. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2017, the District's proportion was 0.4395 percent, which was a decrease of 0.0040 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$24,979,406. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**East Penn School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2018**

<u>Sources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Proportionate Share vs Actual Paid Separately Finance Liabilities	\$ -	\$ 86,432
Changes in Assumptions	5,897,000	-
Net difference between projected and actual contributions made	-	597,411
Net difference between projected and actual earnings on pension plan investments	5,030,000	-
Difference between expected and actual experience	952,000	-
Changes in proportion of the Net Pension Liability	4,220,000	-
District contributions subsequent to the measurement date	18,993,974	-
Total	<u>\$ 35,092,974</u>	<u>\$ 683,843</u>

\$18,993,974 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended June 30:</b>	<b><u>Amount</u></b>
2018	\$ 5,627,000
2019	7,212,406
2020	3,856,724
2021	(1,207,119)
2022	<u>(73,854)</u>
Total	<u>\$ 15,415,157</u>

**Actuarial assumptions**

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

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.25%, includes inflation at 2.75%
- Salary increases – Effective average of 5.00%, which reflects an allowance for inflation of 2.75%, and 2.25% for real wage growth and for merit or seniority increases
- Mortality rates were based on the RP-2014 Combined Healthy Annuitant Tables (male and female) 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.

**East Penn School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2018**

---

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

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the 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.

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Global public equity	20.0%	5.1%
Fixed Income	36.0%	2.6%
Commodities	8.0%	3.0%
Absolute return	10.0%	3.4%
Risk parity	10.0%	3.8%
Infrastructure/MLPs	8.0%	4.8%
Real estate	10.0%	3.6%
Alternative investments	15.0%	6.2%
Cash	3.0%	0.6%
Financing (LIBOR)	-20.0%	1.1%
	<u>100%</u>	

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

For the year ended June 30, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 10.15%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

*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.

**East Penn School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2018**

---

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the District's proportionate share of 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, using the net position liability reported by PSERS before adjusting for differences on projected vs actual contributions made.

	<b>1% Decrease 6.25%</b>	<b>Current Discount Rate 7.25%</b>	<b>1% Increase 8.25%</b>
District's proportionate share of the net pension liability	\$ 267,184,000	\$ 217,062,000	\$ 174,745,000

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Public School Employees' Retirement System's *Comprehensive Annual Financial Report* (CAFR) that includes financial statements and required supplementary information for the plan, which can be found at [www.psers.state.pa.us](http://www.psers.state.pa.us).

**Defined Contributions Pension Plan**

Retirement Severance Benefits

Under various contracts with administrators, support staff and custodians a lump sum payment is offered upon retirement. The payment is based on a flat amount per year of service reduced by a per diem amount based on the number of sick days used in each year.

The lump sum payment shall be paid in full to the employee in one payment on the date to be determined by the employee after the employees' effective date of retirement. In the event of death of the employee, the lump sum payment will be paid in full to the employee's estate.

In accordance with Government Accounting Standards Board Statement No. 73, this benefit is considered a pension plan. The following is a summary of plan provisions:

Employer Contributions

The school district pays this benefit on a pay-as-you-go basis. It does not accumulate funds into any trust for future benefits. Contributions to the pension plan from the District were \$96,171 for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of \$559,483 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 an actuarial valuation as of January 1, 2017, with rolling forward the System's total pension liability as of June 30, 2018.



**East Penn School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2018**

---

For the year ended June 30, 2018, the District recognized pension expense of \$79,430. The following table reflects the changes to the pension obligation during the year:

	<u>2017-18</u>
<b>Total Defined Contribution Pension Liability - beginning</b>	<u>\$ 591,119</u>
Service Cost	65,767
Interest	15,059
Changes in Benefit Terms	-
Difference between expected and actual experience	-
Changes in assumptions	(16,291)
Benefit payments	<u>(96,171)</u>
Net change in total Pension Liability	<u>(31,636)</u>
<b>Total Defined Contribution Pension Liability - ending</b>	<u><u>\$ 559,483</u></u>
Interest Rate	3.13%
Plan Members	36
Covered Payroll	\$ 3,805,949

Actuarial assumptions

The total pension liability as of June 30, 2018 was determined by the actuarial valuation on January 1, 2017, with rolling forward the System's total pension liability using the following actuarial assumptions, applied to all periods included in the measurement.

- Actuarial cost method - Entry Age Normal – level % of pay
- Investment return – 3.13%.

The actuarial assumptions used in the January 1, 2017 valuation were based on the experience study conducted by the actuary, including the assumed retirement rates based on PSERS plan experience and vary by age, service, and gender.

Schedule on Defined Contribution Pension Deferred Outflows/Inflows

<u>Sources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in Assumptions	\$ 12,941	\$ -
Net difference between projected and actual investment earnings	-	-
Difference between expected and actual experience	-	29,546
Changes in proportion of the net defined contribution pension liability	-	-
District contributions subsequent to the measurement date	<u>63,685</u>	<u>-</u>
Total	<u><u>\$ 76,626</u></u>	<u><u>\$ 29,546</u></u>

**East Penn School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2018**

---

Funded Status and Funding Process. The funded status of the benefits as of June 30, 2018, was as follows:

	<b>Retirement Incentive Benefit Governmental Activity</b>
Actuarial accrued liability (a)	\$ 559,483
Actuarial value of plan assets (b)	-
Unfunded actuarial accrued liability (a) - (b)	\$ 559,483
Funded Ratio (b) / (a)	0.0%
Covered payroll	\$ 3,805,949
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll.	14.7%

Sensitivity of the District's proportion share of the net defined contribution pension liability in the discount rate:

The following presents the District's proportionate share of the net defined contribution pension liability calculated using the discount rate off 3.13%, as well as what the District's proportionate share of the net defined contribution pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.13%) or 1-percentage point higher (4.13% than the current rate, using the net defined contribution liability reported by the actuary before adjusting for differences on projected vs actual contributions made.

	<b>1% Decrease 2.13%</b>	<b>Current Discount Rate 3.13%</b>	<b>1% Increase 4.13%</b>
District's proportionate share of the net OPEB Pension liability	\$ 585,277	\$ 559,483	\$ 534,234

**Other Employee Benefits**

*Special Termination Benefits*

The East Penn School District's Board of School Directors has established an early retirement incentive program (ERIP) for those employees who meet certain qualifications. All professional employees will select, in writing, one of the two financial options:

*Option 1*

Upon meeting the requirements explained later, the District shall pay to the employee a total payment equal to his/her final base salary, at the time of application for ERIP, multiplied by the percentage appearing in the chart below. Such payment will be made during the first calendar year of ERIP at a time stipulated, in writing, by the retiree. The employee may opt to receive these monies in either one or two installments.

**East Penn School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2018**

---

---

<u>AGE OF PERSON ON JULY 1 OF ERIP YEAR</u>	<u>PERCENTAGE</u>
54	50%
55	50%
56	40%
57	35%
58	30%
59	25%
60	20%

---

*Option 2*

Upon receipt of a letter of request and letter of intent to retire, the Board will approve the applicant's request for a sabbatical leave, if the employee is eligible by law, and waives the return-to-work provision. Under this option, the employee would not begin receiving PSERS benefits until the conclusion of the year's sabbatical leave.

The plan is on a voluntary basis. To be eligible to receive this retirement incentive, the employee must meet all of the following qualifications:

The employee must be an active (not on leave) member of the instructional or administrative staff at the time of request.

The employee must choose to begin the ERIP program on July 1, and must be at least the age of 54 or not older than 60 on the preceding June 30.

The employee must have a minimum of fifteen (15) consecutive years of service in the East Penn School District prior to the commencement of ERIP.

The employee must qualify for retirement under provisions of the Public School Employees Retirement System (PSERS).

A letter of resignation, application to PSERS for benefits, and an application for ERIP must be received in the Superintendent's office on or before May 1, of the school year proceeding the July 1, start date of ERIP.

In accordance with GASB Statement No. 47, an employer that provides voluntary termination benefits shall recognize a liability and an expense when the employees accept the offer and the amount can be reasonably estimated. The amount recognized shall include any lump-sum payments and the present value of any expected future payments. The District records a liability when an employee accepts the offer. As of June 30, 2018, there were no eligible persons that accepted the offer that were not paid or recorded as a liability under GASB Statement No 47.

Under the provisions of Board Policy 450, the East Penn School District will pay, for those employees electing the Early Retirement Incentive Program explained in the preceding note, the premium for the retiring employee in an early retiree's hospitalization/medical plan. Such coverage will continue until the employee becomes eligible for government sponsored hospitalization/medical insurance or reaches age 65. Such insurance plan will be substantially equivalent to the plan offered to regular employees, but will have a mandatory reduction in major medical benefits. The Actuary has included this benefit under Other-Post Employment Benefits.

**East Penn School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2018**

---

**OTHER POST-EMPLOYMENT BENEFITS**

General Information about the Health Insurance Premium Assistance Program – Multiple Employer OPEB Plan

Health Insurance Premium Assistance Program

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

Premium Assistance Eligibility Criteria

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

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

Pension Plan description

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

Benefits provided

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

Employer Contributions:

The school districts' contractually required contribution rate for the fiscal year ended June 30, 2017 was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an

**East Penn School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2018**

additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$496,692 for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of \$8,952,752 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System's total OPEB liability as of June 30, 2016 to June 30, 2017. The District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2017, the District's proportion was 0.4395 percent, which was a decrease of 0.0040 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized OPEB expense of \$369,824. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

<u>Sources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Proportionate Share vs Actual Paid Separately Finance Liabilities	\$ -	\$ 194
Changes in Assumptions	-	417,000
Net difference between projected and actual contributions made	-	867
Net difference between projected and actual investment earnings	9,000	
Difference between expected and actual experience	-	-
Changes in proportion of the Net OPEB Liability	-	74,000
District contributions subsequent to the measurement date	<u>496,692</u>	<u>-</u>
Total	<u>\$ 505,692</u>	<u>\$ 492,061</u>

\$496,692 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year ended June 30:</u>	<u>Amount</u>
2018	\$ (79,000)
2019	(79,176)
2020	(79,176)
2021	(79,176)
2022	(82,176)
Thereafter	<u>(84,357)</u>
Total	<u>\$ (483,061)</u>

**East Penn School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2018**

---

Actuarial Assumptions

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

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

The following assumptions were used to determine the contribution rate:

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

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

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

**East Penn School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2018**

<b>OPEB - Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Cash	76.4%	0.6%
Fixed Income	23.6%	1.5%
	100%	

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

Sensitivity of the System Net OPEB Liability to Change in Healthcare Cost Trend Rates

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

The following presents the System net OPEB liability for June 30, 2017, calculated using current Healthcare cost trends as well as what the System net OPEB liability would be if it health cost trends were 1-percentage point lower or 1-percentage point higher than the current rate:

	<b>1% Decrease (Between 4% to 7%)</b>	<b>Current Trend Rate (Between 5% to 8%)</b>	<b>1% Increase (Between 6% to 9%)</b>
System net OPEB liability	\$ 8,952,000	\$ 8,954,000	\$ 8,956,000

**East Penn School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2018**

---

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

The following presents the net OPEB liability, calculated using the discount rate of 3.13%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.13%) or 1-percentage-point higher (4.13%) than the current rate:

	<b>1% Decrease 2.13%</b>	<b>Current Discount Rate 3.13%</b>	<b>1% Increase 4.13%</b>
District's proportionate share of the net OPEB liability	\$ 10,179,000	\$ 8,954,000	\$ 7,937,000

*OPEB plan fiduciary net position*

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

**Single Employer OPEB Plan**

In accordance with the PA School Code of 1949, as amended, medical coverage is provided to eligible retirees and spouses with the retiree paying the full active premium rate for coverage until age 65. This benefit has an implicit rate subsidy based upon GASB Statement No. 45, since the retiree pays the premium at the insurance carrier's global rate charged to the School District versus an age-adjusted rate, as defined in the GASB Statement.

*Plan Description:* East Penn School District has one single-employer defined benefit plan with the pertinent descriptions shown on the tables below:



**East Penn School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2018**

<b>Summary of Plan Provisions</b>			
<b>Group</b>	<b>Eligibility</b>	<b>Coverage And Premium Sharing</b>	<b>Duration</b>
<b><u>I. ADMINISTRATORS</u></b>	<p>Retention Incentive Program – (RIP) – must complete 5 years with the district and retire through PSERS.</p> <p>Other – must attain age 55 and retire through PSERS.</p>	<ul style="list-style-type: none"> <li>• Coverage: Medical, Prescription Drug, and Dental.</li> <li>• Premium Sharing: If the member retires under the RIP or previously under the ERIP, the district will pay for the amount of the PPO retiree medical and prescription drug plan for the member only. Any difference in premiums must be paid for by the individual. Spouses may elect coverage by paying the full premiums. Member and spouse may also elect dental coverage by paying the full premiums.</li> </ul> <p>If the member does not meet the requirements for the district subsidy but requirements are met to retire through PSERS, the member and spouse may continue coverage by paying the full premiums.</p> <p>Upon death of active employee or retiree, the spouse may continue coverage until Medicare Age.</p> <p>Dependents: Spouses included.</p>	<ul style="list-style-type: none"> <li>• Member –Benefits cease upon Medicare age.</li> <li>• Spouse –Benefits cease upon Medicare age.</li> </ul>
<b><u>II. TEACHERS</u></b>	<p>Early Retirement Incentive Program (ERIP) – must attain age 54, but not exceed age 60, and complete 15 consecutive years with the district and retire through PSERS.</p> <p>Other – must attain age 55 and retire through PSERS.</p>	<ul style="list-style-type: none"> <li>• Coverage: Medical, Prescription Drug, and Dental.</li> <li>• Premium Sharing: If the member retires under the ERIP, the district will pay for the amount of the PPO retiree medical and prescription drug plan for the member only. Any difference in premiums must be paid for by the individual. Spouses may elect coverage by paying the full premiums. Member and spouse may also elect dental coverage by paying the full premiums.</li> </ul> <p>Upon the death of a retiree, the spouse may continue coverage until Medicare age.</p> <p>Dependents: Spouse included.</p>	Same as I

**East Penn School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2018**

<b>Summary of Plan Provisions</b>			
<b>Group</b>	<b>Eligibility</b>	<b>Coverage And Premium Sharing</b>	<b>Duration</b>
<b><u>III. SUPPORT STAFF</u></b>	Must attain age 55 and retire through PSERS.	<ul style="list-style-type: none"> <li>● Coverage: Medical, Prescription Drug and Dental.</li> <li>● Premium Sharing: The member and spouse may elect medical, prescription drug, and dental coverage by paying the full premiums.</li> <li>● Upon death of active employee or retiree, the spouse may continue coverage until Medicare Age.</li> <li>● Dependents: Spouse Included.</li> </ul>	Same as I.

**Notes:** PSERS Retirement:

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

Cash Payments: Cash payments are not GASB 45 liabilities

- Financial Incentives under the ERIP are valued under GASB 47. (Note: All current administrators elected the RIP and therefore, are not eligible for the Financial Incentives under ERIP.)
- Financial Incentives under the RIP are valued under GASB 68.

\* The final schedule of this valuation contains supplemental calculations under GASB 68. The benefit provision is as follows:

- Administrators who qualify for PSERS retirement and have worked for the district are entitled to a one-time payment equal to the individual's base salary times a percentage which is the sum of A) 1% times services prior to age 49, plus B) 2% times service for ages between 50-54, plus C) 3% times service for ages greater than 55.

**East Penn School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2018**

---

*Employees covered by benefit terms:*

At June 30, 2018, the following employees were covered by the benefit terms:

Active Participants	752
Vested Former Participants	0
Retired Participants	<u>72</u>
Total	824

*Total OPEB Liability*

The School's total OPEB liability under this single employer plan of \$21,691,874, was measured as of June 30, 2017, and was determined by an actuarial valuation as of that date.

*Actuarial Assumptions and other inputs*

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the benefits and the annual required contributions of the employer are subject to continual revision, actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress, presented as required supplementary information, provides multiyear trend information that shows whether the actuarial value of plan Net Position is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*Actuarial Methods and Assumptions*

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the district and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

	<b>Single Employer OPEB Healthcare Benefit</b>
Actuarial Valuation Date	7/1/2016
Actuarial Cost Method	Entry Age Normal
Interest Rate	3.13%
Projected salary increases	3.75% to 6.25%
Healthcare inflation rate	6.0% in 2017, and 5.5% in 2018 through 2023. Rate gradually decrease from 5.4% in 2024 to 3.9% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.
Asset Valuation Method	pay as you go basis

**East Penn School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2018**

---

Mortality rates are assumed pre-retirement and post-retirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation. Incorporated into our retirement table are rates projected generationally by the Buck Modified 2016 projection scale to reflect mortality improvement.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study on January, 2017.

Changes in the Total OPEB Liability

Service Cost	\$	1,554,305
Interest		529,272
Changes in Benefit Terms		-
Difference between expected and actual experience		-
Changes in assumptions		319,226
Benefit payments		(900,125)
Net change in total OPEB Liability		1,502,678
Total OPEB Liability - beginning		20,189,196
<b>Total OPEB Liability - ending</b>	<b>\$</b>	<b>21,691,874</b>

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

The following presents the total OPEB liability of the School's single employer OPEB plan, as well as what the School's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.13%) or 1-percentage point higher (4.13%) than the current discount rate:

	<b>1% Decrease 2.13%</b>	<b>Current Discount Rate 3.13%</b>	<b>1% Increase 4.13%</b>
District's proportionate share of the net OPEB liability	\$ 23,569,321	\$ 21,691,874	\$ 19,926,320

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates

The following presents the total OPEB liability of the School's single employer OPEB plan, as well as what the School's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower (5.0% decreasing to 2.9%) or 1-percentage point higher (7.0% decreasing to 4.9%) than the current healthcare cost trend rates:

**East Penn School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2018**

	<b>1% Decrease (Between 2.9% to 5.0%)</b>	<b>Current Trend Rate (Between 3.9% to 6.0%)</b>	<b>1% Increase (Between 4.9% to 7.0%)</b>
System net OPEB liability	\$ 18,667,687	\$ 21,691,874	\$ 25,351,150

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

For the year ended June 30, 2018, the School recognized OPEB expense of \$2,106,379. At June 30, 2018, the School reported deferred outflows of resource and deferred inflows of resources related to this single employer OPEB plan from the following sources:

<u>Sources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in Assumptions	\$ 296,424	\$ -
Net difference between projected and actual investment earnings	-	-
Difference between expected and actual experience	-	-
Changes in proportion of the Net OPEB Liability	-	-
District contributions subsequent to the measurement date	856,922	-
Total	<u>\$ 1,153,346</u>	<u>\$ -</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to this single employer OPEB plan will be recognized in OPEB expense as follows:

<u>Year ended June 30:</u>	<u>Amount</u>
2019	\$ 22,802
2020	22,802
2021	22,802
2022	22,802
2023	22,802
Thereafter	<u>182,414</u>
Total	<u>\$ 296,424</u>

**East Penn School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2018**

**Combined Deferred Outflows/Inflows on Pensions and OPEB**

As a result of having multiple pension and other post-employment benefit plans, the following schedule is prepared to illustrate the individual components reflected on the Statement of Net Position:

GOVERNMENTAL ACTIVITIES										
	<i>Pension - GASB 68</i>		<i>Pension - GASB 73</i>		<i>Single Employer OPEB - GASB 75</i>		<i>Multiple Employer OPEB - GASB 75</i>		<i>Pension &amp; OPEB Total</i>	
	DR OR (CR)		DR OR (CR)		DR OR (CR)		DR OR (CR)		DR OR (CR)	
	CURRENT YR		CURRENT YR		CURRENT YR		CURRENT YR		CURRENT YR	
IN DEFERRED OUTFLOWS/INFLOWS	BALANCE		BALANCE		BALANCE		BALANCE		BALANCE	
Change in Proportion	\$	4,138,312	\$	-	\$	-	\$	(72,724)	\$	4,065,588
Current Year Contributions		18,673,704		63,685		854,990		488,317		20,080,696
Change in Assumption		5,792,600		12,941		284,315		(409,811)		5,680,045
Diff in Projected Vs Actual Contributions		(586,910)		-		-		(852)		(587,762)
Difference in Investment Earnings		4,945,224		-		-		8,845		4,954,069
Diff. between Expected vs Actual Experience		936,453		(29,546)		-		-		906,907
Diff. between Prop. Share vs Actual POS		(86,432)		-		-		(194)		(86,626)
<b>Net Pension Liability</b>	<b>\$</b>	<b>211,125,063</b>							<b>\$</b>	<b>211,125,063</b>
<b>Net Defined Contribution Pension Liability</b>			<b>\$</b>	<b>559,483</b>					<b>\$</b>	<b>559,483</b>
<b>Net OPEB Liability</b>					<b>\$</b>	<b>21,653,162</b>	<b>\$</b>	<b>8,798,405</b>	<b>\$</b>	<b>30,451,567</b>

BUSINESS-TYPE ACTIVITIES										
	<i>Pension - GASB 68</i>		<i>Pension - GASB 73</i>		<i>Single Employer OPEB - GASB 75</i>		<i>Multiple Employer OPEB - GASB 75</i>		<i>Pension &amp; OPEB Total</i>	
	DR OR (CR)		DR OR (CR)		DR OR (CR)		DR OR (CR)		DR OR (CR)	
	CURRENT YR		CURRENT YR		CURRENT YR		CURRENT YR		CURRENT YR	
IN DEFERRED OUTFLOWS/INFLOWS	BALANCE		BALANCE		BALANCE		BALANCE		BALANCE	
Change in Proportion	\$	81,688	\$	-	\$	-	\$	(1,276)	\$	80,412
Current Year Contributions		320,270		-		1,932		8,375		330,577
Change in Assumption		104,400		-		12,109		(7,189)		109,320
Diff in Projected Vs Actual Contributions		(10,501)		-		-		(15)		(10,516)
Difference in Investment Earnings		84,776		-		-		155		84,931
Diff. between Expected vs Actual Experience		15,547		-		-		-		15,547
Diff. between Prop. Share vs Actual POS		-		-		-		-		-
<b>Net Pension Liability</b>	<b>\$</b>	<b>3,933,425</b>							<b>\$</b>	<b>3,933,425</b>
<b>Net Defined Contribution Pension Liability</b>			<b>\$</b>	<b>-</b>					<b>\$</b>	<b>-</b>
<b>Net OPEB Liability</b>					<b>\$</b>	<b>38,712</b>	<b>\$</b>	<b>154,347</b>	<b>\$</b>	<b>193,059</b>

STATEMENT OF NET POSITION	
<i>Governmental &amp; Business-Type Activities</i>	<i>Total</i>
RECONCILIATION OF NET CHANGE	DR OR (CR)
IN DEFERRED OUTFLOWS/INFLOWS	CURRENT YR
IN DEFERRED OUTFLOWS/INFLOWS	BALANCE
Change in Proportion	\$ 4,146,000
Current Year Contributions	20,411,273
Change in Assumption	5,789,365
Diff in Projected Vs Actual Contributions	(598,278)
Difference in Investment Earnings	5,039,000
Diff. between Expected vs Actual Experience	922,454
Diff. between Prop. Share vs Actual POS	(86,626)
<b>Net Pension Liability</b>	<b>\$ 215,058,488</b>
<b>Net Defined Contribution Pension Liability</b>	<b>\$ 559,483</b>
<b>Net OPEB Liability</b>	<b>\$ 30,644,626</b>

**East Penn School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2018**

---

**Note 6 - Tax Increment Financing Agreement – Hamilton Crossing**

On June 23, 2014, East Penn School District entered a Tax Increment Financing Agreement

Under the authority of the Pennsylvania Tax Increment Financing Act, the local taxing body (East Penn School District) is to provide 50% of necessary financing to TGG/TCH-Hamilton Crossings Associates, L.P. (the developer) to undertake retail and commercial development on 63 acres of land located in Lower Macungie Township.

Under the authority of the Pennsylvania Tax Increment Financing Act, the developer must complete the project dependent upon the requirements including infrastructure improvements as such: Road improvements to Route 222 Bypass, Krocks Road and Hamilton Boulevard, facilities to manage and infiltrate storm water and control regional flooding, to upgrade utility facilities, fund capitalized interest (if any), and fund issuance costs of obligations.

Full aggregate market value of all taxable real property located within the TIF district as of the effective date of creation is \$2,863,200.

East Penn School District pledges to pay over to the authority to be held in a TIF Agreement 50% of the real estate taxes assessed on the TIF District properties for each year within the agreement based upon the calculation below:

**East Penn School District Pledged Increment = (.50 x (the annual current assessment less the Tax Increment Base) x School District mileage at current year's calculation.**

The developer is to pay annually assessed property taxes on all properties within the TIF District, amounts pledged to be contributed by the School District and other TIF Agreement Parties will be deposited into the TIF Agreement Escrow account (split into both school district and township contributions), held by the authority, to be used in payment or trust for Obligations associated with project expenses.

Upon completion of payment for project obligations, any remaining monies held within the School District's portion of the TIF Agreement Escrow account held by the Authority will be returned to the School District.

Upon completion, the recipient of the TIF Tax Increment agrees to continue to pay 100% of real estate taxes on land and improvements in which the School District and Township will keep 100% of going forward. Additionally, the recipient agrees not to file any tax assessment appeal during the term of the TIF debt.

**East Penn School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2018**

---

**Projected Tax Revenue Reduction for School District of TIF Agreement**

<u>Calendar Year End</u>	<u>Estimated Incremental TIF Contribution</u>
12/31/2014	\$ -
12/31/2015	-
12/31/2016	540,978
12/31/2017	592,861
12/31/2018	598,684
12/31/2019	598,684
12/31/2020	604,507
12/31/2021	604,507
12/31/2022	610,694
12/31/2023	610,694
12/31/2024	616,881
12/31/2025	616,881
12/31/2026	632,068
12/31/2027	632,068
12/31/2028	629,255
12/31/2029	629,255
12/31/2030	635,442
12/31/2031	635,442
12/31/2032	641,629
12/31/2033	641,629
12/31/2034	<u>648,180</u>
<b>TOTAL</b>	<b><u>\$ 11,720,339</u></b>

Estimated surplus amounts which will be turned over after TIF obligations have been settled, and will be reimbursed to East Penn School District total \$4,095,697.34.

**Note 7 - Risk Management**

The District is subject to risk of loss from employee acts, property damage, personal injury auto accidents, theft, etc. The District covers those risks through the purchase of commercial insurance. The District's Workmen's compensation policy is a retrospectively rated policy; the final total premium is based on the actual payroll for the policy year and is determined by the insurance company. Any settlements received by the District or its employees did not exceed insurance coverage in any of the last three years.



**East Penn School District  
Notes To Basic Financial Statements  
Fiscal Year Ended June 30, 2018**

---

**Note 8 – Prior Period Adjustments – General Fund/Net Position**

	Food Service Fund	Business-Type Activities	Governmental Activities
<b>Fund Balance/Net Position - June 30, 2017 (as reported)</b>	\$ (1,878,592)	\$ (1,878,592)	\$ (85,396,544)
<b>Adjustments to the fund balance:</b>			
As a result of the new accounting principle GASB Statement No. 75, a prior period adjustment needed to be made pertaining to the multiple employer cost sharing OPEB plan on health assistance handled by PSERS reporting the net opeb liability at June 30, 2016.	(156,295)	(156,295)	(8,909,694)
As a result of the new accounting principle GASB Statement No. 75, a prior period adjustment needed to be made pertaining to the single employer OPEB plan dealing with age-adjusted vs global healthcare rates, reporting the net opeb liability at June 30, 2016.	(19,158)	(19,158)	(13,991,313)
<b>Fund Balance/Net Position - June 30, 2017 (restated)</b>	\$ (2,054,045)	\$ (2,054,045)	\$ (108,297,551)

**Note 9 - Fund Balance Allocations**

*Non Spendable Fund Balance*

The General Fund has \$85,853 in non-spendable fund balance at year end comprised of prepaid expenditures.

*Restricted Fund Balance*

The Capital Reserve Fund's \$2,310,444 fund balance at year end is restricted because of enabling legislation under the Municipal Code in Pennsylvania. Section 1432 of this Code restricts the use of resources for limited purposes. The General Fund has \$48,975 of contributions restricted at year end.

*Committed Fund Balance*

There are no commitments of fund balance this year.

*Assigned Fund Balance*

The General Fund has \$7,305,800, assigned for appropriations in the 2018-19 budget. The 2018 Bond Fund has \$8,567 assigned for the purpose of the fund.

**Note 10 – Net Investment in Capital Assets**

The portion of net position for governmental activities, shown on the government-wide statement of net position invested in capital assets, net of related debt is \$86,760,856. The business-type activities column reflects \$322,628 invested in capital assets with no related debt. In addition, \$2,310,444 of net position in the governmental activities column has been restricted for future capital projects.

**East Penn School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2018**

---

**Note 11 - Contingencies**

*Grants*

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and a condition specified in the grant agreements, and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund, or other applicable funds. However, in the opinion of management any such disallowed claims will not have a material adverse effect on the overall financial position of the School District as of June 30, 2018.

*Litigation*

In accordance with management, there are no legal matters that could materially affect the financial position of the District as of June 30, 2018.

**Note 12 – New Accounting Pronouncements**

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

- Statement No. 83, *Certain Asset Retirement Obligations* – This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. Effective date: for periods beginning after June 15, 2018.
- Statement No. 84, *Fiduciary Activities* – This Statement is designed to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Effective date: Periods beginning after December 15, 2018.
- Statement No. 87, *Leases* – The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement requires certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Effective date: Periods beginning after December 15, 2019.

**East Penn School District**  
**Notes To Basic Financial Statements**  
**Fiscal Year Ended June 30, 2018**

---

- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* – The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash or other assets in or more payments to settle an amount that is fixed at the date the contractual obligation is established. The Statement requires additional essential information related to debt be disclosed, including unused lines of credit, assets pledged as collateral for the debt, and terms specified in debt agreements related to default events. Effective date: for periods beginning after June 15, 2018.
  
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* – The objectives of the statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before construction ends. This standard requires expensing interest costs when incurred rather than capitalizing the costs.

**REQUIRED SUPPLEMENTAL INFORMATION**

**EAST PENN SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY  
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM  
CUMULATIVE TEN FISCAL YEARS REPORT  
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>
District's proportion of the net pension liability (asset)	0.4395%	0.4435%	0.4371%	0.4236%
District's proportionate share of the net pension liability (asset)	\$ 217,062,000	\$ 219,785,000	\$ 189,332,000	\$ 167,664,000
District's covered employee payroll	59,842,387	58,676,043	57,594,539	56,225,255
District's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	362.72%	374.57%	328.73%	298.20%
Plan fiduciary net position as a percentage of the total pension liability	51.84%	50.14%	54.36%	57.24%

EAST PENN SCHOOL DISTRICT  
 SCHEDULE OF DISTRICT CONTRIBUTIONS  
 PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM  
 CUMULATIVE TEN FISCAL YEARS REPORT  
 FOR THE YEAR ENDED JUNE 30, 2018

	<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14</u>	<u>2012-13</u>	<u>2011-12</u>	<u>2010-11</u>	<u>2009-10</u>	<u>2008-09</u>
Contractually required contribution	\$ 18,993,974	\$ 17,133,405	\$ 14,398,635	\$ 11,526,177	\$ 8,486,543	\$ 5,827,021	\$ 3,954,697	\$ 2,551,200	\$ 1,969,355	\$ 1,945,655
Contributions in relation to the contractually required contribution	<u>18,993,974</u>	<u>17,133,405</u>	<u>14,398,635</u>	<u>11,526,177</u>	<u>8,486,543</u>	<u>5,827,021</u>	<u>3,954,697</u>	<u>2,551,200</u>	<u>1,969,355</u>	<u>1,945,655</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 59,842,387	\$ 58,676,043	\$ 57,594,539	\$ 56,225,255	\$ 53,040,892	\$ 50,669,745	\$ 49,433,713	\$ 51,024,007	\$ 49,233,881	\$ 48,641,375
Contributions as a percentage of covered employee payroll	31.74%	29.20%	25.00%	20.50%	16.00%	11.50%	8.00%	5.00%	4.00%	4.00%

**EAST PENN SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN THE DISTRICT'S DEFINED CONTRIBUTION  
PENSION LIABILITY  
CUMULATIVE TEN FISCAL YEARS REPORT  
FOR THE YEAR ENDED JUNE 30, 2018**

	<u><b>2017-18</b></u>
<b>Total Defined Contribution Pension Liability - beginning</b>	<b>\$ <u>591,119</u></b>
Service Cost	65,767
Interest	15,059
Changes in Benefit Terms	-
Difference between expected and actual experience	-
Changes in assumptions	(16,291)
Benefit payments	<u>(96,171)</u>
Net change in total Pension Liability	<u>(31,636)</u>
<b>Total Defined Contribution Pension Liability - ending</b>	<b>\$ <u><u>559,483</u></u></b>
Interest Rate	3.13%
Plan Members	36
Covered Payroll	\$ 3,805,949

**EAST PENN SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF NET DEFINED  
CONTRIBUTION PENSION LIABILITY  
CUMULATIVE TEN FISCAL YEARS REPORT  
FOR THE YEAR ENDED JUNE 30, 2018**

	<u><b>2017-18</b></u>
District's proportionate share of the net defined contribution pension liability (asset)	\$ 559,483
District's covered employee payroll	\$ 3,805,949
District's proportionate share of the net defined contribution pension liability (asset) as a percentage of its covered employee payroll	14.70%



**EAST PENN SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF NET OPEB LIABILITY  
MULTIPLE EMPLOYER TEACHERS OPEB PLAN  
CUMULATIVE TEN FISCAL YEARS REPORT  
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2017-18</u>	<u>2016-17</u>
District's proportion of the net OPEB liability	0.4395%	0.4435%
District's proportionate share of the net OPEB liability (asset)	\$ 8,954,000	\$ 9,553,000
District's covered-employee payroll	59,842,387	58,676,043
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered employee payroll	14.96%	16.28%
Plan fiduciary net position as a percentage of the total OPEB liability	5.73%	5.47%

EAST PENN SCHOOL DISTRICT  
SCHEDULE OF DISTRICT CONTRIBUTIONS  
MULTIPLE EMPLOYER TEACHERS OPEB PLAN  
CUMULATIVE TEN FISCAL YEARS REPORT  
FOR THE YEAR ENDED JUNE 30, 2018

	<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14</u>	<u>2012-13</u>	<u>2011-12</u>	<u>2010-11</u>	<u>2009-10</u>	<u>2008-09</u>
Contractually required contribution	\$ 496,692	\$ 487,011	\$ 483,794	\$ 506,028	\$ 493,284	\$ 435,756	\$ 321,314	\$ 326,557	\$ 384,017	\$ 369,672
Contributions in relation to the contractually required contribution	<u>496,692</u>	<u>487,011</u>	<u>483,794</u>	<u>506,028</u>	<u>493,284</u>	<u>435,756</u>	<u>321,314</u>	<u>326,557</u>	<u>384,017</u>	<u>369,672</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 59,842,387	\$ 58,676,043	\$ 57,594,539	\$ 56,225,255	\$ 53,040,892	\$ 50,669,745	\$ 49,433,713	\$ 51,024,007	\$ 49,233,881	\$ 48,641,375
Contributions as a percentage of covered employee payroll	0.83%	0.83%	0.84%	0.90%	0.93%	0.86%	0.65%	0.64%	0.78%	0.76%

**EAST PENN SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF NET OPEB LIABILITY  
SINGLE EMPLOYER HEALTH INSURANCE PLAN  
CUMULATIVE TEN FISCAL YEARS REPORT  
FOR THE YEAR ENDED JUNE 30, 2018**

	<u><b>2017-18</b></u>
<b>Total OPEB Liability</b>	
Service Cost	\$ 1,554,305
Interest	529,272
Changes in Benefit Terms	-
Difference between expected and actual experience	-
Changes in assumptions	319,226
Benefit payments	<u>(900,125)</u>
Net change in total OPEB Liability	1,502,678
Total OPEB Liability - beginning	<u>20,189,196</u>
<b>Total OPEB Liability - ending</b>	<u><b>\$ 21,691,874</b></u>
Covered employee payroll	<u><u>\$ 52,503,081</u></u>
Total OPEB Liability as a percentage of covered employee payroll	41.32%

**East Penn School District**  
**Notes To Required Supplemental Information**  
**Fiscal Year Ended June 30, 2018**

---

**Public School Employees' Retirement System**

Changes of benefit terms

None

Changes in assumptions

- During this fiscal year, there were no changes in assumptions used in the prior reporting period.

Methods and assumptions used in calculations of actuarially determined contributions

The actuarially determined contributions, by PSERS, are calculated as of the June 30 preceding the fiscal year in which contributions are made. It does not include an adjustment made for the difference between projected vs actual contributions or separately financed liabilities. The following methods and assumptions were used to determine contribution rates reported:

- Investment return – 7.25%, includes inflation at 2.75%.
- Salary increases – Effective average of 5.0%, which reflects an allowance for inflation of 2.75%, and 2.25% for real wage growth and merit or seniority increases.
- Benefit payments – no postretirement benefit increases assumed in the future.
- Multiple decrement tables – mortality, vesting, retirement age, and withdrawal estimates are based upon tables provided by the actuary.

Proportionate Share of the Net Pension Liability

The amount reported as the District's proportionate share of the net pension liability (asset) does not include the adjustment for the difference between projected vs actual contributions made and the adjustment for the difference between proportionate share vs actual paid separately financed liabilities.

**Other Post-Employment Benefits – Teachers Health Insurance Assistance**

Changes of benefit terms

None

Changes in assumptions

- The discount rate used to measure the Total OPEB liability increased from 2.71% as of June 30, 2016 to 3.13% as of June 30, 2017.

**East Penn School District**  
**Notes To Required Supplemental Information**  
**Fiscal Year Ended June 30, 2018**

---

Methods and assumptions used in calculations of actuarially determined contributions

The actuarially determined contributions, by PSERS, are calculated as of the June 30 preceding the fiscal year in which contributions are made. It does not include an adjustment made for the difference between projected vs actual contributions or separately financed liabilities. The following methods and assumptions were used to determine contribution rates reported:

- Investment return – 3.13% - S&P 20 Year Municipal Bond Rate.
- Salary increases – Effective average of 5.0%, which reflects an allowance for inflation of 2.75%, and 2.25% for real wage growth and merit or seniority increases.
- Premium Assistance reimbursement is capped at \$1,200 per year.
- Assumed Healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Participation rate:
  - Eligible retirees will elect to participate Pre age 65 at 50%
  - Eligible retirees will elect to participate Post age 65 at 70%

The following assumptions were used to determine the contribution rate:

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

Proportionate Share of the Net OPEB Liability

The amount reported as the District's proportionate share of the net opeb liability (asset) does not include the adjustment for the difference between projected vs actual contributions made and the adjustment for the difference between proportionate share vs actual paid separately financed liabilities.

**East Penn School District**  
**Notes To Required Supplemental Information**  
**Fiscal Year Ended June 30, 2018**

---

**Other Post-Employment Benefits – Single Employer Healthcare Plan**

Changes of benefit terms

Changes were made to the current Executive Director's eligibility and dependent coverage, but had no effect on liability. Written notification of retirement language was added to the Administrators, Administrative Support, and Teacher groups, but had no effect on liability do to current assumptions.

Changes in assumptions

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

Methods and assumptions used in calculations of actuarially determined contributions

- Actuarial Cost Method – Entry Age Normal
- Salary Increases – 3.50% to 5.25%
- Healthcare cost trend rate – 6.0% in 2017, and 5.5% in 2018 to 2023. Rates gradually decrease from 5.4% in 2024 to 3.9% in 2075 based on the Society of Actuaries Long-Run Medical Cost Trend Model
- Asset Valuation Method – Pay as you go basis
- Discount Rate – The rate of 3.13% is based on S&P Municipal Bond 20-year high grade rate index at July 1, 2017.

**S U P P L E M E N T A L I N F O R M A T I O N S E C T I O N**

**East Penn School District  
Combining Balance Sheet  
All Non-Major Governmental Funds  
For the Year Ended June 30, 2018**

	<b>CAPITAL PROJECTS FUND</b>	<b>DEBT SERVICE FUNDS</b>	<b>TOTAL NON- MAJOR GOVERN- MENTAL FUNDS</b>
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 154,841	\$ 8,567	\$ 163,408
Restricted Cash	1,700,943	-	1,700,943
Investments	500,000	-	500,000
Other Receivables	1,145	-	1,145
Due from other funds	-	-	-
Receivables from other governments	-	-	-
Prepaid Expenditures	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 2,356,929</b>	<b>\$ 8,567</b>	<b>\$ 2,365,496</b>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Deferred Charges on Refundings, net	-	-	-
<b>TOTAL ASSETS &amp; DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 2,356,929</b>	<b>\$ 8,567</b>	<b>\$ 2,365,496</b>
<b><u>LIABILITIES</u></b>			
Accounts Payable	\$ 46,485	\$ -	\$ 46,485
Due to other funds	-	-	-
Due to Other Governments	-	-	-
Interest Payable	-	-	-
Deferred revenue	-	-	-
<b>TOTAL LIABILITIES</b>	46,485	-	46,485
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Unearned/Unavailable Revenue	-	-	-
<b>TOTAL LIABILITIES &amp; DEFERRED INFLOWS OF RESOURCES</b>	46,485	-	46,485
<b><u>FUND BALANCES</u></b>			
Nonspendable Fund Balance	-	-	-
Restricted Fund Balance	2,310,444	-	2,310,444
Committed Fund Balance	-	-	-
Assigned Fund Balance	-	8,567	8,567
<b>TOTAL FUND BALANCES</b>	2,310,444	8,567	2,319,011
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, &amp; FUND BALANCES</b>	<b>\$ 2,356,929</b>	<b>\$ 8,567</b>	<b>\$ 2,365,496</b>



**East Penn School District**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**All Non-Major Governmental Funds**  
**For the Year Ended June 30, 2018**

	<b>CAPITAL PROJECTS FUND</b>	<b>DEBT SERVICE FUNDS</b>	<b>TOTAL NON- MAJOR GOVERN- MENTAL FUNDS</b>
<b>REVENUES</b>			
Local Sources	\$ 3,436	\$ -	\$ 3,436
State Sources	-	-	-
Federal Sources	-	-	-
<b>TOTAL REVENUES</b>	3,436	-	3,436
<b>EXPENDITURES</b>			
Instruction	-	-	-
Support Services	108,612	239,746	348,358
Operation of Non-Instructional Services	-	-	-
Capital Outlay	872,398	-	872,398
Debt Service	-	-	-
<b>TOTAL EXPENDITURES</b>	981,010	239,746	1,220,756
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(977,574)	(239,746)	(1,217,320)
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds of long-term capital-related debt	-	-	-
Proceeds from Refunding Bond Issues	-	22,920,000	22,920,000
Bond Premium	-	888,313	888,313
Bond Discount	-	-	-
Payment to bond refunding escrow agent	-	(23,560,000)	(23,560,000)
Termination Fee - Swap	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
<b>TOTAL OTHER FINANCING SOURCES AND USES</b>	-	248,313	248,313
<b>NET CHANGE IN FUND BALANCES</b>	(977,574)	8,567	(969,007)
<b>FUND BALANCES - BEGINNING</b>	3,288,018	-	3,288,018
<b>FUND BALANCES - ENDING</b>	\$ 2,310,444	\$ 8,567	\$ 2,319,011

**East Penn School District**  
**Combining Statement of Fiduciary Net Position**  
**Private Purpose Trust Funds**  
**As of June 30, 2018**

	<u>MEMORIAL FUND</u>	<u>COMMENCEMENT AWARDS FUND</u>	<u>TOTAL</u>
<b>ASSETS</b>			
Cash	\$ 144,415	\$ 11,749	\$ 156,164
Investments	-	-	-
Interest Receivable	-	-	-
Due from Other Funds	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 144,415</b>	<b>\$ 11,749</b>	<b>\$ 156,164</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Charges on Refundings, net	-	-	-
<b>TOTAL ASSETS &amp; DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 144,415</b>	<b>\$ 11,749</b>	<b>\$ 156,164</b>
<b>LIABILITIES</b>			
Accounts Payable	\$ -	\$ -	\$ -
Interfund Payables	-	-	-
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unearned Revenue	-	-	-
<b>TOTAL LIABILITIES &amp; DEFERRED INFLOWS OF RESOURCES</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET POSITION</b>			
Held in Trust for future recipients	<b>\$ 144,415</b>	<b>\$ 11,749</b>	<b>\$ 156,164</b>

**Combining Statement of Changes in Fiduciary Net Position**  
**Private Purpose Trust Funds**  
**For the Year Ended June 30, 2018**

	<u>MEMORIAL FUND</u>	<u>COMMENCEMENT AWARDS FUND</u>	<u>TOTAL</u>
<b>ADDITIONS:</b>			
Contributions	\$ 8,060	\$ 20,236	\$ 28,296
Transfers from Other Funds	-	-	-
<b>INVESTMENT EARNINGS:</b>			
Interest and dividends	711	4	715
<b>TOTAL ADDITIONS</b>	<b>8,771</b>	<b>20,240</b>	<b>29,011</b>
<b>DEDUCTIONS:</b>			
Administrative Charges	-	-	-
Transfers to Other Funds	-	-	-
Awards	3,450	21,583	25,033
<b>TOTAL DEDUCTIONS</b>	<b>3,450</b>	<b>21,583</b>	<b>25,033</b>
<b>CHANGES IN NET POSITION</b>	<b>5,321</b>	<b>(1,343)</b>	<b>3,978</b>
<b>NET POSITION - BEGINNING OF THE YEAR</b>	<b>139,094</b>	<b>13,092</b>	<b>152,186</b>
<b>NET POSITION - END OF THE YEAR</b>	<b>\$ 144,415</b>	<b>\$ 11,749</b>	<b>\$ 156,164</b>

**East Penn School District  
Combining Balance Sheet  
All Agency Funds  
As of June 30, 2018**

	<b>ACTIVITY FUND</b>	<b>PAYROLL FUND</b>	<b>TOTAL</b>
<b>ASSETS</b>			
Cash	\$ 266,054	\$ 434,257	\$ 700,311
Investments	-	-	-
Other Receivables	3,980	802	4,782
Due from General Fund	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 270,034</b>	<b>\$ 435,059</b>	<b>\$ 705,093</b>
 <b>LIABILITIES</b>			
Sec. 125 Withholding	\$ -	\$ 146,113	\$ 146,113
Dependent Care	-	26,267	26,267
Other Payroll Deductions	-	30,439	30,439
Due Student Organizations	232,480	-	232,480
Due to General Fund	1,594	1,399	2,993
Due to Food Service Fund	1,035	-	1,035
LST	-	19,007	19,007
Union Dues	-	152	152
Unemployment	-	11,319	11,319
Local Wage Tax	34,925	200,363	235,288
Other	-	-	-
<b>TOTAL LIABILITIES</b>	<b>\$ 270,034</b>	<b>\$ 435,059</b>	<b>\$ 705,093</b>

**East Penn School District**  
**Combining Statement of Changes in Assets and**  
**Liabilities - All Agency Funds**  
**For the Year Ended June 30, 2018**

<u>ACTIVITY FUND</u>	<u>BALANCE</u> <u>7/1/17</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE</u> <u>6/30/18</u>
<b>ASSETS</b>				
Cash	\$ 236,658	\$ 1,322,929	\$ 1,293,533	\$ 266,054
Investments	-	-	-	-
Due from Other Funds	-	-	-	-
Other Receivable	6,176	3,980	6,176	3,980
<b>TOTAL ASSETS</b>	<b><u>\$ 242,834</u></b>	<b><u>\$ 1,326,909</u></b>	<b><u>\$ 1,299,709</u></b>	<b><u>\$ 270,034</u></b>
<b>LIABILITIES</b>				
Due to the General Fund	\$ 2,467	\$ 1,594	\$ 2,467	\$ 1,594
Due to Food Service Fund	2,230	1,035	2,230	1,035
Accounts Payable	11,598	34,925	11,598	34,925
Due to Student Organizations	226,539	1,289,355	1,283,414	232,480
<b>TOTAL LIABILITIES</b>	<b><u>\$ 242,834</u></b>	<b><u>\$ 1,326,909</u></b>	<b><u>\$ 1,299,709</u></b>	<b><u>\$ 270,034</u></b>
 <b><u>PAYROLL FUND</u></b>				
<b>ASSETS</b>				
Cash	\$ 431,252	434,257	431,252	\$ 434,257
Investments	-	-	-	-
Other Receivables	-	802	-	802
Due from General Fund	-	-	-	-
<b>TOTAL ASSETS</b>	<b><u>\$ 431,252</u></b>	<b><u>\$ 435,059</u></b>	<b><u>\$ 431,252</u></b>	<b><u>\$ 435,059</u></b>
<b>LIABILITIES</b>				
Due to General Fund	\$ 850	\$ 1,399	\$ 850	\$ 1,399
Payroll Deductions	430,402	433,660	430,402	433,660
<b>TOTAL LIABILITIES</b>	<b><u>\$ 431,252</u></b>	<b><u>\$ 435,059</u></b>	<b><u>\$ 431,252</u></b>	<b><u>\$ 435,059</u></b>
 <b><u>ALL AGENCY FUNDS</u></b>				
<b>ASSETS</b>				
Cash	\$ 667,910	\$ 1,757,186	\$ 1,724,785	\$ 700,311
Investments	-	-	-	-
Due from Other Funds	-	-	-	-
Accounts Receivable	6,176	4,782	6,176	4,782
<b>TOTAL ASSETS</b>	<b><u>\$ 674,086</u></b>	<b><u>\$ 1,761,968</u></b>	<b><u>\$ 1,730,961</u></b>	<b><u>\$ 705,093</u></b>
<b>LIABILITIES</b>				
Due to Student Organizations	\$ 226,539	\$ 1,289,355	\$ 1,283,414	\$ 232,480
Accounts Payable	11,598	34,925	11,598	34,925
Payroll Deductions	430,402	433,660	430,402	433,660
Due to Other funds	5,547	4,028	5,547	4,028
<b>TOTAL LIABILITIES</b>	<b><u>\$ 674,086</u></b>	<b><u>\$ 1,761,968</u></b>	<b><u>\$ 1,730,961</u></b>	<b><u>\$ 705,093</u></b>

**East Penn School District  
General Fund  
Schedule on Tax Collectors' Receipts  
For the Year Ended June 30, 2018**

	<u>ALBURTIS BOROUGH</u>	<u>EMMAUS BOROUGH</u>	<u>LOWER MACUNGIE TOWNSHIP</u>	<u>MACUNGIE BOROUGH</u>	<u>UPPER MILFORD TOWNSHIP</u>	<u>TOTAL</u>
<b>CURRENT REAL ESTATE TAXES</b>						
Assessed Value	\$ 151,588,700	\$ 821,243,300	\$ 3,448,997,400	\$ 230,889,100	\$ 734,650,400	\$ 5,387,368,900
Millage Rate	0.0180850	0.0180850	0.0180850	0.0180850	0.0180850	0.0180850
<b>TOTAL TAX PER DUPLICATE</b>	2,741,482	14,852,186	62,375,115	4,175,629	13,286,207	97,430,619
Less: Farmland Preservation	-	-	7,633	-	10,103	17,736
Less: Act 1 Deduction	75,786	311,447	1,076,483	83,614	275,794	1,823,124
<b>TOTAL TAX TO BE COLLECTED</b>	2,665,696	14,540,739	61,290,999	4,092,015	13,000,310	95,589,759
PLUS - Additions	-	6,380	10,244	-	-	16,624
- Penalties	4,365	19,989	86,358	3,506	25,473	139,691
<b>CURRENT REAL ESTATE TAXES TO BE COLLECTED</b>	2,670,061	14,567,108	61,387,601	4,095,521	13,025,783	95,746,074
LESS - Discount	47,043	250,157	1,094,660	71,826	215,091	1,678,777
- Reductions	-	216	5,180	-	-	5,396
- Refunds	-	5,506	60,178	12,526	9,188	87,398
- TIF Payment	-	-	600,332	-	-	600,332
- Rebates	4,200	35,000	47,305	8,400	19,208	114,113
- Returned to County	84,120	315,725	571,634	99,979	298,727	1,370,185
- Exonerations	-	-	33,724	-	5,760	39,484
<b>NET CURRENT REAL ESTATE TAXES COLLECTED</b>	\$ 2,534,698	\$ 13,960,504	\$ 58,974,588	\$ 3,902,790	\$ 12,477,809	\$ 91,850,389
<b>CURRENT INTERIM REAL ESTATE TAXES COLLECTED</b>	\$ 15,610	\$ 27,168	\$ 1,068,502	\$ 17,639	\$ 139,463	\$ 1,268,382

**East Penn School District**  
**General Fund - Budget vs Actual**  
**Statement of Revenue, Expenditures, and Changes in Fund Balance**  
**For the Year Ended June 30, 2018**

<b><u>6000 - Revenue from Local Sources</u></b>		<b><u>Budget</u></b>	<b><u>Actual</u></b>	<b><u>Variance</u></b>
6111	Current Real Estate Taxes	\$ 91,499,149	\$ 91,850,389	\$ 351,240
6112	Interim Real Estate Taxes	796,000	1,268,382	472,382
6113	Public Utility	9,800	99,855	90,055
6114	Payment in Lieu of Taxes	10,890	11,129	239
6151	Earned Income Tax	9,208,329	9,226,774	18,445
6153	Real Estate Transfer Tax	1,390,000	2,063,217	673,217
6411	Delinquent Real Estate Taxes	1,586,578	1,755,725	169,147
6451	Delinquent EIT Taxes	3,000	3,899	899
6510	Interest	150,030	445,656	295,626
6710	Admissions	61,500	64,157	2,657
6740	Fees	39,800	150,108	110,308
6790	Other Student Activity Income	6,000	10,478	4,478
6831	Federal Revenue Received From Other Pennsylvania Schools	-	23,151	23,151
6832	I/U Services - Federal	1,285,203	1,396,984	111,781
6910	Rentals	42,000	46,848	4,848
6920	Contributions	-	143,648	143,648
6942	Summer School	48,000	59,983	11,983
6943	Adult Education Tuition	22,000	19,190	(2,810)
6944	Receipts from Other LEA's - Education	6,000	10,388	4,388
6949	Other Tuition From Patrons	63,000	72,680	9,680
6991	Refunds of Prior Yr. Expenditures	-	100,046	100,046
6992	Energy Efficiency Revenue	30,000	53,926	23,926
6999	Miscellaneous	14,800	17,407	2,607
	<b>TOTAL REVENUE FROM LOCAL SOURCES</b>	<b>\$ 106,272,079</b>	<b>\$ 108,894,020</b>	<b>\$ 2,621,941</b>
<b><u>7000 - Revenue from State Sources</u></b>				
7110	Basic Subsidy - ESBE	11,585,816	11,813,328	227,512
7160	Orphan Tuition	100,000	147,705	47,705
7271	Special Education	3,201,459	3,447,958	246,499
7299	Program revenues not listed previously in the 7200	-	613	613
7311	Transportation (Regular and Additional)	1,868,587	1,805,707	(62,880)
7312	Transportation (Nonpublic and Charter School)	374,220	349,580	(24,640)
7320	Rentals	1,278,194	1,279,910	1,716
7330	Health Services	147,000	147,500	500
7340	State Property Tax Reduction Allocation	1,826,552	1,826,552	-
7360	Safe Schools	-	36,014	36,014
7505	Ready to Learn Grant	705,924	705,924	-
7599	Other State revenue not listed elsewhere	-	100	100
7810	FICA Revenue	2,342,672	2,199,288	(143,384)
7820	Retirement Revenue	9,980,891	9,615,631	(365,260)
	<b>TOTAL REVENUE FROM STATE SOURCES</b>	<b>\$ 33,411,315</b>	<b>\$ 33,375,810</b>	<b>\$ (35,505)</b>
<b><u>8000 - Revenue from Federal Sources</u></b>				
8514	Title I	671,145	589,442	(81,703)
8515	Title II	152,921	170,872	17,951
8516	Title III	38,863	36,313	(2,550)
8517	Title IV	-	13,946	13,946
8810	Medical Access	303,615	267,649	(35,966)
8820	Medical Assistance	22,000	9,669	(12,331)
8690	Other Restricted Federal Grants-In-Aid	-	-	-
	<b>TOTAL REVENUE FROM FEDERAL SOURCES</b>	<b>1,188,544</b>	<b>1,087,891</b>	<b>(100,653)</b>

**East Penn School District  
General Fund - Budget vs Actual  
Statement of Revenue, Expenditures, and Changes in Fund Balance  
For the Year Ended June 30, 2018**

<b><u>9000 - Other Financing Sources</u></b>	<b><u>Budget</u></b>	<b><u>Actual</u></b>	<b><u>Variance</u></b>
9330 Capital Projects Fund Transfers In	-	-	-
9340 Debt Service Fund Transfers In	-	-	-
9400 Sale of or Compensation For Loss of Fixed Assets	-	-	-
9990 Insurance Recoveries	-	-	-
	<hr/>	<hr/>	<hr/>
<b>TOTAL OTHER FINANCING SOURCES</b>	-	-	-
	<hr/>	<hr/>	<hr/>
<b>TOTAL REVENUE AND OTHER FINANCING SOURCES</b>	<b><u>\$ 140,871,938</u></b>	<b><u>\$ 143,357,721</u></b>	<b><u>\$ 2,485,783</u></b>

**1000 - Instruction**

1110 Regular Programs - Elem./Secondary	59,297,058	58,375,024	922,034
1190 Federally Funded Regular Programs	776,607	717,523	59,084
1211 Life Skills Support - Public	11,300	-	11,300
1221 Deaf or Hearing Impaired Support	76,500	70,754	5,746
1224 Blind or Visually Impaired Support	-	-	-
1225 Speech & Language Impaired	1,435,314	1,431,800	3,514
1231 Emotional Support - Public	1,247,991	1,246,639	1,352
1233 Autistic Support	2,063,216	1,991,849	71,367
1241 Learning Support - Public	9,176,956	9,174,841	2,115
1243 Gifted Support	970,717	958,264	12,453
1270 Multi-Handicapped Support	371,880	370,516	1,364
1281 Development Delay Support	54,990	54,117	873
1290 Other Support	5,680,091	5,677,422	2,669
1360 Business Education	1,264,594	1,262,046	2,548
1390 Other Vocational Education Programs	2,447,926	2,401,778	46,148
1410 Drivers' Education	80,251	69,980	10,271
1420 Summer School	116,922	53,695	63,227
1430 Homebound Instruction	168,388	107,971	60,417
1442 Alternative Education Program	151,414	74,000	77,414
1450 Instructional Programs Outside the Established Sch	-	-	-
1500 Nonpublic School Programs	32,348	30,730	1,618
1691 Instructional Services	31,964	18,902	13,062
1693 Community College Sponsorship	904,500	904,396	104
1700 Community College Programs	-	-	-
	<hr/>	<hr/>	<hr/>
Total Instruction	86,360,927	84,992,247	1,368,680

**2000 - Support Services**

2111 Supervision of Pupil Personnel Services - Head	189,234	188,787	447
2119 Supervision of Student Services	157,468	140,844	16,624
2120 Guidance Services	3,330,517	3,300,124	30,393
2140 Psychological Services	1,065,287	1,052,747	12,540
2160 Social Work Services	206,058	188,038	18,020
2220 Technology Support Services	247,070	222,026	25,044
2230 Educational Television Services	13,700	-	13,700
	<hr/>	<hr/>	<hr/>
Sub-Total Support Services	5,209,334	5,092,566	116,768

**East Penn School District**  
**General Fund - Budget vs Actual**  
**Statement of Revenue, Expenditures, and Changes in Fund Balance**  
**For the Year Ended June 30, 2018**

<b><u>2000 - Support Services</u></b>		<b><u>Budget</u></b>	<b><u>Actual</u></b>	<b><u>Variance</u></b>
	Sub-Total Support Services (carried forward)	5,209,334	5,092,566	116,768
2240	Computer Assisted Instruction Services	304,709	287,058	17,651
2250	School Library Services	1,428,577	1,385,197	43,380
2260	Instructional & Curriculum Dev. Service	1,494,968	1,340,641	154,327
2271	Instructional Staff Development	522,724	520,887	1,837
2290	Other Instructional Staff Services	79,506	74,062	5,444
2310	Board Services	74,583	74,262	321
2320	Board Treasurer Services	10,473	7,581	2,892
2330	Tax Assessment & Collection Service	113,143	112,448	695
2340	Staff Relations	403,553	384,121	19,432
2350	Legal Services	119,800	79,252	40,548
2360	Office of the Superintendent Services	684,028	681,477	2,551
2370	Community Relations Services	123,634	116,657	6,977
2380	Office of the Principal Services	4,462,633	4,436,200	26,433
2410	Supervision of Health Services	6,500	6,500	-
2420	Medical Services	5,050	4,175	875
2430	Dental Services	2,850	972	1,878
2440	Nursing Services	1,661,888	1,642,160	19,728
2450	Non-Public Health Services	85,692	46,622	39,070
2511	Supervision of Fiscal Services	218,457	218,383	74
2514	Payroll Services	186,980	185,128	1,852
2515	Financial Accounting Services	649,801	624,543	25,258
2611	Supervision of Operation and Maintenance of Plant Services - Head	201,768	199,127	2,641
2619	Supervision of Operation and Maintenance of Plant Services	271,815	271,151	664
2620	Operation of Building Services	11,221,700	11,215,235	6,465
2630	Care and Upkeep of Grounds Services	214,000	213,255	745
2640	Care and Upkeep of Equipment Services	36,000	32,882	3,118
2650	Vehicle Operation and Maint. Services	81,100	63,501	17,599
2660	Security Services	134,000	133,811	189
2720	Vehicle Operation Services	6,238,910	6,234,769	4,141
2750	Non-Public Transportation	1,613,500	1,422,401	191,099
2810	Planning, Research, Development and Evaluation Services	242,697	242,066	631
2818	System-Wide Technology Services	1,707,666	1,706,596	1,070
2834	Staff Development Services - Non-Instructional, Certified	107,300	105,736	1,564
2835	Health Services	1,450	655	795
2836	Staff Development Services - Non-Instructional, Non-Certified	22,375	17,524	4,851
2840	Data Processing Services	99,474	97,367	2,107
2850	State and Federal Agency Liaison Services	-	-	-
2910	Support services not listed elsewhere in the 2000	138,994	136,767	2,227
	<b>Total Support Services</b>	<b>40,181,632</b>	<b>39,413,735</b>	<b>767,897</b>
<b><u>3000 - Operation of Non-Instructional Services</u></b>				
3210	Student Activities	527,581	525,730	1,851
3250	School Sponsored Student Activities	1,501,886	1,498,159	3,727
3300	Community Services	45,461	42,049	3,412
3390	Other Community Services	7,500	6,561	939
3400	Scholarships and Awards	500	250	250
	<b>Total Operation of Non-Instructional Services</b>	<b>2,082,928</b>	<b>2,072,749</b>	<b>10,179</b>



**East Penn School District  
General Fund - Budget vs Actual  
Statement of Revenue, Expenditures, and Changes in Fund Balance  
For the Year Ended June 30, 2018**

<b><u>4000 - Facilities Acquisition, Construction, and Improvement Services</u></b>	<b><u>Budget</u></b>	<b><u>Actual</u></b>	<b><u>Variance</u></b>
4200 Existing Site Improvement Services	-	-	-
4600 Existing Building Improvement Services	-	-	-
Total Facilities Acquisition, Construction, and Improvement Services	-	-	-
<b><u>5000 - Other Expenditures and Financing Uses</u></b>			
5110 Debt Service	12,851,992	12,716,720	135,272
5130 Refund of Prior Year Revenues/Receipts	40,000	-	40,000
5230 Capital Projects Funds Transfers Out	-	-	-
5251 Food Service Fund Transfers Out	-	-	-
5900 Budgetary Reserve	<u>7,069,700</u>	<u>-</u>	<u>7,069,700</u>
Total Other Expenditures and Financing Uses	<u>19,961,692</u>	<u>12,716,720</u>	<u>7,244,972</u>
<b>TOTAL EXPENDITURES AND OTHE FINANCING USES</b>	<b><u>\$ 148,587,179</u></b>	<b><u>\$ 139,195,451</u></b>	<b><u>\$ 9,391,728</u></b>
 NET REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	 \$ (7,715,241)	 \$ 4,162,270	 \$ 11,877,511
 <b>Special Items</b>	 -	 -	 -
<b>Extraordinary Items</b>	<u>-</u>	<u>-</u>	<u>-</u>
 NET REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES AFTER SPECIAL ITEMS AND EXTRAORDINARY ITEMS	 (7,715,241)	 4,162,270	 11,877,511
 <b>FUND BALANCE - JULY 1, 2017</b>	 <u>8,935,911</u>	 <u>10,457,746</u>	 <u>1,521,835</u>
<b>FUND BALANCE - JUNE 30, 2018</b>	<b><u>\$ 1,220,670</u></b>	<b><u>\$ 14,620,016</u></b>	<b><u>\$ 13,399,346</u></b>

**East Penn School District  
Capital Reserve Fund  
Statement of Revenues and Expenditures  
For the Year Ended June 30, 2018**

**FUND BALANCE - JULY 1, 2017** \$ 3,288,018

**REVENUES AND OTHER FINANCING SOURCES**

Interest	\$ 3,436	
Refund of Prior Year Expenditures	-	
Transfer from General Fund	-	3,436
<b>TOTAL FUNDS AVAILABLE</b>		<b>3,291,454</b>

**EXPENDITURES**

**INSTRUCTIONAL SERVICES:**

Equipment -

**SUPPORT SERVICES:**

Professional Services -

Repairs and Maintenance -

Security Services 78,752

Equipment 29,860

**CAPITAL OUTLAY:**

Professional Services -

Construction Services 169,800

Existing Bldg. Improvements 674,391

Supplies -

Equipment 28,207 **981,010**

**FUND BALANCE - JUNE 30, 2018** **\$ 2,310,444**

**East Penn School District**  
**Food Service Fund**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**For the Year Ended June 30, 2018**

**REVENUES**

Sales	\$ 2,110,723	
Donated Commodities	247,412	
Special Events	25,555	
Over or (Short)	(117)	
State Subsidies	299,158	
Federal Subsidies	1,196,442	
Interest	602	
Rebates	908	
Gain (Loss) on Sale of Fixed Assets	-	
Miscellaneous	-	
<b>TOTAL REVENUES</b>		<b>\$ 3,880,683</b>

**COST OF COMMODITIES**

Beginning Inventory - 7/1	46,912	
Purchases	247,413	
Ending Inventory - 6/30	(35,253)	
<b>TOTAL COST OF COMMODITIES SOLD</b>		<b>259,072</b>
<b>GROSS PROFIT</b>		<b>3,621,611</b>

**SALARY AND BENEFIT EXPENSES**

Cafeteria Aides	946,264	
Clerical	35,102	
Overtime	273	
Custodial/Maintenance	107,063	
Technology Assistants	4,275	
Other	8,723	
Benefits	616,346	
		<b>1,718,046</b>

**OPERATING EXPENSES**

Supplies	30,906	
Food Service Management Costs	1,523,418	
Professional Services	3,225	
Repairs and Maintenance	74,201	
Advertising	1,659	
Communications	1,423	
Diesel Fuel	2,437	
Electricity	18,288	
Books & Periodicals	11,261	
Travel	73	
Depreciation	24,354	
<b>TOTAL EXPENSES</b>		<b>1,691,245</b>

**CHANGES IN FUND NET POSITION**

**FUND NET POSITION - JULY 1, 2017**

(1,878,592)

**Prior Period Adjustment**

(175,453)

**FUND NET POSITION - JUNE 30, 2018**

**\$ (1,841,725)**

**East Penn School District  
Consolidated Memorial Fund  
Statement of Additions and Deductions  
For the Year Ended June 30, 2018**

<u>SCHOLARSHIP</u>	<u>NET POSITION</u> <u>7/1/2017</u>	<u>CONTRIBUTIONS</u> <u>RECEIVED</u>	<u>INTEREST</u> <u>RECEIVED</u>	<u>AWARDS</u>	<u>INTERFUND</u> <u>TRANSFERS</u>	<u>NET POSITION</u> <u>6/30/2018</u>
Gregory Binder	\$ 137	\$ -	\$ -	\$ -	\$ -	\$ 137
Class of 1962	-	-	-	-	-	-
Richard Gall	-	-	-	-	-	-
Robert Jepson	27	-	-	-	-	27
Todd Schmoyer	(50)	1,000	4	-	-	954
Owen S. Krauss	54,200	-	272	-	-	54,472
Bruce Polster	-	-	-	-	-	-
Barbara Solt	-	100	-	100	-	-
Howard Yarus	44	-	-	-	-	44
Matthew Kush	14,132	-	71	500	-	13,703
Vincent Magnotta	26,877	6,160	144	1,000	-	32,181
Marion Jeffers	-	-	-	-	-	-
Andrew & Kerna Kocis	5,591	-	28	-	-	5,619
Michael G. Clarke	-	-	-	-	-	-
Gene Schantzenbach	1,932	-	10	500	-	1,442
Mark Speary	2,015	-	10	-	-	2,025
Civil War Veterans	3,369	800	18	350	-	3,837
Sergeant Ashly Lynn Moyer	30,820	-	154	1,000	-	29,974
<b>Total Scholarships</b>	<b>\$ 139,094</b>	<b>\$ 8,060</b>	<b>\$ 711</b>	<b>\$ 3,450</b>	<b>\$ -</b>	<b>\$ 144,415</b>

**East Penn School District  
Agency Fund  
Payroll Fund - Balance Sheet  
For the Year Ended June 30, 2018**

**ASSETS**

Cash	\$ 434,257	
Investments	-	
Other Receivables	802	
Due from General Fund	_____	
<b>TOTAL ASSETS</b>		<b><u>\$ 435,059</u></b>

**LIABILITIES**

Sec. 125 Withholding	\$ 146,113	
Dependent Care	26,267	
Other Payroll Deductions	30,439	
Dues	152	
Unemployment	11,319	
Local Wage Tax	200,363	
LST	19,007	
Due to General Fund	1,399	
Other	_____	
<b>TOTAL LIABILITIES</b>		<b><u>\$ 435,059</u></b>

**Commencement Awards Fund  
Statement of Additions and Deductions  
For the Year Ended June 30, 2018**

**Net Position - July 1, 2017** \$ 13,092

**ADDITIONS**

Transfers from Memorial Fund	\$ -	
Transfers from General Fund	_____	
<b>TOTAL TRANSFERS FROM OTHER FUNDS</b>		<b>-</b>

Interest	4	
Contributions	_____ 20,236	
<b>TOTAL ADDITIONS</b>		<b><u>20,240</u></b>

**TOTAL FUNDS AVAILABLE** 33,332

**DEDUCTIONS**

Transfer to Memorial Fund	-	
Scholarships - Awards	_____ 21,583	
		<b><u>21,583</u></b>

**Net Position - June 30, 2018** **\$ 11,749**

**East Penn School District  
2018 GOB Bond Fund  
Statement of Revenues and Expenditures  
For the Year Ended June 30, 2018**

<b>FUND BALANCE - JULY 1, 2017</b>	\$	-
 <b><u>REVENUES AND OTHER FINANCING SOURCES</u></b>		
Interest	\$	-
Proceeds from Refunding Bond Issues	22,920,000	
Bond Premium	888,313	<u>23,808,313</u>
<b>TOTAL FUNDS AVAILABLE</b>		<b>23,808,313</b>
 <b><u>EXPENDITURES</u></b>		
<b>INSTRUCTIONAL SERVICES:</b>		
Equipment		-
<b>SUPPORT SERVICES:</b>		
Professional Services	238,546	
Printing	1,200	
Security Services		-
Equipment		-
<b>CAPITAL OUTLAY:</b>		
Professional Services		-
Construction Services		-
Equipment		-
<b>DEBT SERVICE:</b>		
Payment to Refunded Bonds Escrow Agent	<u>23,560,000</u>	<u>23,799,746</u>
 <b>FUND BALANCE - JUNE 30, 2018</b>	 <b>\$</b>	 <b><u>8,567</u></b>

**East Penn School District**  
**Schedule on General Obligation Bonds - Series of 2012**  
**Dated as of January 17, 2012**  
**For the Year Ended June 30, 2018**

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2018-19	\$ 176,426	\$ 770,000
2019-20	154,976	1,375,000
2020-21	127,176	1,405,000
2021-22	98,826	1,430,000
2022-23	68,961	1,465,000
2023-24	36,261	1,490,000
2024-25	9,563	765,000
<b>TOTAL OUTSTANDING</b>	<b>\$ 672,189</b>	<b>\$ 8,700,000</b>

**Schedule on General Obligation Bonds - Series A of 2012**  
**Dated as of August 17, 2012**  
**For the Year Ended June 30, 2018**

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2018-19	\$ 162,470	\$ 685,000
2019-20	149,620	600,000
2020-21	137,470	615,000
2021-22	125,070	625,000
2022-23	112,420	640,000
2023-24	98,651	655,000
2024-25	83,292	680,000
2025-26	66,990	700,000
2026-27	49,553	730,000
2027-28	30,801	755,000
2028-29	10,588	770,000
<b>TOTAL OUTSTANDING</b>	<b>\$ 1,026,925</b>	<b>\$ 7,455,000</b>

**Schedule on General Obligation Bonds - Series of 2013**  
**Dated as of January 15, 2013**  
**For the Year Ended June 30, 2018**

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2018-19	\$ 4,200	\$ 420,000
<b>TOTAL OUTSTANDING</b>	<b>\$ 4,200</b>	<b>\$ 420,000</b>

**East Penn School District**  
**Schedule on General Obligation Bonds - Series of 2014**  
**Dated as of March 25, 2014**  
**For the Year Ended June 30, 2018**

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2018-19	\$ 173,841	\$ 540,000
2019-20	162,941	550,000
2020-21	151,691	575,000
2021-22	139,941	600,000
2022-23	127,407	615,000
2023-24	112,971	645,000
2024-25	96,985	660,000
2025-26	79,481	685,000
2026-27	59,487	705,000
2027-28	36,970	735,000
2028-29	12,513	770,000
<b>TOTAL OUTSTANDING</b>	<b>\$ 1,154,228</b>	<b>\$ 7,080,000</b>

**Schedule on General Obligation Bonds - Series B of 2015**  
**Dated as of March 30, 2015**  
**For the Year Ended June 30, 2018**

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2018-19	\$ 70,100	\$ 130,000
2019-20	62,250	655,000
2020-21	48,850	685,000
2021-22	34,950	705,000
2022-23	20,700	720,000
2023-24	6,750	675,000
<b>TOTAL OUTSTANDING</b>	<b>\$ 243,600</b>	<b>\$ 3,570,000</b>

**Schedule on General Obligation Notes - Series of 2016**  
**Dated as of April 15, 2016**  
**For the Year Ended June 30, 2018**

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2018-19	\$ 73,010	\$ 2,533,000
2019-20	37,627	2,558,000
2020-21	9,925	1,428,000
<b>TOTAL OUTSTANDING</b>	<b>\$ 120,562</b>	<b>\$ 6,519,000</b>



**East Penn School District**  
**Schedule on General Obligation Bonds - Series of 2018**  
**Dated as of June 1, 2018**  
**For the Year Ended June 30, 2018**

<u>FISCAL YEAR</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
2018-19	\$ 535,296	\$ 3,885,000
2019-20	668,494	3,150,000
2020-21	526,744	4,435,000
2021-22	350,163	4,625,000
2022-23	164,493	4,815,000
2023-24	35,203	2,010,000
<b>TOTAL OUTSTANDING</b>	<b>\$ 2,280,393</b>	<b>\$ 22,920,000</b>

**EAST PENN SCHOOL DISTRICT**  
*Lehigh County, Pennsylvania*

**EAST PENN SCHOOL DISTRICT**  
**ENROLLMENT TRENDS**

Actual Enrollments					Projected Enrollments				
School	Grade K-5	Grade 6-8	Grade 9-12	Total	School	Grade K-5	Grade 6-8	Grade 9-12	Total
2014-15	3,443	1,983	2,645	8,071	2019-20	3,135	1,902	2,767	7,804
2015-16	3,402	1,997	2,672	8,071	2020-21	3,125	1,866	2,785	7,776
2016-17	3,351	2,057	2,646	8,054	2021-22	3,099	1,804	2,715	7,618
2017-18	3,398	1,991	2,737	8,126	2022-23	3,099	1,764	2,658	7,521
2018-19	3,383	2,056	2,761	8,200	2023-24	3,087	1,765	2,573	7,425

Source: School District Actual October 1 Enrollment Reports and 2014 PEL Demographics Report.

**EAST PENN SCHOOL DISTRICT**  
**REAL PROPERTY TAX COLLECTION DATA**

School	Total Flat Billing	Mills	Total Adjusted Flat Billing(1)	Current Year Collections	Current Year as Percentage of Total Adjusted Flat Billing	Total Current Plus Delinquent Collections(2)	Total Collections as Percentage of Total Adjusted Flat Billing
2013-14	\$80,164,067	16.1259	\$78,909,820	\$77,208,452	97.84%	\$78,723,674	99.76%
2014-15	\$83,972,426	16.6649	\$82,617,004	\$80,942,674	97.97%	\$83,299,754	100.83%
2015-16	\$87,729,568	17.2150	\$85,955,918	\$84,065,695	97.80%	\$85,636,564	99.63%
2016-17	\$90,842,576	17.6970	\$89,270,132	\$87,629,298	98.16%	\$89,618,243	100.39%
2017-18	\$95,589,759	18.0850	\$94,011,189	\$91,850,389	97.70%	\$93,606,114	99.57%

(1) Flat billing plus penalties, less discounts and exonerations.

(2) Includes delinquent real estate collection.

Note: Beginning in 2008-09 the amount of the Adjusted Levy is reduced by the amount of the Homestead/Farmstead Exemptions. The Adjusted levy shown excludes the amount payable from the Property Tax and Rent Rebate Program funded pursuant to Act 1 of the Commonwealth.

Source: School District Officials

**EAST PENN SCHOOL DISTRICT**  
**TEN LARGEST REAL PROPERTY TAXPAYERS**

Owner	Type of Property	2018-19 Assessed Value
Liberty Property LP	Warehouse	\$201,436,000
Headlands Realty Corp.	Warehouse & Land	51,265,400
TGG / TCH - Hamilton Crossings Assoc LP	Retail	47,389,000
BCI-OEF Lehigh Valley Crossing DC I	Warehouse	33,837,800
JDN Development Company Inc.	Retail	27,982,400
Woodmont Lower Mac LLC	Apartments	26,511,800
Allen Distribution	Warehouse & Land	24,000,000
Cedar - Trexler LLC	Retail	23,014,600
Fieldstone Assoc. Ltd. Partnership	Retail	22,584,200
Mack Trucks Inc.	Truck Manufacturing	19,489,700
<b>Total</b>		<b>\$477,510,900</b>

Source: Lehigh County Tax Assessors Office

**EAST PENN SCHOOL DISTRICT**  
**Lehigh County, Pennsylvania**

**EAST PENN SCHOOL DISTRICT**  
**TAX RATES**

<b>School Year</b>	<b>Real Estate (mills)</b>	<b>Real Estate Transfer (%)</b>	<b>Wage and Income (%)</b>
2014-15	16.6649	0.50%	0.50%
2015-16	17.2150	0.50%	0.50%
2016-17	17.6970	0.50%	0.50%
2017-18	18.0850	0.50%	0.50%
2018-19	18.3808	0.50%	0.50%

Source: Department of Community and Economic Development - Municipal Statistics

**EAST PENN SCHOOL DISTRICT**  
**REAL PROPERTY ASSESSMENT DATA**

<b>School Year</b>	<b>Market Value</b>	<b>Assessed Value</b>	<b>Ratio</b>
2014-15	\$4,726,417,161	\$5,141,299,900	108.78%
2015-16	\$4,733,941,529	\$5,159,048,700	108.98%
2016-17	\$4,885,960,033	\$5,208,765,600	106.61%
2017-18	\$5,059,847,061	\$5,372,139,500	106.17%
2018-19 (1)	\$5,103,444,382	\$5,418,326,900	106.17%
Compound Average Annual % Change =	1.55%	1.06%	

(1) Market Value Estimate based on prior year ratio.

Source: <http://www.newpa.com/local-government/steb> (Tax duplicate information from Lehigh County Tax Assessors Office)

**S I N G L E   A U D I T   S E C T I O N**

EAST PENN SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FISCAL YEAR ENDED JUNE 30, 2018

FEDERAL GRANTOR PROJECT TITLE	SOURCE CODE	CFDA NUMBER	GRANTOR PASS-THROUGH NUMBER	GRANT PERIOD	AWARD AMOUNT	TOTAL RECEIVED	ACCRUED OR (DEFERRED) AT 7/01/17	REVENUE	EXPENDITURES	ACCRUED OR (DEFERRED) AT 6/30/18	DISCLOSURE FOOTNOTES
<b>U.S. DEPT. OF EDUCATION</b>											
<b>PASSED THROUGH THE PA DEPT. OF EDUCATION</b>											
TITLE IA - IMPROVING BASIC PROGRAMS	I	84.010	013-17-0127 A	07/01/16-09/30/17	\$ 671,145	\$ 93,492	\$ 62,059	\$ 31,433	\$ 31,433	\$ -	4
TITLE IA - IMPROVING BASIC PROGRAMS	I	84.010	013-18-0127 A	07/01/17-09/30/18	\$ 617,744	486,400	-	558,008	558,008	71,608	
<b>TOTAL TITLE I PROGRAM</b>						579,892	62,059	589,441	589,441	71,608	
<b>PASSED THROUGH THE PDE</b>											
TITLE IIA - IMPROVING TEACHER QUALITY	I	84.367	020-17-0127 A	07/01/16-09/30/17	\$ 152,921	21,314	17,566	3,748	3,748	-	4
TITLE IIA - IMPROVING TEACHER QUALITY	I	84.367	020-18-0127 A	07/01/17-09/30/18	\$ 170,074	142,240	-	167,123	167,123	24,883	
<b>TOTAL TITLE II PROGRAM</b>						163,554	17,566	170,871	170,871	24,883	
<b>PASSED THROUGH THE PDE</b>											
TITLE III LEP/IMMIGRANT	I	84.365	010-17-0127 A	07/01/16-09/30/17	\$ 38,863	-	-	-	-	-	4
TITLE III LEP/IMMIGRANT	I	84.365	010-18-0127 A	07/01/17-09/30/18	\$ 36,313	33,720	-	36,313	36,313	2,593	
<b>TOTAL TITLE III PROGRAM</b>						33,720	-	36,313	36,313	2,593	
<b>PASSED THROUGH THE PDE</b>											
TITLE IVA - STUDENT SUPPORT AND ACADEMIC ENRICH.	I	84.424	144-18-0127 A	07/01/17-09/30/18	\$ 13,946	3,985	-	13,946	13,946	9,961	4
<b>PASSED THROUGH CARBON-LEHIGH I.U.</b>											
IDEA	I	84.027	N/A	07/01/16-09/30/17	\$ 1,285,203	351,739	351,739	-	-	-	4
IDEA	I	84.027	N/A	07/01/17-09/30/18	\$ 1,366,409	1,043,231	-	1,366,409	1,366,409	323,178	1
IDEA - Section 619	I	84.173	N/A	07/01/16-09/30/17	\$ 5,989	-	-	-	-	-	1
IDEA - Section 619	I	84.173	N/A	07/01/17-09/30/18	\$ 7,380	7,380	-	7,380	7,380	-	1
<b>PASSED THROUGH THE INTERMEDIATE UNIT #1</b>											
IDEA - PROJECT AACHIEVE	I	84.027	062-17-0-032	07/01/16-08/15/17	\$ 10,000	4,569	4,569	-	-	-	2
IDEA - SCHOOL BASED BEHAVIORAL HEALTH	I	84.027	062-17-0-032	07/01/16-07/30/17	\$ 1,500	1,276	1,276	-	-	-	2
IDEA - SCHOOL BASED BEHAVIORAL HEALTH	I	84.027	062-18-0-032	07/01/17-07/30/18	\$ 12,000	-	-	10,356	10,356	10,356	2
<b>PASSED THROUGH LANCASTER-LEBANON I.U. #13</b>											
IDEA - PROJECT AACHIEVE	I	84.027	062-18-0033	07/01/17-07/31/18	\$ 10,000	-	-	4,363	4,363	4,363	4
IDEA - MTSS COHORT SERIES	I	84.027	C178-8228	07/01/17-06/15/18	\$ 10,000	8,476	-	8,476	8,476	-	3
<b>TOTAL IDEA CLUSTER</b>						1,416,671	357,584	1,396,984	1,396,984	337,897	
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>						2,197,822	437,209	2,207,555	2,207,555	446,942	
<b>U.S. DEPARTMENT OF HEALTH &amp; HUMAN SERVICES</b>											
<b>PASSED THROUGH THE PA DEPARTMENT OF PUBLIC WELFARE</b>											
TITLE 19 - MEDICAL REIMBURSEMENT	I	93.778	N/A	07/01/17-09/30/18	N/A	13,533	3,864	9,669	9,669	-	4
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>						13,533	3,864	9,669	9,669	-	
<b>U.S. DEPARTMENT OF AGRICULTURE</b>											
<b>PASSED THROUGH THE PA DEPARTMENT OF EDUCATION</b>											
NATIONAL SCHOOL LUNCH	I	10.555	N/A	07/01/16-06/30/17	N/A	31,420	31,420	-	-	-	4
NATIONAL SCHOOL LUNCH	I	10.555	N/A	07/01/17-06/30/18	N/A	984,613	-	1,028,964	1,028,964	44,351	
BREAKFAST PROGRAM	I	10.553	N/A	07/01/16-06/30/17	N/A	5,602	5,602	-	-	-	
BREAKFAST PROGRAM	I	10.553	N/A	07/01/17-06/30/18	N/A	157,984	-	164,460	164,460	6,476	
SEVERE NEED BREAKFAST	I	10.553	N/A	07/01/16-06/30/17	N/A	-	-	-	-	-	
SEVERE NEED BREAKFAST	I	10.553	N/A	07/01/17-06/30/18	N/A	-	-	3,019	3,019	3,019	
<b>PASSED THROUGH THE PA DEPARTMENT OF AGRICULTURE</b>											
NATIONAL SCHOOL LUNCH - USDA COMMODITIES	I	10.555	N/A	07/01/17-06/30/18	N/A	247,412	(46,914)	259,072	259,072	(35,254)	4, 6,7
<b>TOTAL CHILD NUTRITION CLUSTER</b>						1,427,031	(9,892)	1,455,515	1,455,515	18,592	
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>						1,427,031	(9,892)	1,455,515	1,455,515	18,592	
<b>TOTAL FEDERAL FINANCIAL AWARDS</b>						\$ 3,638,386	\$ 431,181	\$ 3,672,739	\$ 3,672,739	\$ 465,534	

SOURCE: D - DIRECT; I - INDIRECT

**East Penn School District**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**Fiscal Year Ended June 30, 2018**

---

**Note 1 - Significant Accounting Policies**

The accompanying Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting for all federal awards charged to governmental funds and on the accrual basis of accounting for all federal awards charged to proprietary funds, as contemplated by generally accepted accounting principles.

**Note 2 - Organization and Scope**

The District recognized 1.6% of its total general fund revenue in federal awards, and 37.5% of its total enterprise fund revenue.

**Note 3 - Indirect Costs**

The District did not charge any indirect costs to any of their federal grants and programs during this fiscal year. As such, the District did not use the 10% de minimis cost rate.

**Note 4 - Program Disclosure – Footnotes**

1. The federal award, passed through the Carbon-Lehigh I. U., under the U.S. Department of Education heading, is part of a consortium of participating school districts. In accordance with directions from the Commonwealth of Pennsylvania, these awards are reported on the basic financial statements as local source revenue.
2. The federal award, passed through Intermediate Unit #1, under the U.S. Department of Education heading, is part of a consortium of participating school districts. In accordance with directions from the Commonwealth of Pennsylvania, these awards are reported on the basic financial statement as local source revenue.
3. The federal award, passed through the Lancaster-Lebanon Intermediate Unit #13, under the U.S. Department of Education heading, is part of a consortium of participating school districts. In accordance with directions from the Commonwealth of Pennsylvania, these awards are reported on the basic financial statements as local source revenue.
4. The Federal Grants were passed through the following entities in the totals below:

<u>Passed through</u>	<u>Total Awards</u>	<u>Total Expenditures</u>
PA Department of Education	\$ 1,701,006	\$ 2,007,014
Carbon-Lehigh I.U.	2,664,981	1,373,789
Intermediate Unit #1	23,500	10,356
Lancaster-Lebanon #13	20,000	12,839
PA Department of Public Welfare	N/A	9,669
PA Department of Agriculture	N/A	259,072
Totals	\$ 4,409,487	\$ 3,672,739

5. The Transportation Access passed through the Carbon Lehigh I.U. is reflected as federal local source revenue on the basic financial statements; however, pursuant to instructions from the Commonwealth of PA, it is not reported as revenue on the Schedule of Federal Awards.

**East Penn School District**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**Fiscal Year Ended June 30, 2018**

---

6. The District received non-monetary assistance from the U.S. Department of Agriculture of \$247,412 in the form of commodities. These commodities are valued at U.S.D.A.'s approximate costs. During the 2017-18 fiscal year, the District used \$259,072 in commodities and established a year-end inventory of \$35,254 at June 30, 2018.
7. The amount recognized as revenue in the Schedule of Expenditures of Federal Awards, under the U.S. Department of Agriculture heading, represents the commodities used versus the commodities received, which are recognized as revenue in the basic financial statements.
8. The Medical Access grant passed through the PA Department of Education is reflected as federal source revenue on the basic financial statements; however, pursuant to instructions from the Commonwealth of PA, it is not reported as revenue on the Schedule of Federal Awards.

---

**FINANCIAL STATEMENT RECONCILIATION**

General Fund Federal Source Revenues	\$ 1,087,891
Federal Grants in Local Sources	1,420,135
Food Service Fund Federal Revenue	<u>1,443,854</u>
<b>Total Federal Revenue, per financial statements</b>	<b>3,951,880</b>
Less - Medical Access Grant	(267,649)
Less - Transportation Access Grant	(23,151)
Change in Donated Commodities	<u>11,659</u>
<b>Federal Revenue on SEFA</b>	<b><u><u>\$ 3,672,739</u></u></b>

---



**INDEPENDENT AUDITOR'S REPORT  
UNDER GOVERNMENT AUDITING STANDARDS**

Board of School Directors  
East Penn School District  
800 Pine Street  
Emmaus, PA 18049

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, the aggregate remaining fund information, and the budgetary comparison statement of the general fund of the East Penn School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise East Penn School District's basic financial statements, and have issued our report thereon dated November 26, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered East Penn 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 East Penn School District's internal control. Accordingly, we do not express an opinion on the effectiveness of East Penn 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 East Penn 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.

Respectfully submitted,



November 26, 2018



**GORMAN & ASSOCIATES, P.C.**

**CERTIFIED PUBLIC ACCOUNTANTS**

Members of  
American Institute of Certified Public Accountants  
Pennsylvania Institute of Certified Public Accountants  
Florida Institute of Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT  
UNDER UNIFORM GUIDANCE**

Board of School Directors  
East Penn School District  
800 Pine Street  
Emmaus, PA 18049

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

We have audited East Penn 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 East Penn School District's major federal programs for the year ended June 30, 2018*. East Penn 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of East Penn 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 East Penn 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 East Penn School District's compliance.

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

In our opinion, East Penn 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

### Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item (2018-001). Our opinion on each major federal program is not modified with respect to these matters.

The East Penn School District's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. East Penn School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### Report on Internal Control over Compliance

Management of East Penn 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 East Penn 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 East Penn 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.

Respectfully submitted,



November 26, 2018

**East Penn School District  
Schedule of Findings and Questioned Costs  
Fiscal Year Ended June 30, 2018**

---

**Section I - Summary of Auditor Results**

---

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) Identified?  yes  no
- Significant Deficiencies identified that are not considered to be material weaknesses?  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 that are not considered to be material weaknesses?  yes  none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 200.516 of the Uniform Guidance?  yes  no

Identification of major program:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I Program
84.367	Title II Program

Percentage of programs tested to total awards 20.7%

Dollar threshold used to distinguish between type A and type B program: \$ 750,000

Auditee qualified as low-risk auditee?  yes  no

**East Penn School District  
Schedule of Findings and Questioned Costs  
Fiscal Year Ended June 30, 2018**

---

**Section II – Financial Statement Findings**

---

There were no findings discovered, relating to the financial statements, which are required to be reported in accordance with generally accepted government auditing standards.

**Section III – Findings and Questioned Costs for Federal Awards**

---

**Noncompliance Finding 2018-001 (Federal Awards)**

Federal Program: Child Nutrition Cluster  
CFDA No.: 10.553, 10.555  
Pass-thru entity: PA Department of Education  
Pass-thru nos. N/A  
Questioned Costs: N/A  
Type of Compliance Requirement: Special Tests and Provisions

Criteria: According to federal regulations 7CFR Part 210.19(a), Schools shall limit its net cash resources to an amount that does not exceed 3 months average expenses.

Condition: The District's current net cash resources is \$1,415,374, whereas, the allowable net cash resources per federal regulations is \$1,210,599.

Cause: In an attempt to conserve resources, the Food Service entity contracts with a third-party organization to manage the daily operations, this has resulted in lower costs and increased profitability. The Food Service entity's accumulation of profits has caused the entity's cash balance to grow substantially from year to year.

Effect: The failure to limit net cash resources to an amount that does not exceed 3 months of their average expenditures will cause the Food Service entity to lose its Federal Funding for meal claim reimbursements.

Recommendation: We have advised management to resolve the current noncompliance finding by any means necessary that is in compliance with federal regulations.

*Audit Follow-Up Procedures*

We did not perform any follow-up procedures on the findings reported last year, since there was no prior year findings.

# East Penn School District

---

Administrative Offices  
800 Pine Street  
Emmaus, PA 18049  
610-966-8300

## Current Year 2017-18 Findings

---

### Noncompliance Finding 2018-001 (Federal Awards)

Federal Program: Child Nutrition Cluster  
CFDA No.: 10.553, 10.555  
Pass-thru entity: PA Department of Education  
Pass-thru nos. N/A  
Questioned Costs: N/A  
Type of Compliance Requirement: Special Tests and Provisions

**Criteria:** According to federal regulations 7CFR Part 210.19(a), Schools shall limit its net cash resources to an amount that does not exceed 3 months average expenditures.

**Condition:** The District's current net cash resources is \$1,415,374, whereas, the allowable net cash resources per federal regulations is \$1,210,599.

**Cause:** In an attempt to conserve resources, the Food Service entity contracts with a third-party organization to manage the daily operations, this has resulted in lower costs and increased profitability. The Food Service entity's accumulation of profits has caused the entity's cash balance to grow substantially from year to year.

**Effect:** The failure to limit net cash resources to an amount that does not exceed 3 months of their average expenditures will cause the Food Service entity to lose its Federal Funding for meal claim reimbursements.

**Recommendation:** We have advised management to resolve the current noncompliance finding by any means necessary that is in compliance with federal regulations.

**Response:** The District is committed to upgrading cafeteria equipment to improve the food service operations. The District has further committed that the food service program will assume financial responsibility for a greater share of dedicated custodian service costs.