

**MONTGOMERY AREA SCHOOL DISTRICT
MONTGOMERY, PENNSYLVANIA 17752**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

JUNE 30, 2018

(WITH INDEPENDENT SINGLE AUDIT REPORTS THEREON)

**MONTGOMERY AREA SCHOOL DISTRICT
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

(WITH INDEPENDENT SINGLE AUDIT REPORTS THEREON)

JUNE 30, 2018

TABLE OF CONTENTS

	<u>Page</u>
<i>Management's Discussion and Analysis</i>	MD&A 1
<i>Independent Auditor's Report</i>	1-3
<u>Basic Financial Statements:</u>	
Government-wide Financial Statements:	
Statement of Net Position	4
Statement of Activities	5
Fund Financial Statements:	
Balance Sheet--Governmental Funds	6
Reconciliation of Total Governmental Fund Balances To Net Position of Governmental Funds.....	7
Statement of Revenues, Expenditures, and Changes in Fund balances--Governmental Funds.....	8
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund balances--Governmental Funds to Statement of Activities.....	9
Statement of Revenues, Expenditures, and Changes in Fund balance--Budget and Actual--General Fund.....	10
Statement of Net Position--Proprietary Fund	11
Statement of Revenues, Expenditures, and Changes in Net Position -- Proprietary Fund	12
Statement of Cash Flows--Proprietary Fund	13
Statement of Fiduciary Net Position.....	14

(Basic Financial Statements Continued):

Statement Changes in Fiduciary Net Position	15
Notes to Financial Statements	16

Required Supplementary Information (RSI):

Pension:

<i>Schedule of the District's Proportionate Share of the Net Pension Liability</i>	RSI-1
<i>Schedule of the District's Pension Contributions</i>	RSI-2

OPEB-Montgomery Area School District Postemployment Benefits Plan (District Plan):

<i>Schedules of the District's Total OPEB Liability and Related Ratios</i>	RSI-3
--	-------

OPEB-PSERS Health Insurance Premium Assistance Program (PSERS Plan):

<i>Schedule of the District's Proportionate Share of the Net OPEB Liability</i>	RSI-4
<i>Schedule of the District's OPEB Contributions</i>	RSI-5

Other Reporting required by Government Auditing Standards:

<i>Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards</i>	61
---	----

Other Information:

Schedule of Expenditures of Federal and State Awards	63
Notes to the Schedule of Expenditures of Federal and State Awards	65
<i>Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance and Required by the Title 2 U.S. CFR Part 200 Uniform Guidance</i>	66
Schedule of Findings and Questioned Costs	69
Schedule of Prior Findings and Questioned Costs	71

Other Administrative Information:

Report Distribution	72
Lead Auditor Information	73

**Montgomery Area School District
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2018
(UNAUDITED)**

MD & A Page 1 of 13

Our discussion and analysis of the Montgomery Area School District, "the District" and its financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2018. It should be read in conjunction with the District's financial statements.

Financial Highlights:

- ❖ Total net position of Governmental Activities decreased by \$1.282-million or 9.5%, and the Proprietary Fund / Business-Type Activity (Food Service) showed an increase in net position of \$35-thousand or 28.3%. These changes are detailed in the Statement of Activities included in the financial statements.
- ❖ The operations of the District's General Fund finished the year with \$15,568,468 of revenue which was approximately \$402,000 or 2.66% favorable as compared to final budget, and \$15,679,174 of expenditures (including debt service transfers) which was \$604-thousand or 3.7% favorable to the final budgeted amount when debt service and the budgeted reserve are taken into account.
- ❖ The District's General Fund ended the year with a fund balance of \$5,944,254 which represents a decrease of \$121-thousand or 1.99%.

A Brief Guide to the Financial Statements:

The financial statements of the District include presentation on two levels-

- Government-wide statements
- Governmental fund statements

Government-wide Statements:

These statements present the District's financial information in an aggregated format split into two types of activities.

- Governmental activities
- Business-type activities

Most of the activities of the District are reported as governmental activities. The operations of the District's Food Service Fund, whose operations involve primarily the serving of meals to students during the school day, is the District's only business-type activity.

The presentation provided in these government-wide statements is primarily focused on presenting the financial position of the District and the change in financial position as a result of the activities that occurred during the fiscal year. The significant differences in these statements as compared to governmental fund statements are:

**Montgomery Area School District
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2018
(UNAUDITED)**

MD & A Page 2 of 13

- Government-wide statements include fixed assets for governmental activities—government fund statements do not.
- Government-wide statements include long-term debt and similar obligations, such as pension liabilities, for governmental activities—government fund statements do not.
- Government-wide statements are prepared utilizing the accrual basis of accounting—government fund statements are generally prepared utilizing a modified accrual basis of accounting. This results in differences in the timing of the recognition of certain revenues and expenses.
- Government-wide statements present in a format to highlight net position. Government fund statements deal with fund balance. Net position is a much broader financial measurement.

For a more detailed explanation of these financial statements, please review the notes to the financial statements.

Government Fund Statements:

This format is concerned primarily with the presentation of “the flow of funds” rather than with measuring financial position. This is the presentation format which is utilized for preparation of budgets and is presented on a more disaggregated format than the government-wide statements.

This format, as with the government-wide statements, presents information by firstly grouping funds by type. In the case of governmental funds, the types are:

- Governmental funds
- Proprietary funds
- Fiduciary funds

These statements are presented by type and then utilizing criteria to identify “major funds” presenting information on a segregated basis for each of the major funds and then aggregating the information for all other funds within the fund type.

The District has the following “major funds” for government fund statement presentation-

- ✓ Governmental funds
 - General fund
 - Capital Reserve and Capital Projects Funds
 - Debt Service Fund
- ✓ Proprietary funds
 - Food service fund
 - This is the District's only proprietary fund.
- ✓ Fiduciary funds
 - Student activities fund – an agency fund

**Montgomery Area School District
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2018
(UNAUDITED)**

MD & A Page 3 of 13

-Student awards fund – a private purpose trust fund
For more information regarding the presentation of fund financial statements, please review the notes to the financial statements.

Condensed Government-wide Financial Statements:

**Condensed Statement of Net Position
June 30, 2018**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets & Deferred Outflows of Resources:			
Current assets:			
Cash, cash equivalents and investments	\$ 7,077,307	\$ 78,460	\$ 7,155,767
Taxes receivable-net	552,315	-	552,315
Other current assets	1,225,594	47,299	1,272,893
Total current assets	<u>\$ 8,855,216</u>	<u>\$ 125,759</u>	<u>\$ 8,980,975</u>
Fixed assets-net	13,499,598	34,099	13,533,697
Deferred Outflows of Resources:	3,657,646	-	3,657,646
Total assets & deferred outflows	<u>\$ 26,012,460</u>	<u>\$ 159,858</u>	<u>\$ 26,172,318</u>
Liabilities and Deferred Inflows of Resources:			
Current liabilities:			
Accounts payable	426,177	4,943	431,120
Accrued salaries and benefits	1,019,301	-	1,019,301
Current portion of long-term debt	999,610	-	999,610
Other current liabilities	107,236	(2,056)	105,180
Total current liabilities	<u>2,552,324</u>	<u>2,887</u>	<u>2,555,211</u>
Long-term debt-net of current portion	11,668,000	-	11,668,000
Other non-current liabilities	25,439	-	25,439
Net OPEB liabilities	2,307,234	-	2,307,234
Net pension liability	22,620,000	-	22,620,000
Total liabilities	<u>39,172,997</u>	<u>2,887</u>	<u>39,175,884</u>
Deferred Inflows of Resources:	1,590,086	-	1,590,086
Total liabilities & deferred inflows	<u>40,763,083</u>	<u>2,887</u>	<u>40,765,970</u>
Net Position:			
Invested in capital assets-net of related debt	968,189	34,099	1,002,288
Restricted	4,319,590	-	4,319,590
Unrestricted	(20,038,402)	122,872	(19,915,530)
Total Net Assets	<u>(14,750,623)</u>	<u>156,971</u>	<u>(14,593,652)</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>26,012,460</u>	<u>159,858</u>	<u>26,172,318</u>

**Montgomery Area School District
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2018
(UNAUDITED)**

MD & A Page 4 of 13

**Comments regarding the condensed June 30, 2018 government-wide statements:
Statement of Net Position:**

- Cash, cash equivalents and investments are primarily held in the Muncy Bank, and the Pennsylvania Local Government Investment Trust (PLGIT). PLGIT is a government investment pool.
- Taxes receivable include delinquent real estate along with current income tax collections, primarily from the June 30 and March 31, 2018 quarters.
- Fixed assets are presented net of depreciation and include the facilities and equipment of the District.
- Accrued salaries and benefits consists primarily of the amounts due teachers for salaries and benefits earned in the 2017-18 school year that are paid over a twelve month period beginning when the District's academic year begins in late August through the beginning of the following August. These are the remaining amounts which will be paid in July 2018 (i.e. summer pay).
- The District has adopted Governmental Accounting Standards Board (GASB) Statement No. 68 *Accounting and Financial Reporting for Pensions* (as amended; GASB No. 68). Per GASB No. 68, the District reports its cost-sharing employer proportionate portion of the Pennsylvania School Employees' Retirement System (PSERS) Net Pension Liability in its Statement of Net Position. The District records its proportionate share of the PSERS system-wide Net Pension Liability, related Deferred Inflow and Outflow balances and adjustments to Pension expense to reflect the requirements of GASB No. 68. These adjustments, balances, and amounts are reflected in the government-wide financial statements only.
- The District also adopted GASB No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB No. 75) as of July 1, 2017. Consistent with GASB No. 75's adoption provisions, the District restated the opening balance of government-wide, governmental activities Net Position by a total of \$2,428,827, net, to record the beginning liability balances relative to its offering of covered benefits under the State-level (PSERS premium assistance, a proportionate share of the statewide plan similar to the PSERS pension, as above) and District-level other postemployment benefit (OPEB) plans. The year-end balances of the plans were \$933,000 for the PSERS, State-level plan and \$1,374,234 for the District-level plan (which was previously accounted for based upon the requirements of GASB No. 45 (also entitled *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*) (which GASB No. 75 replaced).
- GASB No.'s 68 and 75 had no effect on the governmental fund financial statements and represent significant reconciling differences between those statements and the Government-wide statements.

The notes to the financial statements provide additional detail on these and other items included in the Statement of Net Position.

**Montgomery Area School District
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2018
(UNAUDITED)**

**Condensed Statement of Activities
Year Ended June 30, 2018**

Functions/Programs	Expenses	Charges for Services	Grants and Contributions	Net (Expense) Revenue and Changes in Net Position		Total
				Governmental Activities	Business-type Activities	
Governmental activities:						
Instruction	\$ 10,104,374	\$ 321,563	\$ 2,843,596	\$ (6,939,215)		\$ (6,939,215)
Instructional Student Support	759,165	-	123,584	(635,581)		\$ (635,581)
Admin. & Financial Support Services	2,134,815	-	154,691	(1,980,124)		\$ (1,980,124)
Operation & Maintenance of Facilities	1,629,361	-	87,512	(1,541,849)		\$ (1,541,849)
Pupil Transportation	535,160	-	245,946	(289,214)		\$ (289,214)
Student Activities	570,431	33,404	51,921	(485,106)		\$ (485,106)
Community Services	13,022	-	-	(13,022)		\$ (13,022)
Scholarships and Awards	772,330	-	-	(772,330)		\$ (772,330)
Interest on Long-Term debt	306,110	-	193,065	(113,045)		\$ (113,045)
Total Governmental Activities	\$ 16,824,768	\$ 354,967	\$ 3,700,315	\$ (12,769,486)		\$ (12,769,486)
Business-type activities:						
Food Service	431,403	180,663	284,826		34,086	\$ 34,086
Total Primary Government	\$ 17,256,171	\$ 535,630	\$ 3,985,141	\$ (12,769,486)	\$ 34,086	\$ (12,735,400)
General revenues:						
Taxes:						
Property taxes, levied for general purposes, net				5,779,709	-	5,779,709
Grants, subsidies, & contributions not restricted				5,533,786	-	5,533,786
Investment Earnings				130,126	574	130,700
Miscellaneous Income				43,452	-	43,452
Loss on disposal of fixed assets				-	-	-
Transfers				-	-	-
Total general revenues, special items, extraordinary items and transfers				11,487,073	574	11,487,647
Change in Net Assets				(1,282,413)	34,660	(1,247,753)
Net Assets—beginning				(13,468,210)	122,311	(13,345,899)
Net Assets—ending				\$ (14,750,623)	\$ 156,971	\$ (14,593,652)

Statement of Activities:

- Governmental activities operating grants include various subsidies including \$599-thousand of state funds for special education, \$326-thousand of federal Title I funds, to support academic achievement, \$245-thousand and \$261-thousand and \$1.2-million, respectively, of state subsidies to support student transportation, and for retirement and social security costs.
- General revenues include \$3.8-million of real estate taxes, \$1.5-million of earned income taxes and a basic education funding subsidy from the state of \$5.2-million.
- As described above, per GASB No. 68 and GASB No. 75, additional expense adjustments were recorded to reflect additional pension and OPEB expense in the amount of approximately \$1.8-million, net, (as compared to the Governmental Funds expense activity, which is accounted for on the modified accrual basis as compared to the full accrual basis statement of activities).

**Montgomery Area School District
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2018
(UNAUDITED)**

MD & A Page 6 of 13

The condensed Governmental Activities Statement of Net Position June 30, 2018 as compared to June 30, 2017 including the change in the elements of net position:

	Governmental Activities		
	June 30, 2018	2017	Inc. (Dec.) in Net Position
Assets:			
Current assets:			
Cash, cash equivalents and investments	\$ 7,077,307	\$ 7,644,606	\$ (567,299)
Taxes receivable-net	552,315	504,666	47,649
Other current assets	1,225,594	1,150,889	74,705
Total current assets	<u>8,855,216</u>	<u>9,300,161</u>	<u>(444,945)</u>
Fixed assets-net	13,499,598	11,410,863	2,088,735
Other non-current assets	-	-	-
Deferred Outflows of Resources:	3,657,646	6,219,542	(2,561,896)
Total assets & deferred outflows	<u>\$ 26,012,460</u>	<u>\$ 26,930,566</u>	<u>(918,106)</u>
Liabilities:			
Current liabilities:			
Accounts payable	\$ 426,177	\$ 615,402	189,225
Accrued salaries and benefits	1,019,301	1,411,632	392,331
Current portion of long-term debt	999,610	1,025,283	25,673
Other current liabilities	107,236	92,023	(15,213)
Total current liabilities	<u>2,552,324</u>	<u>3,144,340</u>	<u>592,016</u>
Long-term debt-net of current portion	11,668,000	10,019,593	(1,648,407)
Other non-current liabilities	25,439	25,083	(356)
Net OPEB liability	2,307,234	217,933	(2,089,301)
Net pension liability	22,620,000	22,846,000	226,000
Total liabilities	<u>39,172,997</u>	<u>36,252,949</u>	<u>(2,920,048)</u>
Deferred Inflows of Resources:	1,590,086	1,717,000	126,914
Change in net position			<u>\$ (3,711,240)</u>
Net Position:			
Invested in capital assets-net of related debt	968,189	527,783	440,406
Restricted & unrestricted	<u>(15,718,812)</u>	<u>(11,567,166)</u>	<u>(4,151,646)</u>
Total Net Position	<u>(14,750,623)</u>	<u>(11,039,383)</u>	<u>\$ (3,711,240)</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 26,012,460</u>	<u>\$ 26,930,566</u>	

**Montgomery Area School District
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2018
(UNAUDITED)**

MD & A Page 7 of 13

Analysis of the changes in the Governmental Activities Statement of Net Position:

- The decrease in cash is due primarily to the results of governmental activities operations, the timing of cash flows and the timing of payments with certain of the District's vendors and employees. Cash and equivalents were used to pay for fixed asset additions (\$2.1-million), some of which were payable at prior year-end and to pay down the related general obligation notes and other outstanding long-term debt (\$1-million). The District also drew an additional \$2.4-million on the GON 2016 providing an additional source of cash.
- Fixed assets increased due primarily to current period depreciation expense (approx. \$772-thousand) was outpaced by current period fixed asset additions (approx. \$2.8-million).
- The decrease in accounts payable is due to the relative timing of invoices received and processed for payment. An elevated payables balance at prior year-end on the Capital Reserve and Projects funds, relative to then-ongoing projects, contributed approx. \$237-thousand of the decrease due to the relative project completion status as compared to the current year-end which saw fewer/less significant pending projects.
- The decrease in bonds payable reflects the District's ordinary course pay down of debt.
- As discussed throughout this MD&A and the notes to the accompanying financials, per the requirements of GASB No. 68, the District reflects its proportionate share of the actuarially determined PSERS net pension liability in the Government-wide Statement of Net Position. As compared to the fiscal year-ended June 30, 2017, which saw an increase of almost \$6-million as compared to 2016, the District's proportionate share decreased slightly (by \$226-thousand) during the current year. This decrease is primarily a result of the performance of the PSERS system-wide investment portfolio and stabilization in the District's relative proportion of the net pension liability relative to other member employers' respective proportions at the PSERS plan-level.
- As also discussed throughout this MD&A, the District adopted GASB No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB No. 75) as of July 1, 2017. Consistent with GASB No. 75's adoption provisions, the District restated the opening balance of government-wide, governmental activities Net Position by a total of \$2,428,827, net, to record the beginning liability balances relative to the District's OPEB plans (PSERS-level and District-Specific, which represented liabilities of \$933-thousand and \$1.4-million, respectively, at year-end).
- Note: These adjustments, balances, and amounts are reflected in the government-wide financial statements only – there was no effect on the governmental fund financial statements related to GASB No. 68 nor GASB No. 75.

Additional information regarding these matters can be found in the accompanying financial statements and notes.

**Montgomery Area School District
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2018
(UNAUDITED)**

MD & A Page 8 of 13

The condensed Business-type Activities Statement of Net Position June 30, 2018 as compared to June 30, 2017 including the change in the elements of net position:

	Business-type Activities		
	June 30, 2018	2017	Inc. (Dec.) in Net Position
Assets:			
Current assets:			
Cash, cash equivalents and investments	\$ 78,460	\$ 56,703	\$ 21,757
Other current assets	47,299	64,959	(17,660)
Total current assets	<u>125,759</u>	<u>121,662</u>	<u>4,097</u>
Fixed assets-net	34,099	30,819	3,280
Deferred Outflows of Resources:	-	-	-
Total assets & deferred outflows	<u>\$ 159,858</u>	<u>\$ 152,481</u>	<u>7,377</u>
Liabilities:			
Current liabilities:			
Accounts payable	\$ 4,943	\$ 14,921	9,978
Accrued salaries and benefits	-	-	-
Other current liabilities	(2,056)	15,248	17,304
Total current liabilities	<u>2,887</u>	<u>30,169</u>	<u>27,282</u>
Other non-current liabilities	-	-	-
Total liabilities	<u>2,887</u>	<u>30,169</u>	<u>27,282</u>
Deferred Inflows of Resources:	-	-	-
Change in net position			<u>\$ 34,659</u>
Net Position:			
Invested in capital assets-net of related debt	34,099	30,819	3,280
Restricted & unrestricted	122,872	91,493	31,379
Total Net Position	<u>156,971</u>	<u>122,312</u>	<u>\$ 34,659</u>
Total Liabilities and Net Position	<u>\$ 159,858</u>	<u>\$ 152,481</u>	

Analysis of changes in Business-type activities Statement of Net Position:

- The change in net position is due to the loss from operations as offset by non-operating revenues from certain state and federal programs (increased approx. \$6-thousand) non-operating. Non-operating revenue increases as partially offset by a non-cash depreciation charge of approximately \$5-thousand.

**Montgomery Area School District
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2018
(UNAUDITED)**

MD & A Page 9 of 13

A condensed Statement of Activities for the fiscal year ended June 30, 2018 as compared to the fiscal year ended June 30, 2017:

Functions/Programs	Net Revenue/Expense		Favorable (Unfavorable) Change	
	Fiscal Year Ended June 30, 2018	2017		
Expenses-				
Governmental activities:				
Instruction	\$ 10,104,374	\$ 9,666,117	\$ (438,257)	4.5%
Instructional Student Support	759,165	1,195,241	436,076	-36.5%
Admin. & Financial Support Services	2,134,815	1,311,051	(823,764)	62.8%
Operation & Maintenance of Facilities	1,629,361	1,342,524	(286,837)	21.4%
Pupil Transportation	535,160	518,854	(16,306)	3.1%
Student Activities	570,431	408,234	(162,197)	39.7%
Community Services	13,022	17,281	4,259	100.0%
Unallocated Depreciation expense	772,330	809,326	36,996	-4.6%
Interest on Long-Term debt	306,110	261,874	(44,236)	16.9%
Total Governmental Activities	16,824,768	15,530,502	(1,294,266)	8.3%
Business-type activities:				
Food Service	431,403	417,018	(14,385)	3.4%
Total Expense	17,256,171	15,947,520	(1,308,651)	8.2%
Program Revenues & Charges for Services-				
Governmental activities:				
Instruction	3,165,159	2,991,868	173,291	5.8%
Instructional Student Support	123,584	141,457	(17,873)	-12.6%
Admin. & Financial Support Services	154,691	129,194	25,497	19.7%
Operation & Maintenance of Facilities	87,512	70,606	16,906	23.9%
Pupil Transportation	245,946	264,624	(18,678)	-7.1%
Student Activities	85,325	51,260	34,065	66.5%
Community Services	-	1,232	(1,232)	
Interest on Long-Term debt	193,065	349,100	(156,035)	-44.7%
Total Governmental Activities	4,055,282	3,999,341	55,941	1.4%
Business-type activities:				
Food Service	465,489	449,263	16,226	3.6%
Total Program Revenues & Charges for Services	4,520,771	4,448,604	72,167	1.6%
General revenues:				
Taxes:				
Property and other taxes, levied for general purposes, net	5,779,709	5,378,023	401,686	7.5%
Grants, subsidies, & contributions not restricted	5,533,786	5,556,441	(22,655)	-0.4%
Investment Earnings-governmental activities	130,126	78,592	51,534	65.6%
Investment earnings-business-type activities	574	187	387	207.0%
Miscellaneous Income	43,452	14,421	29,031	201.3%
Loss on Disposal of Fixed Assets	-	(4,790)	4,790	
Total General Revenues	11,487,647	11,022,874	464,773	4.2%
Change in Net Position	\$ (1,247,753)	\$ (476,042)	\$ (771,711)	

Unaudited - Supplementary Information
See accompanying Independent Auditor's Report

Analysis of changes in Statement of Activities between fiscal years:

- The increase in Instructional expense is a result of increased costs for professional compensation and benefits in addition to instructional services, supplies and other program-related expenses for general and special education in the District as offset by cost cutting measures taken in those areas.
- The increase in revenues is attributable to increases in property tax rates, improved related collections and increases in State and Federal grant.

**Montgomery Area School District
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2018
(UNAUDITED)**

The General Fund Budget vs. Actual for the June 30, 2018 Fiscal Year:

	Budgeted Amounts		Actual	Variance With
	Original	Final		Final Budget
				Positive (Negative)
REVENUES				
Local Sources	\$ 6,199,619	\$ 6,199,619	\$ 6,517,542	\$ 317,923
State Sources	8,567,249	8,567,249	8,656,558	89,309
Federal Sources	388,756	388,756	384,368	(4,388)
Total Revenues	15,155,624	15,155,624	15,558,468	402,844
EXPENDITURES				
Regular education programs	5,847,832	5,847,832	5,687,669	160,163
Special education programs	1,970,569	1,970,569	1,651,576	318,993
Vocational education programs	632,232	632,232	626,635	5,597
Other instructional programs	353,909	353,909	374,381	(20,472)
Adult education programs	-	-	-	-
Pre-kindergarten	526,762	526,762	425,000	101,762
Pupil personnel support services	545,190	545,190	543,874	1,316
Instructional staff support services	467,415	467,415	499,874	(32,459)
Administrative services	884,820	884,820	990,961	(106,141)
Pupil health services	110,075	110,075	110,079	(4)
Business services	318,809	318,809	336,100	(17,291)
Operation & maintenance of facilities	1,450,601	1,450,601	1,416,782	33,819
Student transportation services	502,994	502,994	534,033	(31,039)
Student activities	568,338	568,338	540,377	27,961
Community services	18,733	18,733	13,022	5,711
Debt Service (Principal & Interest)	-	-	135,070	(135,070)
Other	-	-	-	-
Total Expenditures	14,198,279	14,198,279	13,885,433	312,846
Excess (Deficiency) of Revenues Over Expenditures	957,345	957,345	1,673,035	715,690
OTHER FINANCING SOURCES (USES)				
Proceeds from Extended Term Financing	170,000	170,000	-	170,000
Operating Transfers Out	(2,024,345)	(2,024,345)	(1,793,741)	230,604
Budgetary reserve	60,465	60,465	-	60,465
TOTAL OTHER FINANCING SOURCES (USES)				
Net Change in Fund Balances	(957,465)	(957,465)	(120,706)	836,759
Fund Balance - Beginning of Year	5,099,316	5,099,316	6,064,961	
Fund Balance - End of Year	<u>\$ 6,056,661</u>	<u>\$ 6,056,661</u>	<u>\$ 5,944,255</u>	

**Montgomery Area School District
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2018
(UNAUDITED)**

Analysis of General Fund Budget vs. Actual for the June 30, 2018 Fiscal Year:

- The most significant contributor to the overall excess of revenues over expenditures (before debt service) was greater than expected local tax revenues, in particular, property tax revenues. The favorable variance vs. budgetary expectations, which reflected a millage increase, relative to locally sourced revenues is attributable to the more favorable than expected combined results of improved collection activities and the improved macroeconomic environment (i.e. additional tax payers with ability to pay their property tax and other assessments, etc.). Interest income on the District's deposits also saw favorable variance as compared to budget due to increases in market interest rates.
- The increase in overall expense is a result of increased costs for professional compensation and benefits in addition to other instructional services cost increases as offset by the results of cost containment measures in these areas.

Long-term debt activity in the fiscal year ended June 30, 2018:

Description	Balance June 30, 2017	Additional Borrowings	Principal Reductions	Balance June 30, 2018
GON 2014	\$ 589,000	\$ -	\$ (589,000)	\$ -
GON 2015	2,361,000	-	(112,000)	2,249,000
GON 2015A	7,203,000	-	(99,000)	7,104,000
GON 2016	700,600	2,649,400	(90,000)	3,260,000
	<u>10,853,600</u>	<u>2,649,400</u>	<u>(890,000)</u>	<u>12,613,000</u>

See the notes to the financial statements for additional details.

**Montgomery Area School District
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2018
(UNAUDITED)**

Capital asset activity in the fiscal year ended June 30, 2018:

Governmental Activities Fixed Assets:

Description	Cost June 30, 2017	Fiscal Year-ended June 30, 2018		Cost June 30, 2018	Depreciation Expense For Year-ended June 30, 2018	Accumulated Depreciation June 30, 2018	Net Asset June 30, 2018
		Additions	Retirements/ Transfers				
Land	84,535	-	-	84,535	-	-	84,535
Land improvements	1,439,625	16,285	-	1,455,910	62,710	988,002	467,908
Buildings & improvements	16,017,431	2,187,621	751,758	18,956,810	415,128	7,643,120	11,313,689
Machinery & equipment	4,551,395	195,788	-	4,747,183	294,492	3,636,778	1,110,406
Construction in Progress	813,447	461,371	(751,758)	523,060	-	-	523,060
	<u>\$ 22,906,433</u>	<u>\$ 2,861,065</u>	<u>\$ -</u>	<u>\$ 25,767,498</u>	<u>\$ 772,330</u>	<u>\$ 12,267,900</u>	<u>\$ 13,499,598</u>

Food Service Fixed Assets:

Description	Cost June 30, 2017	Fiscal Year-ended June 30, 2018		Cost June 30, 2018	Depreciation Expense For Year-ended June 30, 2018	Accumulated Depreciation June 30, 2018	Net Asset June 30, 2018
		Additions	Retirements/ Transfers				
Machinery & equipment	\$ 107,605	\$ 9,215	\$ -	\$ 116,820	\$ 5,935	\$ 82,721	\$ 34,099
	<u>\$ 107,605</u>	<u>\$ 9,215</u>	<u>\$ -</u>	<u>\$ 116,820</u>	<u>\$ 5,935</u>	<u>\$ 82,721</u>	<u>\$ 34,099</u>

See the notes to the financial statements for additional details.

Potential Future Issues:

The following matters will potentially have future impact on the District:

- ✓ The Pennsylvania School Employees Retirement System (PSERS), a multi-employer pension plan covering substantially all of the District's employees, is projecting a significant funding shortfall. There is uncertainty as to the extent and resolution of this shortfall but it has the potential of a significant negative impact on the District in the form of increases in required employer contributions in future years.
- ✓ The combined impact of an overall macro-economy, anticipated increases to retirement funding obligations, and cost increases associated with the implementation of health care reform, including, but not limited to the Affordable Care Act, and the associated cost and operational considerations, pose a challenge to both the District and state to fund operations. The Commonwealth has imposed restrictions and limitations on the ability of school districts to raise revenue via future tax increases. Federal and state funding levels are also expected to remain constrained while labor related costs rise beyond the ability to accommodate with revenue enhancements. The school district will be required to consider operational changes.

Richard B. Snodgrass & Co.

Audit, Tax, and Advisory
1117 Cemetery Road
Montoursville, Pennsylvania 17754

570-220-4990
FAX 570-433-4728
email-dsnodgrass@snodgrass-co.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Montgomery Area School District
120 Penn Street
Montgomery, Pennsylvania 17752

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Montgomery Area School District (the 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

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditors' judgment, including the assessment of 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Emphasis of Matter - Accounting Changes – Changes in Accounting Principles

As discussed in note *1.G. – Assets, Liabilities and Net Position/Fund Balance – Other Postemployment Benefit Plans (Other than Pensions) and Net Position – Accounting Changes*, to the financial statements, the District adopted GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, on July 1, 2017. The adoption provisions of this statement required retro-active restatement of the District's net position as of the beginning of the earliest period presented. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MD&A) information on pages MD&A 1 through MD&A 13 and the *schedule of the District's proportionate share of the net pension liability* on page RSI-1, the *schedule of the District's contributions to pensions* on page RSI-2, the *schedules of changes in the District's total OPEB liability and related ratios* on page RSI-3, the *schedule of the District's proportionate share of the net OPEB liability* on page RSI-4, and the *schedule of the District's OPEB contributions* on page RSI-5, be presented to supplement the basic financial statements. Such information, though not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and

comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal (and state) 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* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the District's basic financial statements.

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

Other Reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards* we have also issued our report dated March 22, 2019 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Richard B. Snodgrass & Co.
Montoursville, Pennsylvania
March 22, 2019

**Montgomery Area School District
Statement of Net Position**

June 30, 2018

	Governmental Activities	Business-type Activities	Total
Assets and Deferred Outflows of Resources:			
Assets:			
Current assets:			
Cash and cash equivalents	\$ 7,077,307	\$ 78,460	\$ 7,155,767
Taxes receivable-net	552,315	-	552,315
Due from other governments	702,618	33,618	736,236
Inventories	-	13,681	13,681
Other receivables	522,976	-	522,976
Total current assets	8,855,216	125,759	8,980,975
Noncurrent assets:			
Land and land improvements-net	552,443	-	552,443
Buildings and improvements-net	11,313,689	-	11,313,689
Furniture and equipment-net	1,110,406	34,099	1,144,505
Construction in progress	523,060	-	523,060
Total noncurrent assets	13,499,598	34,099	13,533,697
Total Assets	22,354,814	159,858	22,514,672
Deferred Outflows of Resources:			
Deferred (gain)/loss on bond refunding	136,201	-	136,201
Pension	3,502,089	-	3,502,089
OPEB	19,356	-	19,356
Total Deferred Outflows of Resources:	3,657,646	-	3,657,646
Total Assets and Deferred Outflows of Resources:	26,012,460	159,858	26,172,318
Liabilities, Deferred Inflows of Resources and Net Position:			
Liabilities:			
Current liabilities:			
Current portion of long-term debt	999,610	-	999,610
Accounts payable	426,177	4,943	431,120
Accrued salaries and benefits	1,019,301	-	1,019,301
Internal balances	18,030	(15,737)	2,293
Other current liabilities	89,206	13,681	102,887
Total current liabilities	2,552,324	2,887	2,555,211
Noncurrent liabilities:			
G.O. Notes payable-net of current portion	11,668,000	-	11,668,000
Long-term portion of compensated absences	25,439	-	25,439
Net OPEB liability-PSERS	933,000	-	933,000
Net OPEB liability-District	1,374,234	-	1,374,234
Net pension liability	22,620,000	-	22,620,000
Total noncurrent liabilities	36,620,673	-	36,620,673
Total Liabilities	39,172,997	2,887	39,175,884
Deferred Inflows of Resources:			
Unearned revenue	-	-	-
OPEB	326,086	-	326,086
Pension- reconcile pension investment performance & proportionate share	1,264,000	-	1,264,000
Total Deferred Inflows of Resources:	1,590,086	-	1,590,086
Net Position:			
Invested in capital assets-net of related debt	968,189	34,099	1,002,288
Restricted:			
Capital projects & equipment	1,617,746	-	1,617,746
Retirement & benefits	2,600,000	-	2,600,000
Other	101,844	-	101,844
Unrestricted	(20,038,402)	122,872	(19,915,530)
Total Net Position	(14,750,623)	156,971	(14,593,652)
Total Liabilities, Deferred Inflows of Resources and Net Position:	\$ 26,012,460	\$ 159,858	\$ 26,172,318

The accompanying notes are an integral part of this financial statement.

**Montgomery Area School District
Statement of Activities
For the Year Ended June 30, 2017**

Functions/Programs	Expenses	Indirect Expenses Allocation	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
Governmental activities:								
Instruction	\$ 10,104,374	\$ -	\$ 321,563	\$ 2,843,596	\$ -	\$ (6,939,215)		\$ (6,939,215)
Instructional Student Support	759,165	-	-	123,584	-	(635,581)		(635,581)
Admin. & Financial Support Services	2,134,815	-	-	154,691	-	(1,980,124)		(1,980,124)
Operation & Maintenance of Facilities	1,629,361	-	-	87,512	-	(1,541,849)		(1,541,849)
Pupil Transportation	535,160	-	-	245,946	-	(289,214)		(289,214)
Student Activities	570,431	-	33,404	51,921	-	(485,106)		(485,106)
Community Services	13,022	-	-	-	-	(13,022)		(13,022)
Unallocated depreciation	772,330	-	-	-	-	(772,330)		(772,330)
Interest on Long-Term debt	306,110	-	-	193,065	-	(113,045)		(113,045)
Total Governmental Activities	16,824,768		354,967	3,700,315	-	(12,769,486)		(12,769,486)
Business-type activities:								
Food Service	431,403		180,663	284,826			34,086	34,086
Total Primary Government	\$ 17,256,171		\$ 535,630	\$ 3,985,141	\$ -	\$ (12,769,486)	\$ 34,086	\$ (12,735,400)
General revenues:								
Taxes:								
Property and other taxes, levied for general purposes, net						5,779,709	-	5,779,709
Grants, subsidies, & contributions not restricted						5,533,786	-	5,533,786
Investment Earnings						130,126	574	130,700
Miscellaneous Income						43,452	-	43,452
Transfers						-	-	-
Total general revenues, special items, extraordinary items and transfers						11,487,073	574	11,487,647
Change in Net Position						(1,282,413)	34,660	(1,247,753)
Net Position—beginning						(13,468,210)	122,311	(13,345,899)
Net Position—ending						\$ (14,750,623)	\$ 156,971	\$ (14,593,652)

The accompanying notes are an integral part of this financial statement.

**Montgomery Area School District
Balance Sheet-Governmental Funds
June 30, 2018**

	General Fund	Capital Reserve Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
Assets and Deferred					
Outflows of Resources:					
Assets:					
Cash and cash equivalents	\$ 6,154,686	\$ 920,777	\$ 51	\$ 1,793	\$ 7,077,307
Taxes receivable-net	552,315	-	-	-	552,315
Due from other governments	702,618	-	-	-	702,618
Total Assets	7,409,619	920,777	51	1,793	8,332,240
Deferred Outflows of Resources:					
	-	-	-	-	-
Total Assets & Deferred Outflows	7,409,619	920,777	51	1,793	8,332,240
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	192,876	233,301	-	-	426,177
Due to other funds	18,030	-	-	-	18,030
Accrued salaries & benefits	452,716	-	-	-	452,716
Payroll withholdings	566,585	-	-	-	566,585
Other current liabilities	9,702	-	-	-	9,702
Total liabilities	1,239,909	233,301	-	-	1,473,210
Deferred Inflows of Resources:					
Unearned revenue	225,456	-	-	-	225,456
Total deferred inflows	225,456	-	-	-	225,456
Fund Balances:					
Non-spendable	-	-	-	-	-
Restricted fund balance	-	687,476	51	1,793	689,320
Committed balance	630,000	-	-	-	630,000
Assigned fund balance	3,000,000	-	-	-	3,000,000
Unassigned fund balance	2,314,254	-	-	-	2,314,254
Total fund equity	5,944,254	687,476	51	1,793	6,633,574
Total Liabilities & Fund Balance	\$ 7,409,619	\$ 920,777	\$ 51	\$ 1,793	\$ 8,332,240

The accompanying notes are an integral part of this financial statement.

**Montgomery Area School District
Reconciliation of the Governmental Funds Balance Sheet
To the Statement of Net Position
June 30, 2018**

Total Fund Balances - Governmental Funds \$ 6,633,574

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 assets is \$25,767,498 and the accumulated depreciation is \$12,267,900. 13,499,598

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 recorded as deferred revenues in the funds balance sheet. 225,456

Other receivables will be collected but are not available soon enough to pay for current period expenditures and, therefore, are not recorded in the fund financial statements 522,976

Long-term liabilities, including notes 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:

General Obligation Notes payable	(12,613,000)
Capital Lease obligations payable	(54,610)
Accrued interest on the bonds	(79,504)
Compensated absences	(25,439)
Other postemployment benefits-PSERS	(933,000)
Other postemployment benefits-District	(1,374,234)
Net pension liability	(22,620,000)

Losses incurred on refundings of long-term liabilities are not financial resources and, therefore, are not reported as deferred outflows of resources in governmental funds. The deferred loss on refundings included in government-wide deferred outflows of resources is: 136,201

Deferred outflows and inflows of resources related to pensions and OPEB amounts to be recognized and/or realized in future periods are not reported in governmental funds

Deferred outflows-pension	3,502,089
Deferred inflows-pension	(1,264,000)
Deferred outflows-OPEB	19,356
Deferred inflows-OPEB	(326,086)

Total Net Position - Governmental Activities \$ (14,750,623)

The accompanying notes are an integral part of this financial statement.

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

	General Fund	Capital Reserve Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUES					
Local Sources	\$ 6,517,542	\$ 13,005	\$ 22	\$ -	\$ 6,530,569
State Sources	8,656,558	-	-	-	8,656,558
Federal Sources	384,368	-	-	-	384,368
Total Revenues	<u>15,558,468</u>	<u>13,005</u>	<u>22</u>	<u>-</u>	<u>15,571,495</u>
EXPENDITURES					
Instruction	8,770,482	-	-	-	8,770,482
Support Services	4,426,373	50,039	-	-	4,476,412
Non-instructional Services	553,399	-	-	-	553,399
Capital Outlay	-	716,048	2,243,834	-	2,959,882
Debt Service (Principal & Interest)	135,180	-	-	1,163,741	1,298,921
Total Expenditures	<u>13,885,434</u>	<u>766,087</u>	<u>2,243,834</u>	<u>1,163,741</u>	<u>18,059,096</u>
Excess (Deficiency) of Revenues Over Expenditures	1,673,034	(753,082)	(2,243,812)	(1,163,741)	(2,487,601)
OTHER FINANCING SOURCES (USES)					
Proceeds from Extended Term Financing	-	-	2,649,500	-	2,649,500
Interfund Transfers in	-	630,000	-	1,163,741	1,793,741
Debt Service (Payment to Refunded Bond Escrow Agent)	-	-	-	-	-
Bond Premiums	-	-	-	-	-
Operating Transfers Out	(1,793,741)	-	-	-	(1,793,741)
Net Change in Fund Balances	<u>(120,707)</u>	<u>(123,082)</u>	<u>405,688</u>	<u>-</u>	<u>161,899</u>
Fund Balance - Beginning of Year	6,064,961	810,558	(405,637)	1,793	6,471,675
Fund Balance - End of Year	<u>\$ 5,944,254</u>	<u>\$ 687,476</u>	<u>\$ 51</u>	<u>\$ 1,793</u>	<u>\$ 6,633,574</u>

The accompanying notes are an integral part of this financial statement.

**Montgomery Area School District
Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
To the Statement of Activities
For the Year Ended June 30, 2018**

Total net change in fund balances - governmental funds \$ 161,899

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

Capital outlays are reported in governmental funds 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 depreciation exceeds capital outlays in the period.

Depreciation expense	(772,330)
Capital Outlays	2,861,065

Repayment of bond principal and capital lease payments are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Debt principal	890,000
Capital leases	126,964

Proceeds of debt and related bond refunding expenditures are treated as other financing sources & uses in government fund statements but are increases in statement of net position components and amortized or accreted over the period of the related debt in government wide statements

Additional borrowings	(2,649,400)
Amortize losses on refundings	(22,595)

Interest on long-term debt at year end is not accrued in governmental funds but is accrued in government wide financial statements. Accrued interest on bonds decreased (increased) at current year-end as compared to the previous year end

(1,458)

Taxes receivable are recognized on an accrual basis in government-wide statements while the revenue is recognized on a modified accrual basis in governmental funds. This is the reduction in revenue recognized in the government-wide statements in the current year due to this difference

(29,140)

Post-employment liabilities for OPEB and compensated absences (increased) decreased at current year end as compared to the previous year end and the District incurred, net, reduced expense in the governmental statement of activities:

Compensated absences	(356)
Other postemployment benefits, net	32,796

In the statement of activities, Pension expense is measured by the amounts contributed toward future retirement during the year. In the governmental funds, however, are measured by the amount of financial resources used. This amount represents the additional amount, net, expended in the current period in consideration of the changes in the Net Pension Liability and Deferred Pension-related inflows and outflows of resources:

(1,879,858)

Change in net position of governmental activities

\$ (1,282,413)

The accompanying notes are an integral part of this financial statement.

Montgomery Area School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Budget and Actual
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance With
	Original	Final		Final Budget
				Positive (Negative)
REVENUES				
Local Sources	\$ 6,199,619	\$ 6,199,619	\$ 6,517,542	\$ 317,923
State Sources	8,567,249	8,567,249	8,656,558	89,309
Federal Sources	388,756	388,756	384,368	(4,388)
Total Revenues	15,155,624	15,155,624	15,558,468	402,844
EXPENDITURES				
Regular education programs	5,847,832	5,847,832	5,687,669	160,163
Special education programs	1,970,569	1,970,569	1,651,576	318,993
Vocational education programs	632,232	632,232	626,635	5,597
Other instructional programs	353,909	353,909	374,381	(20,472)
Adult education programs	-	-	-	-
Pre-kindergarten	526,762	526,762	425,000	101,762
Pupil personnel support services	545,190	545,190	543,874	1,316
Instructional staff support services	467,415	467,415	499,874	(32,459)
Administrative services	884,820	884,820	990,961	(106,141)
Pupil health services	110,075	110,075	110,079	(4)
Business services	318,809	318,809	336,100	(17,291)
Operation & maintenance of facilities	1,450,601	1,450,601	1,416,782	33,819
Student transportation services	502,994	502,994	534,033	(31,039)
Student activities	568,338	568,338	540,377	27,961
Community services	18,733	18,733	13,022	5,711
Debt Service (Principal & Interest)	-	-	135,070	(135,070)
Other	-	-	-	-
Total Expenditures	14,198,279	14,198,279	13,885,433	312,846
Excess (Deficiency) of Revenues Over Expenditures	957,345	957,345	1,673,035	715,690
OTHER FINANCING SOURCES (USES)				
Proceeds from Extended Term Financing	170,000	170,000	-	170,000
Operating Transfers Out	(2,024,345)	(2,024,345)	(1,793,741)	230,604
Budgetary reserve	60,465	60,465	-	60,465
TOTAL OTHER FINANCING SOURCES (USES)				
Net Change in Fund Balances	(957,465)	(957,465)	(120,706)	836,759
Fund Balance - Beginning of Year	5,099,316	5,099,316	6,064,961	
Fund Balance - End of Year	<u>\$ 6,056,661</u>	<u>\$ 6,056,661</u>	<u>\$ 5,944,255</u>	

The accompanying notes are an integral part of this financial statement.

Montgomery Area School District
Statement of Net Position-Proprietary Funds

June 30, 2018

	Food Service Fund
Assets and Deferred	
Outflows of Resources:	
Assets:	
Current assets:	
Cash and cash equivalents	\$ 78,460
Due from other funds	15,737
Due from other governments	33,618
Other receivables	-
Inventories	13,681
Total current assets	141,496
Noncurrent assets:	
Furniture and equipment-net	34,099
Total noncurrent assets	34,099
Total Assets	175,595
Deferred Outflows of Resources:	-
Total Assets and Deferred Outflows	175,595
Liabilities, Deferred Inflows of Resources and Net Position:	
Liabilities:	
Current liabilities:	
Accounts payable	4,943
Accrued salaries and benefits	-
Due to other funds	-
Other current liabilities	13,681
Total current liabilities	18,624
Total Liabilities	18,624
Deferred Inflows of Resources:	-
Net Position:	
Invested in capital assets-net of related debt	34,099
Restricted	-
Unrestricted	122,872
Total Net Position	156,971
Total Liabilities, Deferred Inflows, and Net Position	\$ 175,595

The accompanying notes are an integral part of this financial statement.

Montgomery Area School District
Statement of Revenues, Expenditures and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2018

	Food Service Fund
OPERATING REVENUES	
Food service revenue	\$ 180,663
Charges for services	-
Total Operating Revenues	180,663
EXPENDITURES	
Salaries	79,524
Employee benefits	55,966
Purchased professional & technical services	-
Purchased property services	6,662
Other purchased services	250,196
Supplies	33,120
Depreciation	5,935
Total Expenditures	431,403
Operating income (loss)	(250,740)
NON-OPERATING REVENUES (EXPENSES)	
Earnings on investments	574
State sources	30,144
Federal sources	254,682
Income (Loss) for the Period	34,660
Increase (Decrease) in Net Position	34,660
Net Position - Beginning of period	122,311
Net Position - End of period	\$ 156,971

The accompanying notes are an integral part of this financial statement.

Montgomery Area School District
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2018

	Food Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from users	\$ 180,663
Cash payments to employees for services	(147,252)
Cash payments to suppliers for goods and services	(289,967)
Net Cash (Used For) Operations	(256,556)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
State sources	28,215
Federal sources	258,739
Net Cash Provided By Non-Capital Financing Operations	286,954
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital outlay	(9,215)
Net Cash (Used For) Capital and Related Financing Operations	(9,215)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Earnings on investments	574
Net Cash Provided By Investing Activities	574
Net Increase (Decrease) in cash for fiscal year	21,757
Cash and cash equivalents at - Beginning of Year	56,703
Cash and cash equivalents at - End of Year	\$ 78,460
RECONCILIATION OF OPERATING (LOSS) TO CASH (USED FOR) OPERATIONS:	
Operating (loss)	\$ (250,740)
Adjustments to reconcile-	
Depreciation	5,935
(Increase) Decrease in accounts receivable	(1,772)
(Increase) Decrease in inventories	1,567
Increase (Decrease) in accounts payable	(1,557)
Increase (Decrease) in advances from other funds	(9,989)
Net Cash (Used For) Operations	\$ (256,556)

The accompanying notes are an integral part of this financial statement.

**Montgomery Area School District
Statement of Fiduciary Net Position**

June 30, 2018

	Private Purpose Trusts	Agency
Assets:		
Cash and cash equivalents	\$ 49,513	\$ 41,877
Other receivables	2,293	-
Prepaid expenses	-	-
Total Assets	51,806	41,877
Liabilities:		
Accounts payable	-	-
Due to Student Groups	-	41,877
Due to other funds	-	-
Total Liabilities	-	41,877
Net Position:		
Restricted for scholarships	4,423	-
Unrestricted	47,383	-
Total Net Assets	51,806	-
Total Liabilities and Net Assets	\$ 51,806	\$ 41,877

The accompanying notes are an integral part of this financial statement.

Montgomery Area School District
Statement of Changes in Fiduciary Net Position
Private Purpose Trusts

June 30, 2018

	Private Purpose Trusts
Additions:	
Gifts and other contributions	\$ 18,450
Other additions	595
Total Additions:	19,045
 Deductions:	
Scholarships awarded	22,350
Total Deductions	22,350
Increase (Decrease) in Net Position:	(3,305)
Net Position - Beginning of period	55,111
Net Position - End of period	\$ 51,806

The accompanying notes are an integral part of this financial statement.

Montgomery Area School District
Notes to Financial Statements
June 30, 2018

Note 1. Summary of Significant Accounting Policies

The accounting policies of the Montgomery Area School District, "the School District" or "District" conform to United States generally accepted accounting principles (GAAP) as applicable to governmental entities. The Government Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations to its governmental and business-type activities in certain situations.

1.A. – Description of Entity:

The Montgomery Area School District, Lycoming County, Pennsylvania, operates as a school district of the 3rd class under the School Code of 1949 of the Commonwealth of Pennsylvania. The District operates under the management of a superintendent hired by and responsible to an elected nine-member board of school directors.

1.B. – Financial Reporting Entity:

The District is the basic level of government which has responsibility and control over all activities related to public school education in its attendance area in Lycoming County, Pennsylvania. The attendance area includes the Borough of Montgomery and the Townships of Brady, Clinton, and Washington.

The District assesses the taxpayers of these municipalities based upon taxing powers at its disposal. The ability of the District's taxpayers to pay their assessments is dependent upon economic and other factors affecting the taxpayers.

The District receives funding from local, state, and Federal government sources and must comply with various requirements of these funding sources.

The District is not included in any other governmental reporting entity as defined by GASB pronouncements. The specific criteria used in determining whether other organizations should be included in the District's financial reporting entity are financial accountability, fiscal dependency and legal separation. Additionally, there are no other organizations which are required to be included as a component unit of the District's reporting entity.

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

1.C. – Basis of Presentation:

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities report information about the District as a whole. These statements include the financial activity of the District, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. The District's General, Capital Reserve, Capital Projects, and Debt Service Funds are classified as governmental activities. The District's Food Service Fund is classified as a business-type activity.

The Statement of Net Position presents the financial condition of the governmental and business-type activities of the District as of the District's June 30 fiscal year end. The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities and for the single business-type activity of the 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 particular program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues, are presented, with certain limited exceptions, as general revenues of the District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function and business-type activity is self-financing or draws upon the general revenues of the District.

Fund Financial Statements

Fund financial statements of the District are organized into funds, each of which is considered to be a separate accounting entity. During the fiscal year, the School District accounts for its operations by segregating activities related to certain functions or activities into separate funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues, and expenditures or expenses, as appropriate. School district resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Funds are organized into three major categories: governmental, proprietary, and fiduciary. In the presentation of fund financial statements for governmental and proprietary funds, those funds which are considered to be "major funds" are presented separately with the remaining funds in each of these categories being presented in an aggregated manner. A fund is defined

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

as a major fund in accordance with GASB Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* if it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category, and;
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined.

Fiduciary funds are reported by type.

The funds of the District are described below.

Governmental Funds

General Fund – The general fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund –The capital reserve fund is a special revenue fund which accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specific capital project purposes.

Capital Projects Fund –The capital project fund accounts for the proceeds and expenditures relating to the general obligation note issue (Series of 2016) and the construction project.

Debt Service Fund – The Debt Service Fund accounts for the accumulation of resources to provide payment of the District's general obligation notes.

Proprietary Funds

Proprietary fund accounting and reporting is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services on a continuing basis is to be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy,

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

management control, accountability, or other purposes.

Food Service Fund – The Food Service Fund is the District's only proprietary fund. It is utilized to account for the District's operations in providing meal services. The Food Service Fund distinguishes between operating revenues and expenses and non-operating items. Operating revenues consist of charges for food served. Operating expenses consist mainly of food and food preparation costs, supplies, and other direct costs. All other revenues and expenses are reported as non-operating.

Fiduciary Funds

Trust and Agency Funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals. Fiduciary funds are custodial in nature and do not involve measurement of results of operation.

Private-purpose Trust-Student Awards Fund – The student awards fund is used to account for funds received and utilized to account for assets held by the District in a trustee capacity for individuals and private organizations. Generally, the funds are restricted to be used to provide scholarships and similar awards to students and graduates of the District.

Student Activities Agency Fund – The School District's Student Activities fund is an agency fund. This fund accounts for the funds being held by the School District on behalf of various student clubs and organizations. Generally, there is no trust agreement that affects the degree of management involvement and the length of time that the resources are held. This fund includes the Student Activities Fund.

The funds, which are considered major funds for fund financial statement presentation, and are presented in a separate column within the respective fund category, are:

1. Governmental Funds
 - General Fund
 - Capital Reserve Fund
 - Capital Projects Fund
 - Debt Service Fund

2. Proprietary Funds
 - Food Service Fund

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

1.D. – Accounting Methods:

Accounting methods are described in terms of the measurement focus and basis of accounting.

Measurement focus is a term used to describe which transactions are recorded within the financial statements. Measurement focus is dictated by the principal objective of the accounting and reporting being presented.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

Measurement Focus

Government-wide Statements of Net Position and the Statements of Activities are prepared utilizing the “economic resources” measurement focus for both governmental and business-like activities. With this measurement focus, all assets and all liabilities associated with the operation of the District are included on the statement of net position. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in the District's net total assets.

Fund financial statements are prepared utilizing the “current financial resources” measurement focus in governmental funds.

In governmental funds, the principal objective of the accounting and reporting is to account for and report the flow of financial resources utilized in the delivery of services by that governmental entity. Typically, this entails the reporting of the various sources of revenues and expenditures versus a legally adopted budget. The emphasis is on accounting for this budget and the financial resources and requirements supporting it on an annual basis. This measurement focus accounts for current financial resources and as such revenue and expenditure recognition under this measurement focus is limited and excludes amounts represented by non-current assets or liabilities. Since they do not affect net current assets, long-term amounts are not recognized as revenues or expenditures or fund assets or liabilities.

Proprietary funds utilize an economic resources measurement focus because the objective of the accounting in these funds is the determination of operating income, changes in net position, financial position and cash flows. All assets and liabilities, whether current or non-current, associated with the activities of these funds are included.

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

Basis of Accounting

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become both measurable and available as net current assets. Taxes are considered "available" when in the hands of the School District or, in the case of delinquent taxes, anticipated to be collected within 60 days after the fiscal year end and are recognized as revenue within the fiscal year.

Expenditures are generally recognized when the related fund liability is incurred. The exception to this general rule is that interest on general long-term debt is recognized only when payable.

Government-wide financial statements are prepared utilizing the accrual basis of accounting. Revenues are recognized when they are earned and their expenses are recognized when they are incurred.

Proprietary funds are also accounted for using the accrual basis of accounting.

1.E. – Revenue Recognition – Exchange and Non-exchange Transactions:

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

Non-exchange transactions, those in which the District receives value without giving equal value in return, include property taxes, earned income taxes, grants and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year in which the taxes are levied. Revenue from income taxes is recognized in which the income is earned. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all the eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the specific time period in which expenditures must be made in order to be eligible as grant, entitlement or donation eligible; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On the modified accrual basis, revenue from a non-exchange transaction must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

measurable and available at fiscal year end: earned income taxes, grants, interest, tuition, and student fees.

In conjunction with the District's adoption of GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB No. 63), as of the beginning of the fiscal year-ended June 30, 2013, the District has captioned the amounts historically disclosed as "deferred revenue," as "unearned revenue." The District's unearned revenues balance as per the Fund financial statements represents unavailable tax revenues and has been disclosed as "deferred inflows of resources." These amounts are recognized as revenue in the period in which the tax is levied in the Government wide statements and are not deferred inflows therein.

1.F. – Expenses and Expenditures:

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

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

1.G. – Assets, Liabilities and Net Position/Fund Balance:

The following summarizes certain of the District's Summary of Significant Accounting Policies (SOSAP) matters relevant to significant accounting and financial statement components:

Cash and Cash Equivalents and Investments

Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and so near their maturities that they present insignificant risk of changes in value because of changes in interest rates. Generally only investments with original maturities of three months or less qualify as cash equivalents. Investments are stated at cost or amortized cost, which approximates market.

Taxes and Intergovernmental Receivables

Taxes receivable are reported on the balance sheet at amounts that include any penalty amounts due net of an allowance for uncollectible balances. Management estimates the adequacy of the allowance for uncollectible taxes receivable based upon the historical experience in collecting these taxes. Intergovernmental receivables include amounts due from the state and federal governments for various grants and subsidies. For Fund Financial Statements only that portion of such receivables that is determined to be available as of the

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

fiscal year end is recorded as revenue in the current year. Unearned revenue is credited for that portion of the receivable balance not meeting the revenue recognition criteria.

Inventory

Inventory is valued at cost (first-in, first-out). Inventory consists of food and related supplies in the District's Food Service Fund. Food donated by the U.S. Department of Agriculture is recorded at market value. The school district's inventory of instructional and building maintenance supplies is not considered to be material and is, therefore, not reflected in the district's financial statement. The district utilizes the "purchases method" of accounting for such items under which such items are charged to expenditure when purchased.

Capital Assets

General capital assets are those assets not specifically related to activities in the District's Food Service Fund. These assets generally result from expenditures in the District's governmental funds. These assets are not included in the Fund Financial Statements. They are, however include in the governmental activities column of the Government-wide Statement of Net Position.

Capital assets used by the Food Service Fund are included in both the Fund Financial Statements and the business-type activities column of the Government-wide Statement of Net Position.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market value on the date of donation. The District maintains a capitalization threshold of \$1,500 which is applied to individual asset purchases or, in the case of the purchase of same or similar assets in a group, to the aggregated cost. Capital assets are those items meeting the above individual and group cost threshold with an estimated useful life in excess of one year. The costs of normal maintenance an repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized.

All capital assets, except land and construction/projects in progress, are depreciated. Construction in progress costs are accumulated until the project is complete and placed in service. At that time, the costs are transferred to the appropriate asset class and depreciation begins. Assets subject to capital lease financing arrangements are depreciated over the corresponding lease term.

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

Depreciation is computed using the straight-line method over the following useful lives:

<i>Description</i>	<i>Estimated Useful Lives</i>
Land Improvements	20 years
Buildings and Building Improvements	20-50 years
Furniture and Equipment	4-20 years
Furniture and Equipment-Business-type activities	5-50 years

The District does not have any infrastructure capital assets.

Deferred Loss on Refunding and Amortization

The losses recognized upon the refunding/refinancing of the District's bonds and notes are being amortized utilizing the straight-line method, which is a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred loss arose, in aggregate, from the difference between the carrying value of refunded debt and the reacquisition price.

Per the requirements of GASB No. 65, the District presents the net loss on refinancing has been reclassified for inclusion as a Deferred Outflow of Resources in the accompanying statement of net position. Deferred losses on bond refunding included in Deferred Outflow of Resources resulted in amortization expense, which is included as a component of interest expense in the accompanying statement of activities, of approximately \$22,595 for the year-ended June 30, 2018.

Accumulated Compensated Absences

The District's collective bargaining agreements with its professional and support employees specify the sick leave and vacation leave policies. Administrative personnel, while not party to these agreements, are provided similar benefits. The agreements generally do not provide for payment of accumulated sick leave, at retirement or other termination of service with the District.

Vacation leave is available only to administrative and twelve-month support employees. Vacation pay is earned in the year in which the service has been performed. Employees are entitled to accrue an annual designated number of vacation days, which carry over from year to year.

Sabbatical leaves-The Pennsylvania School Code of 1949, as amended, provides that certain employees are entitled to sabbatical leaves. The district's potential liability for such leaves is not included in the financial statements because of the uncertainty of future amounts payable.

Pensions

The District has adopted GASB Statement No. 68 *Accounting and Financial Reporting for Pensions (as amended)* (GASB No. 68), effective as of the beginning of the fiscal year-ended June 30, 2015. Based upon the requirements of GASB No. 68, the District recognizes its

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

proportionate share of the net pension liability relative relevant retirement benefits available to certain of the District's current and former employees and retirees.

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

The Pension Plan provides Retirement, death and disability, legislatively mandated *ad hoc* cost-of-living adjustments, healthcare insurance premium assistance benefits to qualifying annuitants. The plan operates under the authority of the Public School Employee's Retirement Code (the Code) (Act No. 96 of October 2, 1975, as amended) (24 Pa. C. S. 8101-8535). The Pension Plan is administered, at the State-wide level, by a 15-member board (the PSERS Board).

See also Note 9, "Pensions," for further discussion of Pensions and presentation and disclosure policies relative to the relevant account balances and amounts.

Other Postemployment Benefit Plans (Other than Pensions) and Net Position – Accounting Changes:

The District's employees and former employees, subject to eligibility requirements summarized here and detailed in the corresponding participant agreements, are provided postemployment benefits other than pensions via the PSERS Health Insurance Premium Assistance Program (the System Plan) (see Note 14 for further) and the Montgomery Area School District Postemployment Benefits Plan (the District Plan) (see Note 15 for further) (OPEB Plans).

Following the scheduled Adoption of GASB GASB No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB No. 75) as of July 1, 2017, the District accounts for these OPEB plans based upon the requirements of GASB No. 75. Periods ending at July 1, 2008 through June 30, 2017 were previously accounted for based upon the requirements of GASB No. 45 (also entitled *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*), which GASB No. 75 replaced). Consistent with GASB No. 75's adoption provisions, the District adjusted the opening balance of government-wide, governmental activities Net Position by a total of \$2,428,827, net, via retro-active restatement, to record the beginning liability balances relative to its offering of covered

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

benefits under the State-level (PSERS premium assistance, a proportionate share of the statewide plan similar to the PSERS pension, as above) and District-level other postemployment benefit (OPEB) plans. The retro-active restatement included the elimination of the previously established OPEB plan liability balance for the District-level plan as previously accounted for under GASB No. 45.

The year-end balances of the plans were \$933,000 for the PSERS, State-level plan and \$1,374,234 for the District-level plan, respectively. The District recognized a total of approximately \$154,000 of OPEB expense in its government-wide statement of governmental activities based upon the measurement and recognition requirements of GASB No. 75 for the year-ended June 30, 2018.

Net Position

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net position invested in capital assets represents the costs of fixed assets net of related accumulated depreciation and related debt. Net position is reported as restricted when there are limitations imposed on their use either through restrictions imposed by creditors, grantors or laws or regulations of other governments.

Fund Balance

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), the District classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the Board of Directors, the District's highest level of decision making authority, and does not lapse at year-end.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Superintendent or Business Administrator. Authority to make such assignments is granted by the Board of Directors via District policy but not through formal action of the School Board. The following are examples of activities resulting in assignment of fund balance:

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

- The School Board authorizes the District Business Manager to assign funds to specific purposes;
- The School Board passes a board motion authorizing assignments for activities as contemplated by the board.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and, should they arise, negative fund balances in other governmental funds.

As of June 30, 2018, the District’s non-spendable fund balance corresponds to the District’s prepaid expense asset balance which is fund balance in non-spendable form.

The District uses restricted /committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The District does not have a formal minimum fund balance policy.

Eliminations and Internal Balances

Transactions and balances between governmental activities have been eliminated in the government-wide financial statements. Residual amounts due between governmental and business-type activities are labeled "internal balances" on the statement of net position. Examples of interfund activities include transfers between the General Fund and the Debt Service fund. Also, in the governmental fund statements, activity between funds that is representative of interfund lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds.”

1. H. – Accounting Estimates:

Preparation of the School District’s financial statements requires management to make certain estimates and assumptions about the effect of future events on the valuation of certain assets or liabilities and the reported amounts of revenues and expenses during the reporting period. These include assumptions regarding an allowance for uncollectible taxes and useful lives and residual values and depreciation and amortization methods related to productive facilities of the Food Service fund. Estimates are made because the measurement of some amounts or the valuation of some accounts is uncertain, pending the outcome of future events, or relevant data concerning events that have already occurred cannot be accumulated on a timely, cost-effective basis. Actual results could differ from these estimates.

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

Significant Risks and Uncertainties

The following represent factors which could cause actual results to differ from the estimates reflected in the accompanying financial statements:

- a) *Significant Group Concentrations of Credit Risk*
The District's operations are located in and around Montgomery, Lycoming County of Pennsylvania. Its service area is located within the geographic bounds of the District. The District assesses taxpayers, within its service area, based upon taxing powers at its disposal. The ability of each of the District's taxpayers to honor their assessed obligations to the District is dependent upon economic and other factors affecting the taxpayers.
- b) *Grant Programs*
The District participates in both state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The District is potentially liable for any expenditure which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance that may result in the disallowance of program expenditures.

Note 2. Budgets and Budgetary Accounting

Budgets and Budgetary Accounting

In accordance with the Pennsylvania School Code of 1949, prior to June 30, the Board of Directors approve and adopt a General Fund Budget for the fiscal year beginning July 1. The General Fund Budget includes proposed expenditures and the means to finance them.

Formal budgetary integration is employed as a management control device during the year for the General Fund. Budgeted amounts are as originally adopted, or as amended by the Board of Directors. Individual amendments are not material in relation to the original appropriations which were amended. All budgeted appropriations lapse at fiscal year end.

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

- The District, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year.
- The District is required to have the budget printed, or otherwise made available for public

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

inspection, at least twenty (20) days prior to the date set for the adoption of the budget. Final action may not be taken on any proposed budget in which the estimated expenditures exceed two thousand dollars (\$2,000), until after ten (10) days public notice.

- The Board may make transfers of funds appropriated to any particular item of expenditure by legislative action during the last nine months of the fiscal year. An affirmative vote of a majority of all members of the Board is required.
- Fund balances in budgetary funds may be appropriated based on resolutions passed by the Board, which authorize the District to make expenditures. Appropriations lapse at the end of the fiscal period. In order to preserve a portion of an appropriation for which expenditure has been committed by a purchase order, contract, or other form of commitment, an encumbrance is recorded. Encumbrances outstanding at year-end are reported as reservations of fund balances.
- Program budgets, as prescribed by the state and federal agencies funding these programs, are included in the General Fund budget. These budgets are approved on a program-by-program basis by the state or federal funding agency for the term of the program.
- Capital budgets are implemented as project budgets in connection with the issuance of debt for capital improvements and capital projects in the Capital Projects Fund. All transactions of the Capital Projects Fund are approved by the Board prior to commitment, thereby constructively achieving budgetary control.
- The District does not adopt a formal budget for the proprietary or debt service funds.

Note 3. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund. All encumbrances lapse at fiscal year end.

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of materials or services. For budgetary purposes, appropriations lapse at fiscal year- end and outstanding encumbrances at year-end are reappointed in the next fiscal year. As of June 30, 2018, the District had no outstanding encumbrances. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the fund financial

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

statements. A reserve for encumbrances is not reported on the government-wide financial statements.

Note 4. Deposits With Financial Institutions and Investments

The School District's deposits and investments are potentially subject to credit and market risks. Credit risk involves the risk that another party to the deposit or investment transaction will not fulfill its obligation with respect to the deposit or investment. Credit risks include failures to perform, as agreed, on the part of the issuer of the security or the financial institution holding the deposit or the custodial agent for the security itself or supporting collateral. Market risk involves the risk that the market value of an investment itself or the supporting collateral will decline and expose the School District to a loss.

The School District's market and credit risks are reduced by legal restrictions as to the types of deposits and investments it is allowed to make under Pennsylvania law. The following information is provided to allow the reader to evaluate the market and credit risks associated with the School District's deposits and investments.

Government-wide Statement of Net Position Breakout of Cash and Investments:

Description	June 30, 2018 Amount
Cash and cash equivalents:	
Governmental Activities:	
Demand deposits	\$ 7,074,175
PLGIT investment pool	3,132
	7,077,307
Business-type activities:	
Demand deposits	78,420
Cash on hand	40
	78,460
	\$ 7,155,767
Total Statement of Net Position Cash, Cash Equivalents and Investments	\$ 7,155,767

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

Types of Deposits and Investments Permitted for Pennsylvania School Districts:

Legal Requirements

Section 440.1 of the Pennsylvania Public School Code of 1949 requires deposits and investments of the School District to be restricted to the following:

- United States Treasury bills;
- Short-term obligations of the United States Government or its agencies or instrumentalities;
- Deposits in institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or the National Credit Union Share Insurance Fund to the extent that such accounts are so insured, and, for any amounts above the insured maximum, provided that approved collateral as provided by the Act of August 6, 1971 (P.L. 281, No. 72) is pledged by the depository; or
- Obligations of the United States of America, the Commonwealth of Pennsylvania, or of any political subdivision of the Commonwealth of Pennsylvania or any of their agencies or instrumentalities backed by the full faith and credit of the United States of America, the Commonwealth of Pennsylvania, or of any political subdivision of the Commonwealth of Pennsylvania respectively.

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

Information Regarding Risks Related to Deposits and Investments:

At June 30, 2018 the School District had the following deposits and investments with the noted related credit and custodial risks:

Cash Equivalent/Investment	June 30, 2018 Amount	Credit/Custodial Risk
Governmental Activities:		
Demand and investment deposits-collateralization	\$ 6,574,175	Variable rate overnight investment with a bank collateralized with pooled securities held by a third party
Certificates of deposit-collateralization	-	
Demand Deposits - FDIC insurance	500,000	
Demand Deposits - PLGIT	3,132	An investment pool for Pennsylvania local governments rated AAAM by Standard & Poor's.
	<u>7,077,307</u>	
Business-type activities:		
Demand deposits-collateralization	78,420	Variable rate overnight investment with a bank collateralized with pooled securities held by a third party
Cash on hand	40	
	<u>78,460</u>	
Total Cash Equivalent/Investments	<u>\$ 7,155,767</u>	

PLGIT, the Pennsylvania Local Government Investment Trust is a pooled government investment fund which restricts its investments to those allowed for Pennsylvania school districts as outlined above.

For purposes of financial statement presentation some of the amounts classified as investments above are considered as cash equivalents. Cash equivalents are defined as short-term, highly liquid investments that are both:

- a. Readily convertible to known amounts of cash.
- b. So near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Generally, only investments with original maturities of three months or less meet this definition.

Also some of the amounts classified as deposits above are considered to be investments for financial statement presentation.

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

Note 5. Intergovernmental Receivables

Intergovernmental receivables consist of subsidies, grants and refunds due from the state and federal governments as of June 30, 2018. As discussed in Note 1, revenue of the general fund is recognized on the modified accrual basis.

Note 6. Taxes and Taxes Receivable

The School District levies Real Estate and Per Capita taxes based on valuations provided by Lycoming County, Pennsylvania. The calendar for taxes levied for the fiscal year ended June 30, 2018 was as follows:

July 1, 2017	Original levy date
July 1, - August 31, 2017	2% discount period
September 1, - October 31, 2017	Face period
November 1, - December 31, 2017	10% penalty period
January 1, 2018	Lien date

Taxes receivable represents amounts due the School District as of June 30, 2018 for earned income tax real estate transfer tax, delinquent real estate, occupational, and per capita taxes recorded at their penalty amounts. A breakout of the detail is as follows:

	<u>Amount</u>
Real estate taxes	\$ 316,155
Real estate transfer	14,624
Earned income tax	221,536
	<u>\$ 552,315</u>

As discussed in Note 1, revenue related to taxes receivable is recognized on a modified accrual basis in fund financial statements. As of June 30, 2018, \$326,859 of the net balance of taxes receivable has been recognized as revenue in the fund financial statements. Government-wide financial statements are prepared on an accrual basis and all of the balance of taxes receivable has been recognized as revenue.

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

Note 7. Fixed Assets

The following is a summary of activity for the District's fixed assets:

Governmental Funds Fixed Assets:

Description	Cost June 30, 2017	Fiscal Year-ended June 30, 2018		Cost June 30, 2018	Depreciation Expense For Year-ended June 30, 2018	Accumulated Depreciation June 30, 2018	Net Asset June 30, 2018
		Additions	Retirements/ Transfers				
Land	84,535	-	-	84,535	-	-	84,535
Land improvements	1,439,625	16,285	-	1,455,910	62,710	988,002	467,908
Buildings & improvements	16,017,431	2,187,621	751,758	18,956,810	415,128	7,643,120	11,313,689
Machinery & equipment	4,551,395	195,788	-	4,747,183	294,492	3,636,778	1,110,406
Construction in Progress	813,447	461,371	(751,758)	523,060	-	-	523,060
	<u>\$ 22,906,433</u>	<u>\$ 2,861,065</u>	<u>\$ -</u>	<u>\$ 25,767,498</u>	<u>\$ 772,330</u>	<u>\$ 12,267,900</u>	<u>\$ 13,499,598</u>

Unallocated depreciation expense of \$772,330 was charged to governmental activities functions/ programs of the District during the year-ended June 30, 2018.

Food Service Fixed Assets:

Description	Cost June 30, 2017	Fiscal Year-ended June 30, 2018		Cost June 30, 2018	Depreciation Expense For Year-ended June 30, 2018	Accumulated Depreciation June 30, 2018	Net Asset June 30, 2018
		Additions	Retirements/ Transfers				
Machinery & equipment	\$ 107,605	\$ 9,215	\$ -	\$ 116,820	\$ 5,935	\$ 82,721	\$ 34,099
	<u>\$ 107,605</u>	<u>\$ 9,215</u>	<u>\$ -</u>	<u>\$ 116,820</u>	<u>\$ 5,935</u>	<u>\$ 82,721</u>	<u>\$ 34,099</u>

See Note 1.G. for further explanation of the accounting treatment of fixed assets.

Note 8. Unearned Revenues

Unearned revenues at June 30, 2018 consist of the following:

Government-Wide Statement of Net Assets:

Governmental Activities:

Unearned/unavailable tax revenue

Amount
\$ -

Governmental Fund Statements:

General Fund:

Unearned/unavailable tax revenue

\$ 225,456
\$ 225,456

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

As discussed in Note 1, the difference in measurement focus between government-wide statements and fund financial statements, results in the above difference in deferred revenue. Government-wide statements are prepared utilizing accrual basis accounting while fund financial statements utilize the modified accrual basis of accounting.

Unearned/deferred revenue represents revenue not yet recorded as revenue because of not meeting the "available" criteria. See Note 1 for further discussion.

Note 9. Pensions

General information about the Pension Plan:

1. ***Plan Description:***

PSERS is a governmental cost-sharing, multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania into which more than approximately 600 reporting units contribute. The members eligible to participate in the System include 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.

2. ***Benefits Provided:***

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reach (a) age 62 with at least 1 year of credit service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes: Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and T-F members must work until age 65 with a minimum of three (3) years of service to attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of credited service. Benefits are generally equal to 2% or 2.5%, depending on membership class, of the member's final average salary (as defined by the Code) multiplied by the number of years of credited service. For members who membership started prior to July 1, 2011, after completion of five (5) years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten (10) years of service.

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

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 on 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 salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply disability benefits.

Death benefits are payable upon death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three (3) years of credited service for Class T-E and Class T-F members) or who has at least five (5) years of credited service (ten (10) years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

3. ***Funding Policy - Contributions:***

a. **Member Contributions:**

Active members who joined the System prior to July 22, 1983 contribute at 5.25% (Membership Class T-C) or at 6.5% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.5% (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 7.5% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

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

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

b. **Employer Contributions:**

The school districts' contractually required contribution rate for fiscal year ended June 30, 2018 was 31.74% of covered payroll (net of premium assistance portion (0.83%)), 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 and received by the Pension Plan from the District were \$1,896,181 for the year ended June 30, 2018.

In accordance with Act 29 of 1994, the Commonwealth of Pennsylvania is required to reimburse the School District for contributions made to the retirement plan based upon a formula provided in the Act but not less than one-half of the School District's contributions.

4. ***Pension Liability:***

At June 30, 2018, the District reported a liability of approximately \$22,620,000, for its proportionate share of the PSERS net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2016 to June 30, 2017. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll reported by all PSERS participating employers. At June 30, 2017 (for 2018), the District's proportion of was 0.0458%, which was a decrease of 0.0003 percentage points or an approximately 0.7% decrease from its proportion measured as of June 30, 2016 (for 2017) (approximately 0.0461%).

For the year ended June 30, 2018, the District recognized pension expense of approximately \$3,775,839. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 236,000	\$ 137,000
Changes in assumptions	614,000	-
Net difference between projected and actual investment earnings	524,000	-
Changes in proportions	1,920,000	1,127,000
Difference between employer contributions and proportionate share of total contributions	208,089	-
Contributions subsequent to the measurement date	-	-
	\$ 3,502,089	\$ 1,264,000

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2019	\$ 437,070
2020	734,070
2021	1,026,070
2022	(77,930)
2023	118,809
Thereafter	-
	\$ 2,238,089

5. ***Actuarial Assumptions:***

The total pension liability as of June 30, 2018 was determined by rolling forward the System's total pension liability as of the June 30, 2016 actuarial valuation to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

- (a) *Actuarial Cost Method:* Entry Age Normal – level % of pay
- (b) *Investment Return:* 7.25%, includes inflation at 2.75%
- (c) *Salary Increases* Salary growth - effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

merit or seniority increases.

(d) *Mortality rates*

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.

For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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

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

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

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

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

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

6. ***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.

7. ***Sensitivity to Discount Rate Changes:***

The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the pension liability would be if it were calculated using discount rates that are 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate in order to demonstrate the sensitivity of the District’s proportionate share of the Net Pension Liability to changes in the discount rate:

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
District's proportionate share of the net pension liability	\$ 27,843,000	\$ 22,620,000	\$ 18,210,000

8. ***Pension Plan Fiduciary Net Position:***

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

Note 10. Long-term Debt

The District's general obligation note long-term debt of the as of June 30, 2018 is comprised of the following:

General Obligation Note Series of 2014 (GON 2014)

In March 2014, the District entered into a \$2,278,000 note agreement with Branch Bank & Trust Company, maturing in four years at 1.17% interest. The proceeds of GON 2014 accomplished the current redemption of \$2,245,000 the 2009 Series bonds (GOB 2009) which had an average interest rate of 3.95%. The GON 2014 fully matured, including a principal payment of \$589,000, during the year-ended June 30, 2018. No amounts remain outstanding at June 30, 2018.

General Obligation Note Series of 2015 (GON 2015)

In March 2015, the District entered into a \$2,471,000 note agreement with Citizens & Northern Bank, maturing in five years at 1.54% interest. The proceeds of GON 2015 accomplished the current refunding of \$2,415,000 the 2010 Series bonds (GOB 2010) which had an average interest rate of 3.05%.

Debt service requirements of the GON 2015 are as follow:

Fiscal Year Ended	Series of 2015 GON		Total
	Principal	Interest	
2019	633,000	29,761	662,761
2020	649,000	19,890	668,890
2021	655,000	9,848	664,848
2022	312,000	2,402	314,402
	\$ 2,249,000	\$ 61,901	\$ 2,310,901

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

General Obligation Note Series A of 2015 (GON 2015A)

In September 2015, the District entered into a \$7,283,000 note agreement with Muncy Bank & Trust Company, maturing in twelve years at 2.45% interest. The proceeds of GON 2015A accomplished the current refunding of \$2,415,000 the 2010 Series A bonds (GOB 2010A) which had an average interest rate of 3.20%.

Debt service requirements of the GON 2015A are as follow:

Fiscal Year Ended	Series A of 2015 GON		Total
	Principal	Interest	
2019	131,000	172,443	303,443
2020	123,000	175,332	298,332
2021	133,000	172,196	305,196
2022	714,000	155,820	869,820
2023	1,182,000	132,594	1,314,594
Thereafter	4,821,000	232,567	5,053,567
	\$ 7,104,000	\$ 1,040,952	\$ 8,144,952

General Obligation Note Series of 2016 (GON 2016)

In September 2015, the District entered into a \$3,350,000 draw-down note agreement with FNB Bank, National Association, maturing in twelve years at 2.45% interest. The proceeds of GON 2016 have been utilized to finance capital improvement projects. Funds were drawn from the inception of the draw-down period through approximately November 15, 2017. The District made draw-downs of approximately \$2.6-million during the year-ended June 30, 2018. The GON 2016 calls for interest and principal payments through November 15, 2027 bearing interest rates on the outstanding balance as follows:

<i>Rate</i>	<i>Period</i>
2.44%	2/23/2016 – to – 11/15/2019
2.67%	11/16/2019 – to – 11/15/2023
2.76%	11/16/2023 – to – 11/15/2027

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

Debt service requirements of the GON 2016 are as follow:

Fiscal Year Ended	Series of 2016 GON		Total
	Principal	Interest	
2019	181,000	77,336	258,336
2020	183,000	78,434	261,434
2021	184,000	74,867	258,867
2022	199,000	69,754	268,754
2023	253,000	63,720	316,720
Thereafter	2,260,000	203,029	2,463,029
	<u>\$ 3,260,000</u>	<u>\$ 567,140</u>	<u>\$ 3,827,140</u>

The School District receives financial assistance from the Commonwealth of Pennsylvania with respect to the bonds. This assistance is in the form of a reimbursement for a portion of the bond interest and principal payments made. During the fiscal year ended June 30, 2018 the School District recorded approximately \$193,000 of such assistance which represented approximately 21.7% of such payments. Future reimbursements are subject to changes in the applicable statutory provisions and appropriations by the Pennsylvania General Assembly.

All of the future payment requirements shown in the tables above are prior to any financial assistance which may be received from the Commonwealth of Pennsylvania in support of debt service payments.

A summary of activity in the general obligation note long-term debt for the fiscal year is as follows:

Description	Balance June 30, 2017	Additional Borrowings	Principal Reductions	Balance June 30, 2018
GON 2014	\$ 589,000	\$ -	\$ (589,000)	\$ -
GON 2015	2,361,000	-	(112,000)	2,249,000
GON 2015A	7,203,000	-	(99,000)	7,104,000
GON 2016	700,600	2,649,400	(90,000)	3,260,000
	<u>10,853,600</u>	<u>2,649,400</u>	<u>(890,000)</u>	<u>12,613,000</u>

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

Aggregate debt service to maturity on the District's general obligation notes at June 30, 2018, is summarized as follows:

Fiscal Year Ended	Combined Debt Service		Total
	Principal	Interest	
2019	945,000	279,540	1,224,540
2020	955,000	273,656	1,228,656
2021	972,000	256,911	1,228,911
2022	1,225,000	227,976	1,452,976
2023	1,435,000	196,314	1,631,314
Thereafter	7,081,000	435,596	7,516,596
	\$12,613,000	\$ 1,669,993	\$ 14,282,993

Capital Leases

The District has entered into certain capital leases under which the related equipment will become the District's property when all terms of the lease agreement are met. The equipment is principally computer hardware and the asset and the related capital lease obligation are included in the governmental activities column in the accompanying government-wide statement of net position. Likewise, the amortization of the capital leased equipment and the interest on the capital lease obligation are included as components of governmental activities depreciation and interest expense in the accompanying statement of activities.

Description	Balance June 30, 2017	Additional Borrowings	Principal Reductions	Balance June 30, 2018
Capital Leases	\$ 181,574	\$ -	\$ (126,964)	\$ 54,610
	181,574	-	(126,964)	54,610

The remaining payments on the capital lease obligations are comprised of interest and principal of \$4,941 and \$54,610, respectively. All of the District's current capital lease obligations are expected to be satisfied during the fiscal year-ended June 30, 2019.

Total interest expense on long-term debt in 2018 was \$306,110. No interest was capitalized (i.e., added to the carrying value of capital assets) during 2018.

Note 11. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation, sick, and sabbatical leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside of the control of

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

the District and its employees is accrued as employees earn the rights to the benefits. Compensated absences that related to future services or that are contingent on a specific event that is outside the control of the District and its employees are accounted for in the period in which such services are rendered or such events take place.

In the governmental and similar trust funds, compensated absences that are expected to be liquidated with expendable available financial resources are reported as an expenditure and fund liability in the fund that will pay for them. The remainder of the compensated absences liability is reported in general long-term debt in the government-wide financial statements.

In the proprietary fund and similar trust funds, compensated absences are recorded as an expense and liability of the fund that will pay for them.

Vacation – District employees who are required to work on a twelve-month schedule are credited with vacation at rates which vary with length of service or job classification. Employees who do not take all their vacation during the year of entitlement may carry such leave over to subsequent years.

Sick Leave – Most District employees are credited annually with sick days. Unused sick leave is cumulative from year to year. However, accumulation of this leave is not compensated upon termination or retirement.

Sabbaticals – Most District employees are entitled to a sabbatical after ten years of service. Sabbaticals may only be taken for education purposes or health reasons. Sabbaticals taken for educational purposes are considered restricted and for the benefit of the employer. Sabbaticals taken for health reasons are considered unrestricted. No liability is recorded because both types of sabbaticals are conditional on future events.

At June 30, 2018, the liability for compensated absences, which consisted entirely of vacation payable, was \$35,141 of which approximately \$25,000 is estimated long-term in nature.

Note 12. Contingencies-Public Entity Risk Pools

The School District is a member of The Lycoming County Insurance Consortium Pooled Trust, "the Trust", which provides group health benefits to employees of the district. The District made payments for health care benefit claims coverage of approximately \$1,600,000 to the Trust during the fiscal year ended June 30, 2018. Audited financial statements of the Trust are available in the District's Business Office.

Public entity risk pools consist of groups of governmental entities joining together to finance an exposure, liability, or risk. Such risk pools may involve a transfer or pooling of the risk

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

among the participating members or it may involve retention of a portion of or all of the risk by the individual members incurring the losses. Such pools may also involve the transfer of a portion or all of the risk of loss to another entity outside the pool by purchase of insurance.

The School District participates in the following programs of the Trust:

Health Benefits

The Trust provides health benefits to members under a pooling of risk concept. Required contributions by members are determined on an annual basis by the Trust.

Under the terms of membership in the Trust, should the School District decide to withdraw from the Trust, it would be required to give 180-days prior written notice, pay any deficit generated by its claims experience or from non-payment of premiums or contributions to the trust, as calculated by the Trust at the time of notification of the intent to withdraw. Any deficit repayment relative to claims would be based upon claims incurred by the District prior to the effective date of the withdrawal from the Trust. Additionally, the District would be required to pay a termination fee to the trust of the greater 25% of the District's net interest in the Trust's operating surplus from the year in which the withdrawal would occur, which is calculated based upon a formula and takes into consideration payment status of any other District specific claims incurred or premium deficits, if any, or \$50,000.

Stop-Loss Insurance

The School District participates in stop-loss excess insurance which the Trust has purchased on-behalf of the pooled group which covers employee health benefit claims in excess of a \$375,000 specific deductible.

Note 13. Non-monetary Transactions

The School District's Food Service fund received Donated Commodities from the U. S. Department of Agriculture (USDA). The receipt of these commodities is recorded at values provided by the USDA. For the fiscal year ended June 30, 2018 the School District received \$29,779 of USDA commodities.

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

Note 14. Postemployment Benefits Other Than Pensions – Multi-employer/Cost Sharing

PSERS Health Insurance Premium Assistance Program (the PSERS Plan)

General Information about the PSERS Plan:

1. 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:

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

Pension Plan description

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

Benefits provided

Participating eligible retirees are entitled to receive premium assistance payments

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

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 (for 2018) was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were approximately \$51,000 for the year ended June 30, 2018.

2. *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 \$933,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System's total OPEB liability as of June 30, 2016 to June 30, 2017. The District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2017 (for 2018), the District's proportion of was 0.0458%, which was a decrease of 0.0003 percentage points from its proportion measured as of June 30, 2016 (for 2017) (approximately 0.0461%).

For the year ended June 30, 2018, the District recognized OPEB expense of \$39,000. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ -	\$ 73,000
Net difference between projected and actual investment earnings	2,000	-
Changes in proportions	-	6,000
	\$ 2,000	\$ 79,000

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

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

Year ended June 30:	
2018	\$ (13,000)
2019	(13,000)
2020	(13,000)
2021	(13,000)
2022	(13,000)
Thereafter	(12,000)
	\$ (77,000)

3. 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:

- (a) *Actuarial cost method:* Entry Age Normal - level % of pay

- (b) *Investment return:* 3.13% - S&P 20 Year Municipal Bond Rate
- (c) *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

- (d) *Mortality rates:* 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. 3
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

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

benefits.)

- (e) *Participation rate:* Eligible retirees will elect to participate Pre age 65 at 50%
Eligible retirees will elect to participate Post age 65 at 70%
63% of eligible retirees are assumed to elect premium assistance
- (f) *Employer contribution rate:* The results of the actuarial valuation as of June 30, 2015 determined the employer contribution rate for fiscal year 2017
- (g) *Cost Method:* Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date
- (h) *Asset valuation method:* Market Value

Investments

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

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

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

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

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, 2018, calculated using current Healthcare cost trends as well as what the System net OPEB liability would be if its health cost trends were 1-percentage point lower or 1-percentage point higher than the current rate:

	1% Decrease	Healthcare Cost Trend Rate Current Rate	1% Increase
PSERS Plan net OPEB liability	\$ 933,000	\$ 933,000	\$ 933,000

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

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

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

	1% Decrease 2.13%	Current Discount Rate 3.13%	1% Increase 4.13%
PSERS Plan net OPEB liability	\$ 1,061,000	\$ 933,000	\$ 827,000

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.

Note 15. Postemployment Benefits Other Than Pensions – Single Employer

Montgomery Area School District Postemployment Benefits Plan (the District Plan)

General Information About the District Plan:

The District Plan, which is a District-specific, employer-sponsored OPEB plan for all eligible retirees who qualify and elect to participate.

1. Plan Descriptions

The District Plan provides the following postemployment health care plans which provide health insurance for qualified retirees:

The District Plan is a single-employer defined benefit plan administered by the District. The District Plan provides postemployment benefits to eligible retirees. The District Plan is established in accordance with Act 110 of October 20, 1988 and Act 43 of July 8, 1989 by which the Pennsylvania Public Education Code (the Code) was amended, obligating the District to make the school group health insurance coverage available to its retirees who have met certain criteria. Extension of coverage may continue until the retiree reaches Medicare eligibility or is covered by other insurance. The Code allows the District to charge retirees an amount not to exceed the premium determined for COBRA purposes.

The District Plan is unfunded and no financial report is prepared. The District Plan is authorized and under the control, maintenance and operation of the District's School Board. The benefits provided by the Plan are defined by the terms of the

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

corresponding employment contract and/or collective bargaining agreement and typically include medical, prescription drug, dental and life insurance provided to certain eligible individuals and their spouses less the PSERS supplement (typically \$100 per month for benefit-eligible retirees (as discussed above), if applicable.

The District accounts for all of its OPEB activity within its governmental activities; the amount attributable to its business-type activity is not material.

Through collective bargaining, the District has agreed to offer coverage to certain eligible teachers and administrators the following postemployment health care plans which provide health insurance for qualified retirees:

1. *Current and Certain Retired Administrators*- Benefit is coverage for medical and prescription drug. Subject to years of service (in and out of District) and, in some cases PSERS eligibility requirements, the retired employee and, in some cases, spouse and/or family are covered until Medicare age or death. The District contribution ranges from \$250 per month to the full cost for single coverage.
2. *Retirees – Retired prior to 7/1/2015* - Benefit is coverage for medical and prescription drug. The retired employee and spouse are covered. The retiree and spouse are eligible for this coverage until eligible for Medicare or death. The District will contribute a maximum of \$350 per month.
3. *Retirees – Retired after 7/1/2015* - Benefit is coverage for medical and prescription drug. The retired employee and spouse are covered. The retiree and spouse are eligible for this coverage until eligible for Medicare or death. The District will contribute a maximum of \$350 per month. Employee must be 57 or older and must have 10 years of service to the District.
4. *Support Staff* - Benefit is coverage for medical and prescription drug. Member and spouse are eligible to participate at the COBRA rate. The retiree and spouse are eligible for this coverage until eligible for Medicare or death.
5. *Act 110/43 COBRA Benefit Plan*- In accordance with 24 Pa. C.S.A. 8701 et seq, referred to as the “Public School Retirees’ Health Insurance Act”, qualified retired employees are permitted to purchase insurance coverage for themselves and their dependents in the District’s group health plan at the COBRA rate until the retired employee reaches Medicare age. This program is administered through a combination of the District and an outside agency.

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

6. *Premium Assistance through the Pennsylvania School Employee Retirement System*- In accordance legislation enacted by the Commonwealth of Pennsylvania, eligible retirees may receive up to \$100 per month in reimbursement to assist in the payment for basic health insurance. The Plan is administered by PSERS and funded by contributions from the school districts and the Commonwealth of Pennsylvania.

PSERS issues a comprehensive annual financial report that includes financial statements and required supplemental information on the plan. That report may be obtained by:

Telephone request at 1-888-773-7748

Email: See www.psers.pa.gov

2. *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 4,483,537 for its net OPEB liability under the District Plan. 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 District Plan's total OPEB liability as of June 30, 2016 to June 30, 2017. The District is the only employer sponsoring the District Plan (i.e. proportion of the overall net OPEB liability attributable to the District is 100%. For the year ended June 30, 2018, the District recognized OPEB expense of \$334,138. The OPEB expense is comprised of \$179,049 of service cost, \$97,048 of interest on the OPEB liability, and \$64,114 of amortization of deferred outflows of resources as offset by \$6,073 of a reduction, recognized during this fiscal year, based upon a change in benefit terms (requiring greater premium contribution by beneficiaries). At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 18,356	\$ -
Difference between expected and actual experience	-	277,086
	\$ 18,356	\$ 277,086

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

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

Year ended June 30:	
2019	\$ (21,560)
2020	(21,560)
2021	(21,560)
2022	(21,560)
2023	(21,560)
Thereafter	(150,930)
	\$ (258,730)

3. Actuarial Assumptions

The Total OPEB Liability as of June 30, 2017/July 1, 2017, was determined by rolling forward the District'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:

- (a) *Actuarial cost method:* Entry Age Normal - level % of pay
- (b) *Interest rate:* 3.13% - S&P 20 Year Municipal Bond Rate
- (c) *Salary growth:* An assumption for salary increases is used only for spreading contributions over future pay under the entry age normal cost method. For this purpose, salary increases are composed of 2.5% cost of living adjustment, 1% real wage growth, and, for teachers and administrators, a merit increase which varies by age from 2.75% to 0%.

Premium Assistance reimbursement is capped at \$1,200 per year.

- (d) *Mortality rates:* Separate rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation

Incorporated into the table are rates projected generationally by the Buck Modified 2016 projection scale to reflect mortality improvement.

No disability was assumed

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

- (e) *Participation rate:* Assumed retirement rates are based on PSERS plan experience and vary by age, service, and gender
100% of members eligible to received subsidized benefits and 10% of members eligible for ACT 110/43 COBRA benefits are assumed to elect coverage.

Actuarial Cost Method – Entry Age Normal

Under the Entry Age Normal Cost Method, the Normal Cost is the present value of benefits allocated to the year following the valuation date. Benefits are allocated on a level basis over the earnings of an individual between the date of hire and the assumed retirement age. The Accrued Liability as of the valuation date is the excess of the present value of future benefits over the present value of future Normal Cost. The Unfunded Accrued Liability is the excess of the Accrued Liability over the Actuarial Value of Assets. Actuarial gains and losses serve to reduce or increase the Unfunded Accrued Liability.

The OPEB liability includes the amounts due retired employees under retiree health insurance plans, the amount determined as the implicit subsidy included in active employee insurance premiums for retirees purchasing health insurance through the District health plan, and amounts actuarially determined to be earned by current employees.

Funding Policy

The plans for medical coverage for employees and the Act 110/43 COBRA Benefit Plans are funded by the District on a pay as you go basis to meet the obligations of the Plans. As summarized in these Notes to the Financial Statements the Premium Assistance Plan is funded in accordance with legislation as enacted by the Commonwealth of Pennsylvania with school districts and the Commonwealth sharing in the funding of the Plan at a rate of 0.83% of eligible wages in the fiscal year ended June 30, 2017 and 2018, respectively. Such rate is subject to change. Refer to the PSERS information cited above for information as to the funding policies and status of this Plan.

Funded Status

The District Plan is funded on a “pay as you go” basis as of July 1, 2017, the most recent actuarial valuation date. As described, the Unfunded Accrued Liability is the excess of the Accrued Liability over the Actuarial Value of Assets. The Actuarial Value of Assets is \$0 for this purpose at June 30, 2017 and 2018, respectively.

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

The actuarial assumptions included a 3.13% interest rate, which is the expected rate to be earned on the District's deposits.

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Actuarial amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The calculations are based on the types of benefits provided under the terms of the substantive plan at the time of valuation and on the pattern of cost sharing between the employer and plan members. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Discount rate

The discount rate used to measure the Total OPEB Liability was 3.13%. Due to the short term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the plan is considered a "pay-as-you-go" plan. A discount rate of 3.13% which represents the S&P 20 year Municipal Bond Rate at June 30, 2017, was applied to all projected benefit payments to measure the total OPEB liability.

Sensitivity of the District's proportionate share of the District 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:

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

	<u>1% Decrease 2.13%</u>	<u>Current Discount Rate 3.13%</u>	<u>1% Increase 4.13%</u>
District Plan net OPEB liability	\$ 1,469,439	\$ 1,374,324	\$ 1,283,607

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

The health care cost trend rate was 6.0% initially, in 2017 and 5.5% in 2018 through 2023, decreasing 0.5% per year to 5.4% in 2024. Rates gradually decrease from 5.4% in 2023 to 3.9% in 2075 and later, based upon the Society of Actuaries Long-Run Medical Cost Trend Model.

The following presents the District Plan net OPEB liability for June 30, 2018, 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:

	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rate Current Rate</u>	<u>1% Increase</u>
District Plan net OPEB liability	\$ 1,250,846	\$ 1,374,324	\$ 1,521,277

Note 16. Fund Balance

The District's accounting policies are discussed further per note 1.G. – *Summary of Significant Accounting Policies – Assets, Liabilities and Net Position/Fund Balance*. The following is a schedule of fund balances:

Montgomery Area School District
Notes to Financial Statements
June 30, 2018
(Continued)

	<u>General Fund</u>	<u>Capital Reserve Fund</u>	<u>Capital Project Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Fund balances:					
Nonspendable:					
	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted for:					
Debt service	-	-	51	1,793	1,844
Specific capital projects	-	687,476	-	-	687,476
Committed to:					
Specific capital projects	630,000	-	-	-	630,000
Assigned to:					
Future retirement rate changes for pensions & OPEB	2,500,000	-	-	-	2,500,000
Future healthcare funding and insurance rate changes	100,000	-	-	-	100,000
Debt service	100,000	-	-	-	100,000
Technology equipment	300,000	-	-	-	300,000
Unassigned:	2,314,254	-	-	-	2,314,254
Total fund balances	<u>\$ 5,944,254</u>	<u>\$ 687,476</u>	<u>\$ 51</u>	<u>\$ 1,793</u>	<u>\$ 6,633,574</u>

Note 17. Joint Ventures & Transactions With Other LEAs

The District is a member of B.L.A.S.T. Intermediate Unit 17 (“BLaST IU17” or “IU17”). Through this membership, the District is able to secure various special services, including special education. The District purchased special education and other contracted services through IU 17 of approximately \$259,000 (net of the \$325,000 discussed below) during 2018.

Joint Venture - Clear Vision

The District hosts a secure residential treatment service facility which is managed through the BLaST IU17 and the Pennsylvania Department of Human Services. The facility, known as “Clear Vision” (CV) provides care for adolescent females, adjudicated delinquent or dependent, who require placement services outside the home for social, emotional, and behavioral problems. CV is located within the District’s attendance area and the District is responsible for operating the facility as a component of the public school system. Day to day operations are staffed and managed by specialized staff from the BLaST IU17. The District bills participating residents’ home Districts for the cost of the BLaST IU17 services. Such leased professional services payments received by the District and paid to BLaST IU17 amounted to approximately \$325,000, during the year ended June 30, 2018.

Montgomery Area School District
Notes to Financial Statements
June 30, 2018

Note 18. Tax Abatements

During the fiscal year ended June 30, 2017, the District adopted GASB Statement No. 77 *Tax Abatements* (GASB No. 77). The following is a corresponding disclosure of the District's applicable participation in various tax abatement programs:

Homestead Tax Exemption

The District enters into property tax abatement agreements with local residents under the state's Taxpayer Relief Act, Act 1 of Special Session 1 of 2006 (The Taxpayer Relief Act). The Taxpayer Relief Act provides for property tax reduction allocations to be distributed by the Commonwealth to each school district. Property tax reduction will be through a "homestead or farmstead exclusion." Generally, most owner-occupied homes and farms are eligible for property tax reduction. Only a primary residence is eligible for property tax relief. During the year ended June 30, 2018, the District abated and received corresponding funding from the Commonwealth property taxes levied in the amount of approximately \$318,000.

Keystone Opportunity Zones (KOZ)

The District has two properties with active KOZ designations. However, as the properties are currently operated by the Lycoming County government, which is not a real estate taxpayer, there is no impact to the District's real estate tax receipts resulting from the KOZ program.

Other Tax Abatement Programs

The District does not have any property or other taxes abated under significant Commonwealth of Pennsylvania economic development programs such as the Local Economic Revitalization Tax Assistance (LERTA).

From time to time individuals or organizations may qualify for a tax abatement, such as for a disability, veteran status, or a combination of these and/or similar preferences. Such abatements are typically short in duration and are not significant individually or in the aggregate.

Note 20. Subsequent Events

Subsequent events have been evaluated through March 22, 2019, which is the date the financial statements were available to be issued. No reportable subsequent events were identified other than those accrued in the accompanying statement of net position and/or governmental funds balance sheet.

Montgomery Area School District
Required Supplementary Information
June 30, 2018
(UNAUDITED)

Schedule of the District's Proportionate Share of the Net Pension Liability

Fiscal Year Ended	District's proportion of the net pension liability (asset)	District's proportionate share of the net pension liability (asset)	District's covered- employee Payroll	District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
June 30, 2018	0.0458%	\$ 22,620,000	\$ 5,974,105	378.63%	51.84%
June 30, 2017	0.0461%	\$ 22,846,000	\$ 6,042,334	378.10%	50.14%
June 30, 2016	0.0389%	\$ 16,849,000	\$ 5,974,694	282.01%	54.36%
June 30, 2015	0.0449%	\$ 17,772,000	\$ 5,001,849	355.31%	57.24%

This schedule is presented to fulfill the requirement, upon the adoption of GASB No. 68, to show certain pension related information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

The District adopted the provisions of GASB No. 68, for the year ended June 30, 2015 in accordance with accounting principles generally accepted in the United States of America. Therefore, information for years prior to 2015 is not available for reporting and is not presented.

Unaudited - Required Supplementary Information
See accompanying Independent Auditor's Report

Montgomery Area School District
Required Supplementary Information
June 30, 2018
(UNAUDITED)

Schedule of the District's Pension Contributions

Fiscal Year Ended	Contractually required contribution	Contributions in relation to the contractually required	Contribution deficiency (excess)	District's covered- employee Payroll	Contributions as a percentage of covered-employee payroll
June 30, 2018	\$ 1,896,181	\$ 1,896,181	\$ -	\$ 5,974,105	31.74%
June 30, 2017	\$ 1,303,861	\$ 1,303,861	\$ -	\$ 6,042,334	21.58%
June 30, 2016	\$ 1,400,415	\$ 1,400,415	\$ -	\$ 5,974,694	23.44%
June 30, 2015	\$ 1,225,923	\$ 1,225,923	\$ -	\$ 5,001,849	24.51%

This schedule is presented to fulfill the requirement, upon the adoption of GASB No. 68, to show certain pension related information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

The District adopted the provisions of GASB No. 68, for the year ended June 30, 2015 in accordance with accounting principles generally accepted in the United States of America. Therefore, information for years prior to 2015 is not available for reporting and is not presented.

Unaudited - Required Supplementary Information
See accompanying Independent Auditor's Report

Montgomery Area School District
Required Supplementary Information
June 30, 2018
(UNAUDITED)

Schedules of Changes in the District's Total OPEB Liability and Related Ratios
Montgomery Area School District Postemployment Benefits Plan

	Fiscal Year ending June 30, 2018
Total OPEB liability	
Service Cost	\$ 92,143
Interest	41,643
Changes of benefit terms	2,652
Differences between expected and actual experience	-
	(300,176)
Changes of assumptions or other inputs	19,886
Benefit Payments	(135,674)
Net change in total OPEB liability	<u>(279,526)</u>
Total OPEB liability-beginning	<u>1,653,760</u>
Total OPEB liability-ending	<u><u>1,374,234</u></u>
Covered employee payroll	5,912,733
Total OPEB liability as a percentage of covered-employee payroll	23.24%

Notes to Schedule:

Presentation :

This schedule is presented using the optional format of combining the required schedules in paragraphs 170a and 170b of GASB No. 75.

Changes of Assumptions:

2017-2018:

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 upon new PSERS assumptions. The expected recognition period is 12 years.

This schedule is presented to fulfill the requirement, upon the adoption of GASB No. 75, to show certain pension related information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

The District adopted the provisions of GASB No. 75, for the year ended June 30, 2018 in accordance with accounting principles generally accepted in the United States of America. Therefore, information for years prior to 2018 is not available for reporting and is not presented.

Unaudited - Supplementary Information
See accompanying Independent Auditor's Report

Montgomery Area School District
Required Supplementary Information
June 30, 2018
(UNAUDITED)

Schedule of the District's Proportionate Share of the Net OPEB Liability
PSERS Health Insurance Premium Assistance Program

<u>Fiscal Year Ended</u>	<u>District's proportion of the net OPEB liability (asset)</u>	<u>District's proportionate share of the net OPEB liability (asset)</u>	<u>District's covered- employee Payroll</u>	<u>District's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total OPEB liability</u>
June 30, 2018	0.0458%	\$ 933,000	\$ 5,974,105	15.62%	5.73%

This schedule is presented to fulfill the requirement, upon the adoption of GASB No. 75, to show certain pension related information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

The District adopted the provisions of GASB No. 75, for the year ended June 30, 2018 in accordance with accounting principles generally accepted in the United States of America. Therefore, information for years prior to 2018 is not available for reporting and is not presented.

Unaudited - Supplementary Information
See accompanying Independent Auditor's Report

Montgomery Area School District
Required Supplementary Information
June 30, 2018
(UNAUDITED)

Schedule of the District's OPEB Contributions
PSERS Health Insurance Premium Assistance Program

Fiscal Year Ended	Contractually required contribution	Contributions in relation to the contractually required	Contribution deficiency (excess)	District's covered- employee Payroll	Contributions as a percentage of covered-employee payroll
June 30, 2018	\$ 49,585	\$ 49,585	\$ -	\$ 5,974,105	0.83%

This schedule is presented to fulfill the requirement, upon the adoption of GASB No. 75, to show certain pension related information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

The District adopted the provisions of GASB No. 75, for the year ended June 30, 2018 in accordance with accounting principles generally accepted in the United States of America. Therefore, information for years prior to 2018 is not available for reporting and is not presented.

Unaudited - Supplementary Information
See accompanying Independent Auditor's Report

Richard B. Snodgrass & Co.

Audit, Tax, and Advisory
1117 Cemetery Road
Montoursville, Pennsylvania 17754

570-220-4990
FAX 570-433-4728
email-dsnodgrass@snodgrass-co.com

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Montgomery Area School District
120 Penn Street
Montgomery, Pennsylvania 17752

We have audited, in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Montgomery Area School District (the District) for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 22, 2019.

Internal Control Over Financial Reporting

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

Purpose of this Report

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



Richard B. Snodgrass & Co.
Montoursville, Pennsylvania
March 22, 2019

**Montgomery Area School District
Schedule of Expenditures of Federal and State Awards**

Year Ended June 30, 2018

Program Title	CFDA Number	Funding Code	Grantor's Pass Thru Number	Grant Period Beginning/Ending Date	Sc. Code	Program or Award Amt.	Total Received For Year	Accrued or (Deferred) 7/1/2017	Revenue Recognized	Expenditures	Accrued or (Deferred) 6/30/2018
U.S. Department of Agriculture-											
Passed Through the Pennsylvania Department of Education:											
Nutrition Cluster:											
National School Lunch	10.555	I	N/A	7/1/16-6/30/17	F	N/A	\$ 27,351	\$ 27,351	\$ -	\$ -	\$ -
National School Lunch	10.555	I	N/A	7/1/17-6/30/18	F	N/A	\$ 161,019	\$ -	\$ 187,793	\$ 187,793	\$ 26,774
Total-National School Lunch Program							\$ 188,370	\$ 27,351	\$ 187,793	\$ 187,793	\$ 26,774
National Breakfast	10.553	I	N/A	7/1/16-6/30/17	F	N/A	\$ 6,239	\$ 6,239	\$ -	\$ -	\$ -
National Breakfast	10.553	I	N/A	7/1/17-6/30/18	F	N/A	\$ 32,194	\$ -	\$ 37,109	\$ 37,109	\$ 4,915
Total-National School Breakfast Program							\$ 38,433	\$ 6,239	\$ 37,109	\$ 37,109	\$ 4,915
Totals-Nutrition Cluster-Cash Assistance							\$ 226,803	\$ 33,590	\$ 224,902	\$ 224,902	\$ 31,689
Passed Through the Pennsylvania Department of Agriculture:											
National School Lunch Commodities	10.555	I	N/A	7/1/17-6/30/18	F	N/A	\$ 28,212	\$ (15,248)	\$ 29,779	\$ 29,779	\$ (13,681) 1.
Totals-Nutrition Cluster-Non-Cash Assistance							\$ 28,212	\$ (15,248)	\$ 29,779	\$ 29,779	\$ (13,681)
Totals-Nutrition Cluster							\$ 255,015	\$ 18,342	\$ 254,681	\$ 254,681	\$ 18,008
Total U.S. Department of Agriculture							\$ 255,015	\$ 18,342	\$ 254,681	\$ 254,681	\$ 18,008
Non-Federal Funds - Passed Through the Pennsylvania Department of Education:											
State Lunch Program	N/A	N/A	N/A	7/1/16-6/30/17	S	N/A	\$ 1,771	\$ 1,771	\$ -	\$ -	\$ -
State Lunch Program	N/A	N/A	N/A	7/1/17-6/30/18	S	N/A	\$ 10,686	\$ -	\$ 12,562	\$ 12,562	\$ 1,876
State Breakfast	N/A	N/A	N/A	7/1/16-6/30/17	S	N/A	\$ 385	\$ 385	\$ -	\$ -	\$ -
State Breakfast	N/A	N/A	N/A	7/1/17-6/30/18	S	N/A	\$ 2,005	\$ -	\$ 2,058	\$ 2,058	\$ 53
							\$ 14,847	\$ 2,156	\$ 14,620	\$ 14,620	\$ 1,929
U.S. Department of Education-											
Passed Through the Pennsylvania Department of Education:											
Title I	84.010	I	013-170262	7/1/16-9/30/17	F	\$ 330,035	\$ 60,407	\$ 60,407	\$ -	\$ -	\$ -
Title I	84.010	I	013-180262	7/1/17-9/30/18	F	\$ 326,335	\$ 326,335	\$ -	\$ 326,335	\$ 326,335	\$ -
Total-Title I Program							\$ 386,742	\$ 60,407	\$ 326,335	\$ 326,335	\$ -
Title IIA Improv Teacher	84.367	I	020-170262	7/1/16-9/30/17	F	\$ 57,691	\$ 3,788	\$ 3,788	\$ -	\$ -	\$ -
Title IIA Improv Teacher	84.367	I	020-180262	7/1/17-9/30/18	F	\$ 48,902	\$ 45,681	\$ -	\$ 48,902	\$ 48,902	\$ 3,221
Total-Title II Program							\$ 49,469	\$ 3,788	\$ 48,902	\$ 48,902	\$ 3,221
Title IV Student Support & Academic Enrichment Grants	84.424	I	144-180262	7/1/17-9/30/18	F	\$ 10,000	\$ 6,667	\$ -	\$ 8,588	\$ 8,588	\$ 1,921
Total-Title IV Program							\$ 6,667	\$ -	\$ 8,588	\$ 8,588	\$ 1,921
Passed Through the Pennsylvania Department of Education:											
Passed Through BLAST Intermediate Unit #17 :											
Special Education Cluster-											
IDEA B	84.027	I	NA	7/1/16-9/30/17	F	\$ 121,363	\$ 11,363	\$ 11,363	\$ -	\$ -	\$ -
IDEA B	84.027	I	NA	7/1/17-6/30/18	F	\$ 133,628	\$ 6,922	\$ -	\$ 133,628	\$ 133,628	\$ 126,706
Total-IDEA B Program (CFDA# 84.027)							\$ 18,285	\$ 11,363	\$ 133,628	\$ 133,628	\$ 126,706
IDEA B - Preschool	84.173	I	NA	7/1/17-6/30/18	F	\$ 1,140	\$ 1,140	\$ -	\$ 1,140	\$ 1,140	\$ -
Totals-Special Education Cluster							\$ 19,425	\$ 11,363	\$ 134,768	\$ 134,768	\$ 126,706
Total U.S. Department of Education							\$ 462,303	\$ 75,558	\$ 518,593	\$ 518,593	\$ 131,848
Totals							\$ 732,165	\$ 96,056	\$ 787,894	\$ 787,894	\$ 151,785

The accompanying notes are an integral part of this Schedule.

**Montgomery Area School District
Schedule of Expenditures of Federal and State Awards**

**Year Ended June 30, 2018
(Continued)**

NOTES:

1. USDA donated commodities valued at USDA prices.
2. Calculation of the 40%/20% rule:

Major Programs		%	Expenditures	Single Audit Treatment
Child Nutrition	10.553/	32.9%	\$ 254,681	Type B-Major
Cluster	10.555			
Title I	84.010	<u>42.2%</u>	<u>\$ 326,335</u>	Type B-Major
Totals		75.1%	\$ 581,016	
Other Programs		<u>24.9%</u>	<u>\$ 192,258</u>	
Total Federal Expenditures		<u>100.0%</u>	<u>\$ 773,274</u>	(Note 3.)

Funding Codes-
D = Direct Funding
I = Indirect Funding

Source Codes-
F = Federal Funding
S = State Funding

3. Total Federal Expenditures are total expenditures per schedule of:

	\$	787,894
<i>less</i> State lunch reimbursements of:	\$	(12,562)
<i>less</i> State breakfast reimbursements of:	\$	(2,058)
	<u>\$</u>	<u>773,274</u>

4. The selection of major programs was done utilizing a risk based approach in accordance with Title 2 U.S. Code of Federal Regulations Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

5. None (\$0.00) of the District's expenditures of federal awards represent amounts passed through the District to sub-recipients.

The accompanying notes are an integral part of this Schedule.

Montgomery Area School District
Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2018

A. Basis of Presentation

The accompanying schedule of expenditures of federal and state awards (the Schedule) includes the federal and certain related state grant activity of the Montgomery Area School District (the District). The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the District's operations, it is not intended to and does not present the District's financial position, changes in net assets/fund balance, or cash flows.

B. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to the amounts of expenditures reported and deferred amounts.

C. USDA Donated Commodities

Deferred balances at the beginning and end of the fiscal year represent inventories of USDA donated commodities. Such commodity inventories are valued at USDA provided unit values.

D. Indirect Cost Rate

The accompanying Schedule does not include indirect costs related to the operation of the District's federal and related state grant programs. The District has utilized neither a federally negotiated rate nor the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance to capture and include any such indirect costs associated with federal awards.

E. Subrecipient Status

The District is a subrecipient of federal awards, does not function as a pass-through to other subrecipients, and \$0 of the District's grant awards have been passed-through.

Richard B. Snodgrass & Co.

Audit, Tax, and Advisory
1117 Cemetery Road
Montoursville, Pennsylvania 17754

570-220-4990
FAX 570-433-4728
email-dsnodgrass@snodgrass-co.com

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE**

Board of Directors
Montgomery Area School District
120 Penn Street
Montgomery, Pennsylvania 17752

Report on Compliance for Each Major Federal Program

We have audited the Montgomery Area School District's (the District) compliance of with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2018. The 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

The District's management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance

requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, Montgomery Area School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

The District's management 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 the 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 our opinion on compliance 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 the District's internal control over compliance.

A deficiency in internal control over compliance 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, 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 control 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 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.

Purpose of this Report

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 result of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Richard B. Snodgrass & Co.
Montoursville, Pennsylvania
March 22, 2019

Montgomery Area School District
 Single Audit Report
 Schedule of Findings and Questioned Costs

June 30, 2018

Section I Summary of Auditors' Results:

<i>Financial Statements</i>		
Type of report the auditor issued on whether the financial statements were prepared in accordance with GAAP:		
<i>The auditors' report on the basic financial statements is unmodified.</i>		
• Material weakness(es) identified?	___ Yes	_X_ No
• Significant deficiency(ies) identified?	___ Yes	_X_ No
Noncompliance material to financial statements noted?	___ Yes	_X_ No
<i>Federal Awards</i>		
Internal control over major federal programs:		
• Material weakness(es) identified?	___ Yes	_X_ No
• Significant deficiency(ies) identified?	___ Yes	_X_ No
Type of auditors' report issued on compliance for major federal programs:		
<i>The auditors' report on compliance for major programs is unmodified.</i>		
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	___ Yes	_X_ No
Identification of major federal programs:		
CFDA Number(s):		Name of Federal Program or Cluster:
CFDA 10.553/10.555		Child Nutrition Cluster
CFDA 84.010		Title I
Dollar threshold used to distinguish between type A and type B programs:		
	\$750,000	
Auditee qualified as low- risk auditee?	___ Yes	_X_ No

Montgomery Area School District
Single Audit Report
Schedule of Findings and Questioned Costs

June 30, 2018
(Continued)

Section II Financial Statement Findings

Financial statement Findings which are required to be reported under generally accepted government auditing standards:

There were **no** such findings/matters reported.

Section III Federal Award Findings and Questioned Costs:

There were **no** such findings/matters reported.

Montgomery Area School District
Single Audit Report
Schedule of Prior Findings and Questioned Costs

June 30, 2018

There are no prior findings or questioned costs required to be reported under OMB A-133 (prior periods)/the Uniform Guidance.

Montgomery Area School District
Financial Statements and
Supplementary Information
(With Independent Single Audit Reports Thereon)

June 30, 2018

LIST OF REPORT DISTRIBUTION

Filed Electronically to:

Bureau of Audits
Special Audit Services Division
Forum Place—8th Floor
555 Walnut Street
Harrisburg, PA 17101

Filed Electronically to:

Federal Audit Clearinghouse
Bureau of the Census
1201 E. 10th Street
Jeffersonville, IN 47132

Attention: Single Audit Clearing House

Montgomery Area School District
Financial Statements and
Supplementary Information
(With Independent Single Audit Reports Thereon)

Lead Auditor Information

June 30, 2018

Lead Auditor:

David D. Snodgrass
Certified Public Accountant
Richard B. Snodgrass & Co.
1117 Cemetery Road
Montoursville, Pennsylvania 17754

Phone: (570) 220-4990

Fax: (570) 433-4728

E-mail: dsnodgrass@snodgrass-co.com

Licensing:

Richard B. Snodgrass & Co. is a Pennsylvania sole proprietorship which is owned and operated by David D. Snodgrass, CPA.

David D. Snodgrass, CPA, is licensed to do business in the Commonwealth of Pennsylvania (PA License No. CA-051085) where the District is located and where the accounting records are maintained.