

Elizabethtown Area School District

Year Ended June 30, 2017



TROUT, EBERSOLE & GROFF_{LLP}

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Elizabethtown Area School District

Financial Statements with Supplementary Information

Year Ended June 30, 2017

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Financial Statements with Supplementary Information

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INDEPENDENT AUDITORS' REPORT

To the Board Officers and Members
Elizabethtown Area School District
Elizabethtown, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Elizabethtown Area School District** (the School District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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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 **Elizabethtown Area School District** as of June 30, 2017, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 14, budgetary comparison information on pages 62 and 63, other postemployment benefits (OPEB) health care benefits plan information on pages 64 through 66, and pension information on pages 67 through 69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2017, on our consideration of **Elizabethtown Area School District's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Elizabethtown Area School District's** internal control over financial reporting and compliance.

November 7, 2017
Lancaster, Pennsylvania

Trout, Ebersole & Groff, LLP
TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Elizabethtown Area School District

MANAGEMENT'S DISCUSSION and ANALYSIS

Year Ended June 30, 2017

The discussion and analysis of the **Elizabethtown Area School District's** (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the notes to the basic financial statements and the financial statements as a whole to enhance their understanding of the School District's financial performance.

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

Financial Highlights

Overall expenditures in the general fund for the 2016-2017 fiscal year were expected to increase by 4.25% from the previous year's expenditure budget with the anticipation of utilizing \$2.35 million of fund balance. At year end, actual expenditures were .35% lower than budgeted, and revenues were greater than budgeted by 2.77%. Other financing sources resulted in proceeds to the general fund in the amount of \$160,297. These proceeds were mostly attributable to dividends received from the Lancaster-Lebanon Worker's Compensation Fund and property casualty insurance carrier. Overall, the general fund had a surplus of \$93,698 for the 2016-2017 fiscal year. An explanation of this difference is below.

Total actual general fund expenditures of \$54,765,238 closely approximated total budgeted expenditures of \$54,960,340, less than a 1% favorable variance.

Total revenues were \$1,563,788 higher than budgeted. Local revenue was \$468,804 or 1.25% higher than budgeted. The bulk of this increase was in the collection of local real estate taxes and earned income taxes. State revenue was \$925,061 more than budgeted. This was mostly attributable to increases in the School District's share of the state's reimbursement of retirement contributions and increases in basic instructional subsidies.

Using this Annual Report

The annual report consists of a series of financial statements and notes to those statements. These statements are organized so that the reader can understand **Elizabethtown Area School District** as a financial whole.

The first two statements are government-wide financial statements - the statement of net position and the statement of activities. These provide both long-term and short-term information about the School District's overall financial status.

Elizabethtown Area School District

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

Year Ended June 30, 2017

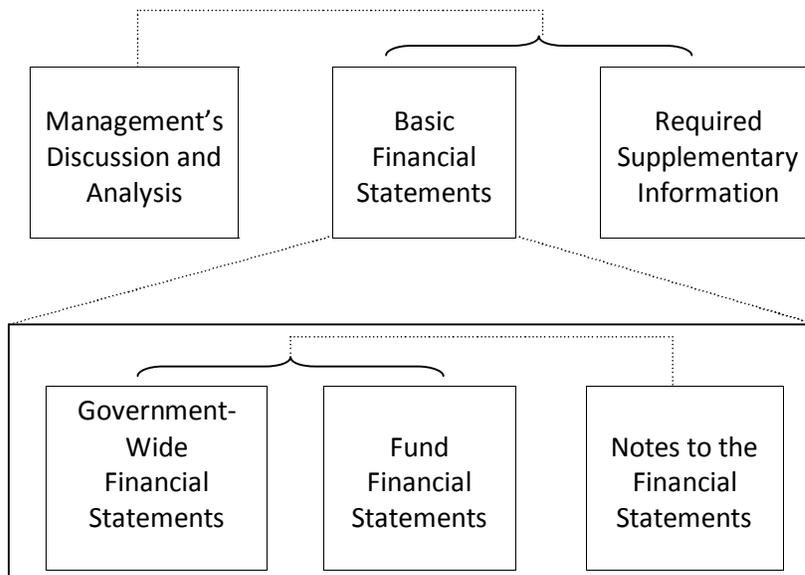
Using this Annual Report (Continued)

The remaining statements are fund financial statements that focus on individual parts of the School District's operations in more detail than the government-wide statements. The governmental funds statements tell how general School District services were financed in the short-term as well as what remains for future spending. Proprietary fund statements offer short-term and long-term financial information about the activities that the School District operates like a business. For this School District, this is our food service fund. Fiduciary fund statements provide information about financial relationships where the School District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Figure A-1 shows how the required parts of the financial report are arranged and relate to one another.

Figure A-1
Required Components of Elizabethtown Area School District's Financial Report



Elizabethtown Area School District

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

Year Ended June 30, 2017

Using this Annual Report (Continued)

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

Figure A-2				
Major Features of Elizabethtown Area School District's Government-Wide and Fund Financial Statements				
		Fund Statements		
	Government-Wide Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire School District (except fiduciary funds)	The activities of the School District that are not proprietary or fiduciary, such as education, administration, and community services	Activities the School District operates similar to private business - food service and internal services funds	Instances in which the School District is the trustee or agent for someone else's resources - scholarship and activity funds
Required financial statements	Statement of Net Position and Statement of Activities	Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances	Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flow	Statement of Net Position and Statement of Changes in Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow-outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Elizabethtown Area School District

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

Year Ended June 30, 2017

Overview of Financial Statements

Government-Wide Statements

The government-wide statements report information about the School District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and deferred outflows, and liabilities and deferred inflows. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

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

To assess the overall health of the School District, the reader needs to consider additional non-financial factors, such as changes in the School District's property tax base and the performance of the students.

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

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

Fund Financial Statements

The School District's fund financial statements, which begin on page 19, provide detailed information about the most significant funds - not the School District as a whole. Some funds are required by state law and by bond requirements.

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

Elizabethtown Area School District

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

Year Ended June 30, 2017

Overview of Financial Statements (Continued)

Fund Financial Statements (Continued)

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

The School District's other proprietary fund is the internal service fund. This fund is used to facilitate the payments of actual claims incurred by the School District's self-funded medical plan. The School District contracts with a third-party administrator to process all claims and notify the School District on a weekly basis of the dollar amount of claims that are to be paid.

Fiduciary funds - The School District is the trustee, or fiduciary, for some scholarship funds and student activity funds. All of the School District's fiduciary activities are reported in separate statements of net position and changes in net position - fiduciary funds. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations.

Financial Analysis of the School District as a Whole

The School District's total net position was \$(38,572,415) as of June 30, 2017. The negative unrestricted net position is due to GASB 68, *Accounting and Financial Reporting for Pensions*, which requires recognition of an approximate \$96.1 million net pension liability at June 30, 2017, and significant footnote disclosure found in Note 13.

Elizabethtown Area School District

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

Year Ended June 30, 2017

Financial Analysis of the School District as a Whole (Continued)

Table A-1
Fiscal Years Ended June 30, 2017 and 2016
Net Position

	2017			2016		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Current and Other Assets	30,785,284	306,270	31,091,554	16,425,268	387,891	16,813,159
Capital Assets and Other						
Non-Current Assets	<u>70,246,958</u>	<u>2,287</u>	<u>70,249,245</u>	<u>70,397,465</u>	<u>3,063</u>	<u>70,400,528</u>
Total Assets	101,032,242	308,557	101,340,799	86,822,733	390,954	87,213,687
Deferred Outflows of Resources	20,755,530	420,000	21,175,530	8,613,494	153,613	8,767,107
Current and Other						
Liabilities	9,684,009	54,202	9,738,211	8,385,198	192,086	8,577,284
Long-Term Liabilities	<u>148,611,533</u>	<u>1,922,000</u>	<u>150,533,533</u>	<u>120,046,206</u>	<u>1,393,571</u>	<u>121,439,777</u>
Total Liabilities	158,295,542	1,976,202	160,271,744	128,431,404	1,585,657	130,017,061
Deferred Inflows of Resources	801,000	16,000	817,000	513,060	9,085	522,145
Net Position:						
Net Investment in						
Capital Assets	29,832,485	2,287	29,834,772	30,322,899	3,063	30,325,962
Restricted						
For Capital Projects	1,550,385	-0-	1,550,385	1,241,289	-0-	1,241,289
Unrestricted (Deficit)	<u>(68,691,640)</u>	<u>(1,265,932)</u>	<u>(69,957,572)</u>	<u>(65,072,425)</u>	<u>(1,053,238)</u>	<u>(66,125,663)</u>
Total Net Position	(37,308,770)	(1,263,645)	(38,572,415)	(33,508,237)	(1,050,175)	(34,558,412)

Most of the School District's net position is invested in capital assets (buildings, land, and equipment). The remaining unrestricted net position is a combination of designated and undesignated amounts. The deferred inflows and outflows of resources are discussed in Note 1 to the financial statements. The negative unrestricted net position is due to the requirement of the School District to report its proportionate share of the PSERS net pension liability as defined in GASB statement No. 68. Note 13 of these financial statements further explains the defined benefit pension plan.

The results of this year's operations as a whole are reported in the statement of activities on pages 17 and 18. All expenses are reported in the first column. Specific charges, grants, revenues, and subsidies that directly relate to specific expense categories are represented to determine the final amount of the School District's activities that are supported by other general revenues.

Elizabethtown Area School District

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

Year Ended June 30, 2017

Financial Analysis of the School District as a Whole (Continued)

The two largest general revenues are the local real estate taxes assessed to community taxpayers and basic education subsidy provided by the State of Pennsylvania.

Table A-2 takes the information from the statement of activities and rearranges it slightly so that you can see the total revenues for the year.

Table A-2
Fiscal Years Ended June 30, 2017 and 2016
Changes in Net Position

	2017			2016		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Revenues:						
Program Revenues:						
Charges for Services	720,070	697,120	1,417,190	610,120	716,654	1,326,774
Operating Grants and Contributions	9,973,453	824,844	10,798,297	9,299,180	734,459	10,033,639
Capital Grants and Contributions	870,379	-0-	870,379	811,328	-0-	811,328
General Revenues:						
Property Taxes	31,452,838	-0-	31,452,838	29,846,441	-0-	29,846,441
Other Taxes	4,662,356	-0-	4,662,356	4,596,705	-0-	4,596,705
Unrestricted Grants and Subsidies	9,343,377	-0-	9,343,377	9,070,670	-0-	9,070,670
Unrestricted Contributions	940,210	-0-	940,210	930,902	-0-	930,902
Unrestricted Investment Earnings	57,559	120	57,679	23,717	73	23,790
Other General Revenues	<u>191,585</u>	<u>-0-</u>	<u>191,585</u>	<u>82,547</u>	<u>-0-</u>	<u>82,547</u>
Total Revenues	58,211,827	1,522,084	59,733,911	55,271,610	1,451,186	56,722,796
Expenses:						
Instructional Programs	40,631,896	-0-	40,631,896	36,970,908	-0-	36,970,908
Instructional Student Support	3,873,137	-0-	3,873,137	3,361,892	-0-	3,361,892
Administrative, Financial and Central Support Services	7,264,143	-0-	7,264,143	6,345,037	-0-	6,345,037
Operation and Maintenance of Plant Services	5,004,993	-0-	5,004,993	4,656,766	-0-	4,656,766
Pupil Transportation	2,381,862	-0-	2,381,862	2,516,811	-0-	2,516,811
Student Activities	1,210,800	-0-	1,210,800	1,051,480	-0-	1,051,480
Community Services	97,936	-0-	97,936	100,532	-0-	100,532
Interest on Long-Term Debt	1,547,593	-0-	1,547,593	1,288,448	-0-	1,288,448
Food Services	<u>-0-</u>	<u>1,735,554</u>	<u>1,735,554</u>	<u>-0-</u>	<u>1,310,331</u>	<u>1,310,331</u>
Total Expenses	62,012,360	1,735,554	63,747,914	56,291,874	1,310,331	57,602,205
Increase (Decrease) in Net Position	(3,800,533)	(213,470)	(4,014,003)	(1,020,264)	140,855	(879,409)

Elizabethtown Area School District

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

Year Ended June 30, 2017

Financial Analysis of the School District as a Whole (Continued)

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

Table A-3
Fiscal Years Ended June 30, 2017 and 2016
Governmental Activities

	2017		2016	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instructional Programs	40,631,896	32,881,214	36,970,908	29,556,889
Instructional Student Support	3,873,137	3,205,294	3,361,892	2,854,378
Administrative, Financial and Central Support Services	7,264,143	6,657,507	6,345,037	5,950,166
Operation and Maintenance of Plant Services	5,004,993	4,705,020	4,656,766	4,337,461
Pupil Transportation	2,381,862	1,318,517	2,516,811	1,451,009
Student Activities	1,210,800	847,756	1,051,480	672,654
Community Services	97,936	97,936	100,532	96,569
Interest on Long-Term Debt	<u>1,547,593</u>	<u>735,214</u>	<u>1,288,448</u>	<u>652,120</u>
Total Governmental Activities	62,012,360	50,448,458	56,291,874	45,571,246
Unrestricted Grants and Subsidies		<u>(9,343,377)</u>		<u>(9,070,670)</u>
Total Needs from Local Taxes and Other Revenues		41,105,081		36,500,576

Table A-4 reflects the activities of the food service program, the only business-type activity of the School District.

Table A-4
Fiscal Years Ended June 30, 2017 and 2016
Business-Type Activities

	2017		2016	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Food Services	1,735,554	213,590	1,310,331	(140,782)

The statement of revenues, expenses, and changes in net position for this proprietary fund will further detail the actual results of operations.

Elizabethtown Area School District

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

Year Ended June 30, 2017

The School District Funds

As of June 30, 2017, the School District governmental funds reported a combined fund balance of \$22,309,046 which is an increase of \$12.9 million over the previous year. The primary reason for this increase is explained below:

The School District's capital projects fund was increased by \$12.9 million because of bonds issued to finance various capital projects, including renovations at two elementary schools.

General Fund Budget

During the fiscal year, the Board of School Directors (Board) authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the School District. A schedule, showing the School District's original and final budget amounts compared with amounts actually paid and received, is provided on page 62.

Transfers between specific categories of expenditures/financing uses occur during the year. The transfers occur from expenditure categories that were underspent to expenditure categories that were overspent.

The budgetary reserve includes amounts that will be funded by designated fund balance for planned opportunities of expenditures for improvements and enhancements to the School District operations. These amounts will only be appropriated into expenditure categories if the fiscal results of the prior year end with a positive addition to fund balance, which exceeds the total of these projected expenditures. The Board is using this method of budgeting to control tax increases while also protecting the integrity of the fund balance.

Capital Assets and Debt Administration

Capital Assets - Governmental Activities

As of June 30, 2017, the School District had \$70,246,958 invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions, deletions, and depreciation) of \$150,507.

Table A-5
Governmental Activities
Capital Assets - net of Depreciation

	2017	2016
Land and Site Improvements	5,641,463	5,974,562
Building and Building Improvements	60,706,858	62,044,558
Furniture and Equipment	2,063,529	2,243,251
Vehicles	49,427	35,373
Construction in Process	<u>1,785,681</u>	<u>99,721</u>
	70,246,958	70,397,465

Elizabethtown Area School District

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

Year Ended June 30, 2017

Debt Administration

As of July 1, 2016, the School District had a total outstanding bond principal of \$41,770,000. During the year, the School District added to principal in the amount of \$19,520,000 and reduced principal in the amount of \$7,175,000. Current year debt service activity resulted in an ending outstanding debt as of June 30, 2017, of \$54,115,000.

Table A-6
Outstanding Debt

	2017	2016
Issue:		
Series of 2011	-0-	5,235,000
Series of 2012	8,630,000	9,855,000
Series of 2013	9,055,000	9,120,000
Series of 2015	8,720,000	8,780,000
Series of 2015A	8,220,000	8,780,000
Series of 2016	5,380,000	-0-
Series of 2016A	4,585,000	-0-
Series of 2017	<u>9,525,000</u>	<u>-0-</u>
	54,115,000	41,770,000

More detailed information about our long-term debt is included in Note 10 to the financial statements. Information about the School District's operating leases is detailed in Note 11.

Accrued vacation pay, sick leave, and service stipends for specific employees of the School District are detailed in Note 12 of the financial statements.

Economic Factors and Next Year's Budgets and Rates

The School District's general obligation bond rating is a Moody's Aa3. The Aa3 rating is based upon the additional security for bonds provided by the Commonwealth of Pennsylvania Act 150 School District Intercept Program. The Act provides for undistributed state aid to be diverted to bond holders in the event of default. When assigning its rating, Moody's cited the School District's stable tax base, strong financial position with conservative budgeting practices, and low debt burden on market value basis with limited capital needs.

The School District does not expect a significant growth in student population. Despite a good amount of available land, current zoning ordinances discourage residential development. Increases in assessed values have been relatively low in recent years, primarily as a result of the School District being a residential community with few large employers and some properties that qualify as exempt or for preferential assessment under the Clean and Green Act. The School District is authorized by the Local Economic Revitalization Tax Assistance Act (LERTA) to provide tax exemption for new construction in deteriorated areas of economically depressed communities and for improvements to certain deteriorated industrial, commercial, and other business properties to encourage development and job growth within the School District. The wage tax shows a steady annual increase that generally reflects increases at or slightly above the CPI, an indication that employment opportunities are available for residents of our School District.

Elizabethtown Area School District

MANAGEMENT'S DISCUSSION and ANALYSIS

(Continued)

Year Ended June 30, 2017

Economic Factors and Next Year's Budgets and Rates (Continued)

In the 2017-2018 budget, the School District increased expenditures by 3.37% from the previous year's budget. The largest increase in expenditures, \$2,244,297, was in instructional services and primarily in the area of salaries and benefits. Benefits increased mainly due to the increase in the PSERS rate from 30.03% to 32.57% of total salaries. Debt service is funded at the maximum needed level of \$3,997,692.

Budgeted revenue for the 2017-2018 school year is 2.65% higher than the previous fiscal year actual revenue and expects to use \$1,300,000 of fund balance. The millage rate for 2017-2018 is 20.845, which is 4.75% higher than the previous year. Local revenue continues to provide the majority of funding for School District expenses as noted on page 10.

The comparison of revenue and expenditure categories is as follows:

**Table A-7
Budgeted Revenues**

	2017-2018	2016-2017
Local Sources	67.0%	66.4%
State Sources	32.0%	31.4%
Federal Sources	1.0%	2.2%

Budgeted Expenditures

	2017-2018	2016-2017
Instruction	63.5%	62.6%
Support Services	27.7%	28.6%
Non-Instruction/Community	1.9%	2.1%
Fund Transfers/Debt	6.9%	6.7%

Contacting the School District Business Administrator

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the School District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact George M. Longridge, Business Manager, **Elizabethtown Area School District**, 600 East High Street, Elizabethtown, PA 17022.

Elizabethtown Area School District

STATEMENT of NET POSITION

June 30, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 9,903,771	\$ 113,306	\$ 10,017,077
Restricted Cash	577,970	-0-	577,970
Investments	15,868,485	-0-	15,868,485
Taxes Receivable, net	1,484,368	-0-	1,484,368
Internal Balances	49,407	(49,407)	-0-
Due from Other Governments	2,386,776	101,455	2,488,231
Other Receivables	106,793	10	106,803
Prepaid Expenses	256,179	-0-	256,179
Inventories	<u>151,535</u>	<u>140,906</u>	<u>292,441</u>
Total Current Assets	30,785,284	306,270	31,091,554
Capital Assets			
Non-Depreciable	2,881,394	-0-	2,881,394
Depreciable, net	<u>67,365,564</u>	<u>2,287</u>	<u>67,367,851</u>
Total Capital Assets	<u>70,246,958</u>	<u>2,287</u>	<u>70,249,245</u>
TOTAL ASSETS	<u><u>101,032,242</u></u>	<u><u>308,557</u></u>	<u><u>101,340,799</u></u>
DEFERRED OUTFLOWS of RESOURCES			
Loss on Bond Refunding, net of Accumulated Amortization	160,530	-0-	160,530
Pension	<u>20,595,000</u>	<u>420,000</u>	<u>21,015,000</u>
TOTAL DEFERRED OUTFLOWS of RESOURCES	<u><u>\$ 20,755,530</u></u>	<u><u>\$ 420,000</u></u>	<u><u>\$ 21,175,530</u></u>

See notes to financial statements.

Elizabethtown Area School District

STATEMENT of NET POSITION

(Continued)

June 30, 2017

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 1,142,836	\$ 180	\$ 1,143,016
Current Portion of Long-Term Debt	2,100,000	-0-	2,100,000
Accrued Salaries and Benefits	5,136,611	1,634	5,138,245
Compensated Absences			
Due Within One Year	90,544	-0-	90,544
Accrued Interest on Long-Term Debt	247,836	-0-	247,836
Payroll Deductions and Withholdings	337,868	-0-	337,868
Unearned Revenues	75,886	52,388	128,274
Due to Other Governments	256,211	-0-	256,211
Other Current Liabilities	296,217	-0-	296,217
	<hr/>	<hr/>	<hr/>
Total Current Liabilities	9,684,009	54,202	9,738,211
Noncurrent Liabilities			
Long-Term Portion of Bonds Payable, net of Unamortized Premium	52,521,294	-0-	52,521,294
Long Term Portion of Compensated Absences	1,087,666	-0-	1,087,666
Net Pension Liability	94,169,000	1,922,000	96,091,000
Net Other Postemployment Benefit Liabilities	833,573	-0-	833,573
	<hr/>	<hr/>	<hr/>
Total Noncurrent Liabilities	148,611,533	1,922,000	150,533,533
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	158,295,542	1,976,202	160,271,744
	<hr/>	<hr/>	<hr/>
DEFERRED INFLOWS of RESOURCES - PENSION	801,000	16,000	817,000
	<hr/>	<hr/>	<hr/>
NET POSITION			
Net Investment in Capital Assets	29,832,485	2,287	29,834,772
Restricted for:			
Capital Projects	1,550,385	-0-	1,550,385
Unrestricted (Deficit)	(68,691,640)	(1,265,932)	(69,957,572)
	<hr/>	<hr/>	<hr/>
TOTAL NET POSITION	\$ (37,308,770)	\$ (1,263,645)	\$ (38,572,415)

See notes to financial statements.

Elizabethtown Area School District

STATEMENT of ACTIVITIES

Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenue			Net Revenue (Expense) 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	\$ 40,631,896	\$ 432,910	\$ 7,317,772	\$ -0-	\$ (32,881,214)	\$ -0-	\$ (32,881,214)
Instructional Student Support	3,873,137	-0-	667,843	-0-	(3,205,294)	-0-	(3,205,294)
Administrative, Financial and Central Support Services	7,264,143	28,335	578,301	-0-	(6,657,507)	-0-	(6,657,507)
Operation and Maintenance of Plant Services	5,004,993	31,931	268,042	-0-	(4,705,020)	-0-	(4,705,020)
Pupil Transportation	2,381,862	-0-	1,063,345	-0-	(1,318,517)	-0-	(1,318,517)
Student Activities	1,210,800	226,894	78,150	58,000	(847,756)	-0-	(847,756)
Community Services	97,936	-0-	-0-	-0-	(97,936)	-0-	(97,936)
Interest on Long-Term Debt	<u>1,547,593</u>	<u>-0-</u>	<u>-0-</u>	<u>812,379</u>	<u>(735,214)</u>	<u>-0-</u>	<u>(735,214)</u>
Total Governmental Activities	62,012,360	720,070	9,973,453	870,379	(50,448,458)	-0-	(50,448,458)
Business-Type Activities:							
Food Services	<u>1,735,554</u>	<u>697,120</u>	<u>824,844</u>	<u>-0-</u>	<u>-0-</u>	<u>(213,590)</u>	<u>(213,590)</u>
Total Primary Government	<u>\$ 63,747,914</u>	<u>\$ 1,417,190</u>	<u>\$ 10,798,297</u>	<u>\$ 870,379</u>	<u>\$ (50,448,458)</u>	<u>\$ (213,590)</u>	<u>\$ (50,662,048)</u>

See notes to financial statements.

Elizabethtown Area School District

STATEMENT of ACTIVITIES

(Continued)

Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenue			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes, net					\$ 31,452,838	\$ -0-	\$ 31,452,838
Public Utility Realty, Earned Income, and other Taxes Levied for General Purposes, net					4,662,356	-0-	4,662,356
Unrestricted Grants and Subsidies					9,343,377	-0-	9,343,377
Unrestricted Contributions					940,210	-0-	940,210
Unrestricted Investment Earnings					57,559	120	57,679
Other General Revenues					191,585	-0-	191,585
					<u>46,647,925</u>	<u>120</u>	<u>46,648,045</u>
					(3,800,533)	(213,470)	(4,014,003)
CHANGES in NET POSITION							
NET POSITION							
Beginning					<u>(33,508,237)</u>	<u>(1,050,175)</u>	<u>(34,558,412)</u>
Ending					<u>\$ (37,308,770)</u>	<u>\$ (1,263,645)</u>	<u>\$ (38,572,415)</u>

See notes to financial statements.

Elizabethtown Area School District

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2017

	Major Funds			Total Governmental Funds
	General Fund	Capital Projects Fund	Debt Service Fund	
ASSETS				
Cash and Cash Equivalents	\$ 3,462,901	\$ 5,764,670	\$ -0-	\$ 9,227,571
Restricted Cash	-0-	577,970	-0-	577,970
Investments	5,689,721	10,174,763	-0-	15,864,484
Taxes Receivable, net	1,484,368	-0-	-0-	1,484,368
Due from Other Funds	28,453	1,366	-0-	29,819
Due from Other Governments	2,386,776	-0-	-0-	2,386,776
Other Receivables	79,163	-0-	-0-	79,163
Prepaid Expenses	38,059	-0-	-0-	38,059
Inventories	151,535	-0-	-0-	151,535
	13,320,976	16,518,769	-0-	29,839,745
TOTAL ASSETS				
LIABILITIES, DEFERRED INFLOWS of RESOURCES, and FUND BALANCES				
LIABILITIES				
Accounts Payable	220,743	922,093	-0-	1,142,836
Due to Other Funds	132,846	-0-	-0-	132,846
Accrued Salaries and Benefits	5,136,611	-0-	-0-	5,136,611
Payroll Deductions and Withholdings	337,868	-0-	-0-	337,868
Payable to Other Governments	256,211	-0-	-0-	256,211
Unearned Revenue	75,886	-0-	-0-	75,886
	6,160,165	922,093	-0-	7,082,258
TOTAL LIABILITIES				
DEFERRED INFLOWS of RESOURCES				
Delinquent Taxes	448,441	-0-	-0-	448,441
FUND BALANCES				
Nonspendable	189,594	-0-	-0-	189,594
Restricted	-0-	15,596,676	-0-	15,596,676
Committed	1,000,000	-0-	-0-	1,000,000
Assigned	2,354,600	-0-	-0-	2,354,600
Unassigned	3,168,176	-0-	-0-	3,168,176
	6,712,370	15,596,676	-0-	22,309,046
TOTAL FUND BALANCES				
TOTAL LIABILITIES, DEFERRED INFLOWS of RESOURCES, and FUND BALANCES				
	\$ 13,320,976	\$ 16,518,769	\$ -0-	\$ 29,839,745

See notes to financial statements.

Elizabethtown Area School District
 RECONCILIATION of the GOVERNMENTAL FUNDS BALANCE SHEET
 to the STATEMENT of NET POSITION
 June 30, 2017

Total Fund Balances - Governmental Funds \$ 22,309,046

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds. The cost of assets is \$100,199,341 and the accumulated depreciation is \$29,952,383. 70,246,958

Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position. 782,168

Property taxes are available for collection this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds. 448,441

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

Bonds Payable	(54,115,000)
Accrued Interest on Long-Term Debt	(247,836)
Deferred Outflows of Resources - Loss on Bond Refunding	160,530
Bond Premium, net of Amortization	(506,294)
Compensated Absences	(1,178,210)
Net Other Postemployment Benefit Liabilities	(833,573)
Net Pension Liability	(94,169,000)
Deferred Inflows of Resources - Pension	(801,000)
Deferred Outflows of Resources - Pension	<u>20,595,000</u>

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES \$ (37,308,770)

See notes to financial statements.

Elizabethtown Area School District

STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2017

	Major Funds			Total Governmental Funds
	General Fund	Capital Projects Fund	Debt Service Fund	
REVENUES				
Local Sources:				
Real Estate Taxes	\$ 32,460,143	\$ -0-	\$ -0-	\$ 32,460,143
Other Taxes	4,662,356	-0-	-0-	4,662,356
Investment Earnings	43,678	13,246	-0-	56,924
Other Revenue	826,191	1,366	-0-	827,557
Total Local Sources	37,992,368	14,612	-0-	38,006,980
State Sources	18,715,262	-0-	-0-	18,715,262
Federal Sources	1,404,923	-0-	-0-	1,404,923
Total Revenues	58,112,553	14,612	-0-	58,127,165
EXPENDITURES				
Instructional Services	36,774,807	-0-	-0-	36,774,807
Support Services	16,783,361	74,124	-0-	16,857,485
Noninstructional Services	1,207,070	-0-	-0-	1,207,070
Capital Outlay	-0-	1,774,125	-0-	1,774,125
Debt Service	-0-	-0-	3,142,648	3,142,648
Bond Issuance Costs	-0-	220,131	93,853	313,984
Total Expenditures	54,765,238	2,068,380	3,236,501	60,070,119
EXCESS (DEFICIENCY) of REVENUES OVER EXPENDITURES	3,347,315	(2,053,768)	(3,236,501)	(1,942,954)
OTHER FINANCING SOURCES (USES)				
Refund of Prior Year Expenditures	160,297	-0-	-0-	160,297
Proceeds of Refunding Debt	-0-	-0-	5,410,000	5,410,000
Payment to Refunded Bond Escrow Agent	-0-	-0-	(5,230,000)	(5,230,000)
Issuance of Debt	-0-	14,110,000	-0-	14,110,000
Premium on Issuance of Debt	-0-	486,920	9,815	496,735
Transfers In (Out)	(3,404,686)	358,000	3,046,686	-0-
Refund of Prior Year Receipts	(9,228)	-0-	-0-	(9,228)
Net Other Financing Sources (Uses)	(3,253,617)	14,954,920	3,236,501	14,937,804
NET CHANGES in FUND BALANCES	93,698	12,901,152	-0-	12,994,850
FUND BALANCES				
Beginning	6,665,781	2,695,524	-0-	9,361,305
Inventory Adjustment	(47,109)	-0-	-0-	(47,109)
Ending	\$ 6,712,370	\$ 15,596,676	\$ -0-	\$ 22,309,046

See notes to financial statements.

Elizabethtown Area School District

RECONCILIATION of the GOVERNMENTAL FUNDS STATEMENT of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES to the STATEMENT of ACTIVITIES Year Ended June 30, 2017

Net Changes in Fund Balances - Total Governmental Funds \$ 12,994,850

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. The amount by which depreciation exceeds capital outlays in the period is as follows:

Depreciation Expense	(1,983,074)	
Capital Outlays	1,832,567	(150,507)

Because some property taxes will not be collected for several months after the School District's fiscal year ends, they are not considered available revenues in the governmental funds. Deferred tax revenues changed by this amount this year. (67,095)

The issuance of long-term obligations (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term obligations consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term obligations and related items.

Issuance of general obligation bonds	(19,520,000)	
Premiums on bonds issued during the current year	(496,735)	
Amortization of deferred losses on refunded bonds	(11,062)	
Amortization of premiums and discounts	(228,695)	(20,256,492)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 7,175,000

In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is reported when due. (16,335)

In the statement of activities, certain operating expenses (e.g., compensated absences) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used. \$ (23,221)

See notes to financial statements.

Elizabethtown Area School District

RECONCILIATION of the GOVERNMENTAL FUNDS STATEMENT of REVENUES,
EXPENDITURES, and CHANGES in FUND BALANCES to
the STATEMENT of ACTIVITIES
(Continued)
Year Ended June 30, 2017

The accrued postemployment benefit is recorded as a liability in the government-wide financial statements but not in the fund financial statements. This amount represents the change in the accrued postemployment benefit for the year.	\$ (195,097)
The internal service funds, which are used by management to charge the costs of services to individual funds, are not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net expense of the internal service funds is allocated among the governmental activities.	414,689
The governmental fund follow the purchase method of inventory. However the statement of net position uses the consumption method of inventory.	(47,109)
In the statement of activities, pension expense is recognized as the cost of benefits earned net of participant contributions. In the governmental funds, pension expense is recorded when required contributions are payable. This is the amount by which pension expense exceeds employer contributions to the plan.	<u>(3,629,216)</u>
CHANGES in NET POSITION of GOVERNMENTAL ACTIVITIES	<u>\$ (3,800,533)</u>

See notes to financial statements.

Elizabethtown Area School District

STATEMENT of NET POSITION -

PROPRIETARY FUNDS

June 30, 2017

	Major Fund		Enterprise Fund		Internal
	Food Service		Fund		Service Fund
ASSETS					
Current Assets					
Cash and Cash Equivalents	\$	113,306		\$	676,200
Investments		-0-			4,001
Due from Other Funds		82,978			155,113
Due from Other Governments		101,455			-0-
Other Receivables		10			24,951
Inventories		140,906			-0-
Prepaid Expenses		-0-			218,120
		438,655			1,078,385
Total Current Assets					
Capital Assets					
Depreciable, net		2,287			-0-
		440,942			1,078,385
TOTAL ASSETS					
DEFERRED OUTFLOWS of RESOURCES - PENSION					
		420,000			-0-
LIABILITIES					
Current Liabilities					
Accounts Payable		180			296,217
Due to Other Funds		132,385			-0-
Other Payables		1,634			-0-
Unearned Revenues		52,388			-0-
		186,587			296,217
TOTAL CURRENT LIABILITIES					
Noncurrent Liabilities					
Net Pension Liability		1,922,000			-0-
		2,108,587			296,217
TOTAL LIABILITIES					
DEFERRED INFLOWS of RESOURCES - PENSION					
		16,000			-0-
NET POSITION					
Net Investment in Capital Assets		2,287			-0-
Unrestricted (Deficit)		(1,265,932)			782,168
		\$ (1,263,645)			\$ 782,168
TOTAL NET POSITION					

See notes to financial statements.

Elizabethtown Area School District
STATEMENT of REVENUES, EXPENSES, and CHANGES in NET POSITION -
PROPRIETARY FUNDS
Year Ended June 30, 2017

	Major Fund	
	Enterprise Fund	Internal Service Fund
	Food Service Fund	Fund
OPERATING REVENUES		
Food Service Revenue	\$ 697,120	\$ -0-
Charges for Services	-0-	7,204,416
Total Operating Revenues	697,120	7,204,416
OPERATING EXPENSES		
Salaries	463,269	-0-
Employee Benefits	568,882	5,923,638
Other Purchased Services	1,303	-0-
Repairs and Maintenance	18,669	-0-
Supplies	667,235	-0-
Insurance Expense	-0-	866,724
Depreciation	776	-0-
Other Operating Expenses	15,420	-0-
Total Operating Expenses	1,735,554	6,790,362
OPERATING INCOME (LOSS)	(1,038,434)	414,054
NONOPERATING REVENUES		
Investment Earnings	120	635
State Sources	125,029	-0-
Federal Sources	699,815	-0-
Net Nonoperating Revenues	824,964	635
CHANGES in NET POSITION	(213,470)	414,689
NET POSITION		
Beginning	(1,050,175)	367,479
Ending	\$ (1,263,645)	\$ 782,168

See notes to financial statements.

Elizabethtown Area School District

STATEMENT of CASH FLOWS -

PROPRIETARY FUNDS

Year Ended June 30, 2017

	<u>Major Fund</u>	
	<u>Enterprise Fund</u>	
	Food Service Fund	Internal Service Fund
CASH FLOWS from OPERATING ACTIVITIES		
Cash Received from Users	\$ 694,266	\$ -0-
Cash Received from Assessments Made to Other Funds	-0-	7,318,348
Cash Payments to Employees for Services	(761,560)	-0-
Cash Payments to Suppliers for Goods and Services	<u>(671,690)</u>	<u>(6,839,119)</u>
Net Cash Provided (Used) by Operating Activities	(738,984)	479,229
CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES		
State Sources	119,764	-0-
Federal Sources	<u>513,882</u>	<u>-0-</u>
Net Cash Provided by Noncapital Financing Activities	633,646	-0-
CASH FLOWS from INVESTING ACTIVITIES		
Investment Earnings	120	635
Purchase of Investments	<u>-0-</u>	<u>(193)</u>
Net Cash Provided by Investing Activities	120	442
INCREASE (DECREASE) in CASH and CASH EQUIVALENTS	(105,218)	479,671
CASH and CASH EQUIVALENTS		
Beginning of Year	<u>218,524</u>	<u>196,529</u>
End of Year	<u>\$ 113,306</u>	<u>\$ 676,200</u>

See notes to financial statements.

Elizabethtown Area School District

STATEMENT of CASH FLOWS -

PROPRIETARY FUNDS

(Continued)

Year Ended June 30, 2017

	<u>Major Fund</u>	
	<u>Enterprise Fund</u>	
	Food Service Fund	Internal Service Fund
RECONCILIATION of OPERATING INCOME (LOSS) to NET CASH PROVIDED (USED) by OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (1,038,434)	\$ 414,054
ADJUSTMENTS to RECONCILE OPERATING INCOME (LOSS) to NET CASH PROVIDED (USED) by OPERATING ACTIVITIES		
Depreciation	776	-0-
Use of USDA Commodities	110,057	-0-
(Increase) Decrease in:		
Interfund Receivable	37,774	113,932
Inventory	8,136	-0-
Other Current Assets	(81,141)	249,872
(Decrease) Increase in:		
Accounts Payable	21	(298,629)
Accrued Salaries and Benefits	1,634	
Interfund Payable	(125,051)	-0-
Unearned Revenue	(2,854)	-0-
Pension - Related Changes Other than Periodic Pension Costs	350,098	-0-
Total Adjustments	<u>299,450</u>	<u>65,175</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (738,984)</u>	<u>\$ 479,229</u>

SUPPLEMENTAL DISCLOSURE of CASH FLOW INFORMATION

**NONCASH NONCAPITAL and RELATED
FINANCING ACTIVITIES**

Receipt of USDA Donated Commodities	110,057	-0-
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See notes to financial statements.

Elizabethtown Area School District

STATEMENT of NET POSITION -

FIDUCIARY FUNDS

June 30, 2017

	Private Purpose Trust	Student Activities
ASSETS		
Cash and Cash Equivalents	\$ 207,928	\$ 99,525
Investments	249,427	-0-
Due from Other Funds	<u>-0-</u>	<u>2,476</u>
TOTAL ASSETS	<u>457,355</u>	<u>102,001</u>
LIABILITIES		
Accounts Payable	11,100	6,013
Due to Other Funds	-0-	5,155
Due to Student Groups	<u>-0-</u>	<u>90,833</u>
TOTAL LIABILITIES	11,100	102,001
NET POSITION		
Held in Trust for Scholarships	127,020	-0-
Held in Trust for Health Programs	383	-0-
Endowments	<u>318,852</u>	<u>-0-</u>
TOTAL NET POSITION	<u>446,255</u>	<u>-0-</u>
TOTAL LIABILITIES and NET POSITION	<u>\$ 457,355</u>	<u>\$ 102,001</u>

See notes to financial statements.

Elizabethtown Area School District

STATEMENT of CHANGES in NET POSITION -

FIDUCIARY FUNDS

Year Ended June 30, 2017

	Private Purpose Trust
ADDITIONS	
Gifts and Contributions	\$ 19,629
Investment Earnings	<u>1,657</u>
Total Additions	21,286
DEDUCTIONS	
Scholarships Awarded	<u>16,650</u>
CHANGES in NET POSITION	4,636
NET POSITION	
Beginning	<u>441,619</u>
Ending	<u>\$ 446,255</u>

See notes to financial statements.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES

Elizabethtown Area School District (the School District), located in Lancaster County, Pennsylvania, provides a full range of educational services appropriate to grade levels kindergarten through 12 to students living in Elizabethtown Borough and Mount Joy, West Donegal, and Conoy Townships. These include regular, advanced academic, vocational education programs, and special education programs for gifted and handicapped children. The governing body of the School District is a board of nine school directors who are each elected for a four-year term. The daily operation and management of the School District is carried out by the administrative staff of the School District, headed by the Superintendent of Schools who is appointed by the Board of School Directors. The School District is comprised of four elementary schools, one middle school, one intermediate school, and one high school, serving approximately 4,000 students.

The accounting policies of **Elizabethtown Area School District** conform with accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting policies are as follows:

Reporting Entity

Consistent with guidance contained in Statement No. 14 of the GASB, *The Financial Reporting Entity*, and as amended, the criteria used by the School District to evaluate the possible inclusion of related entities (authorities, boards, councils, and so forth) within its reporting entity are financial accountability and the nature and significance of the relationship. In determining financial accountability in a given case, the School District reviews the applicability of the following criteria:

The School District is financially accountable for:

1. Organizations that make up its legal entity.
2. Legally separate organizations if School District officials appoint a voting majority of the organization's governing body and the School District is able to impose its will on the organization or if there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the School District as defined below.

Impose its Will - If the School District can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.

Financial Benefit or Burden - If the School District (1) is entitled to the organization's resources or (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization or (3) is obligated in some manner for the debt of the organization.

3. Organizations which are fiscally dependent on the School District and have a financial benefit or burden as defined above. Fiscal dependency is established if the organization is unable to adopt its own budget, levy taxes or set rates or charges, or issue bonded debt without the approval of the School District.

Based on the foregoing criteria, no additional entities are included in the accompanying general purpose financial statements.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint Ventures

Lancaster County Career and Technology Center

The School District is one of 16 member school districts of the Lancaster County Career and Technology Centers (LCCTC). LCCTC provides vocational-technical training and education to participating students of the member school districts. LCCTC is controlled and governed by the Area Career and Technology Center Board for Lancaster County, which is comprised of school board members of all the member school districts. No member school district exercises specific control over the fiscal policies or operations of LCCTC. The LCCTC is not reported as part of the School District's reporting entity. The School District's share of annual operating costs for LCCTC fluctuates, based upon the percentage of enrollment of each member school district. The amount paid for these services for the year ended June 30, 2017, was approximately \$882,282. Complete general purpose financial statements for LCCTC can be obtained from the Administrative Office at 1730 Hans Herr Drive, P.O. Box 527, Willow Street, PA 17584.

Lancaster County Career and Technology Center Authority

The School District is also a member of the Lancaster County Career and Technology Center Authority (Authority). In 1968, the Authority entered into an agreement with the member school districts and the Career and Technology Center Board to acquire land and construct buildings to provide the facilities for the operation of LCCTC. The School District entered into an operating lease with LCCTC and the Authority as described in Note 11. Complete general purpose financial statements for the Authority can be obtained from the Administrative Office at 1730 Hans Herr Drive, P.O. Box 527, Willow Street, PA 17584.

Lancaster-Lebanon Joint Authority

The School District is a member of the Lancaster-Lebanon Joint Authority (Authority). The Authority was incorporated on February 14, 1980, under the Municipality Authorities Act of 1945, Act of May 2, 1945, P. L. 382, as amended, by the Boards of School Directors of the 22 school districts located in Lancaster and Lebanon counties. The school districts established the Authority for the purposes of acquiring, holding, constructing, improving, maintaining, operating, owning and/or leasing projects for public school purposes and for the purposes of the Lancaster-Lebanon Intermediate Unit No. 13. The Authority is not reported as part of the School District's reporting entity. The School District did not have any financial transactions with the Authority during the year ended June 30, 2017. Complete general purpose financial statements for the Authority can be obtained from the Administrative Office at 1020 New Holland Pike, Lancaster, PA 17601.

Lancaster-Lebanon Intermediate Unit (LLIU)

The LLIU Board of Directors consists of 22 members from the IU's constituent school districts. The LLIU Board members are school district board members who are elected by the public and are appointed to the LLIU Board by the member school districts' boards of directors. **Elizabethtown Area School District** is responsible for appointing one of these members. The LLIU Board has decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. **Elizabethtown Area School District** contracts with the LLIU for special education services for School District students. The amount paid for services for the year ended June 30, 2017, was approximately \$2,450,000. Complete financial information for LLIU can be obtained from the Administrative Office at 1020 New Holland Pike, Lancaster, PA 17601.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint Ventures (Continued)

Lancaster County Academy (Academy)

The School District participates with 11 other school districts in Lancaster County. Each public school district appoints one member to serve on the joint operating committee. As a member district, the school district has an ongoing financial responsibility to fund the operations of the Academy. The School District's portion of the operating expenditures for the year ended June 30, 2017, was \$38,880. Complete financial information for the Academy can be obtained from the Administrative Office at 1202 Park City Center, Lancaster, PA 17601.

Lancaster County Tax Collection Bureau (Bureau)

The School District participates with 16 other school districts and the municipalities represented by those school districts for the collection of earned income taxes. Each public school district appoints one member to serve on the joint operating committee and 16 members are appointed by the participating municipalities. The Bureau's operating expenditures are deducted from the distributions which are made monthly. The School District's portion of the operating expenditures for the year ended June 30, 2017, was \$67,226. Complete financial information for the Bureau can be obtained from the Administrative Office at 1845 William Penn Way, Lancaster, PA 17601.

Greater Elizabethtown Area Recreation and Community Services (GEARS)

The Greater Elizabethtown Area Recreation and Community Services (GEARS) was formed to provide recreational, continuing education, and social-service activities/programs for the children, youth, and adults of the participating municipalities in a fiscally responsible manner. GEARS is composed of a twelve-member board with three members from each of the following four entities: **Elizabethtown Area School District**, Borough of Elizabethtown, Mount Joy Township, and West Donegal Township. GEARS is not reported as part of the School District's reporting entity. For the year ended June 30, 2017, the School District provided \$25,032 of financial support to GEARS. Complete financial statements for GEARS can be obtained from the GEARS office at the Elizabethtown Area Middle School at 600 East High Street, Elizabethtown, PA 17022.

Basis of Presentation - Fund Accounting

The accounts of the School District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts comprising each fund's assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures/expenses. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent.

Basis of Presentation - Financial Statements

Government-wide Financial Statements

The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Financial Statements (Continued)

Government-wide Financial Statements (Continued)

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents direct expenses and program revenues for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for nonmajor funds. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

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

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

Fiduciary funds are reported using the economic resources measurement focus.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

The School District reports the following major governmental funds:

General Fund - The general fund is the principal 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 Project Fund - This fund is used to account for all financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. This fund includes the capital reserve fund and any bond construction funds held by the School District.

Debt Service Fund - This fund is used to account for the accumulation of resources for and the payment of general long-term debt principal and interest.

The School District reports the following proprietary funds:

Food Service Fund - This major fund accounts for the revenues, food purchases, and other costs and expenses of providing meals to students during the school year.

Internal Service Fund - This fund is used to account for health insurance premiums and claims which are services provided to the School District employees as benefits.

The School District accounts for assets held by the School District in a trustee capacity in a private purpose trust fund. This fund accounts for the receipts and disbursement of monies contributed to the School District for scholarships, and to provide materials for health-related programs.

The agency fund is used to account for assets held by the School District as agent for others. Agency funds are custodial in nature and do not involve measurement of results of operations. This fund includes the student activities fund.

Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

Government-wide, proprietary, and fiduciary fund financial statements measure and report all assets, liabilities, deferred inflows and outflows of resources, revenues, expenses, gains, and losses using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

The modified accrual basis of accounting is followed by the governmental funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the School District is considered to be 60 days after fiscal year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except debt service, compensated absence, pension and other postemployment benefits payments, which are recognized when due.

Under the modified accrual basis, the following revenue sources are considered susceptible to accrual at year end: property taxes, tuition, grants and entitlements, student fees, and interest on investments. Current property taxes measurable at June 30, 2017, which are not intended to finance fiscal 2017 operations, have been recorded as deferred inflows of resources. Delinquent property taxes measurable and available (received within 60 days) are recognized as revenues at year end.

The accrual basis of accounting is utilized for reporting purposes by the government-wide financial statements, proprietary funds, and the fiduciary funds. Revenues are recognized when they are earned and expenses are recognized when incurred.

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with the fund’s principal ongoing operations. The principal operating revenues of the School District’s food service fund are charges to students and staff for food. Operating expenses include the costs to provide food. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When amounts are available in multiple fund balance classifications, it is the School District’s policy to use funds in the following order: restricted, committed, assigned, and unassigned.

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand and interest-bearing bank deposits. They are carried at cost plus accrued interest, which approximates fair value.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

The School District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Investments with remaining maturities at the time of purchase of one year or less are stated at amortized cost which approximates fair value. The securities of 2a-7-like investment pools are valued at amortized cost, which approximates fair value of the pool.

Taxes Receivable and Deferred Inflows of Tax Revenues

The portion of delinquent real estate taxes receivable that is expected to be received within 60 days of June 30 is recorded as revenue in the current year. The remaining amount of those and other taxes receivable is recorded as deferred inflows of resources. All taxes receivable are considered to be fully collectible (Note 4).

Inventories

On the government-wide financial statements, inventories are presented at the lower of cost or market on a first in/first-out (FIFO) basis and are expensed when used.

Inventories in governmental funds represent the estimated cost using the first-in/first-out (FIFO) method of supplies on hand at June 30, 2017. The costs of inventory items are recorded as expenditures in the governmental funds when purchased. The inventory cost has been recorded as an asset in the governmental funds, offset by fund balance classified as nonspendable in an equal amount.

Inventories in the food service fund represent the cost using the first-in/first-out (FIFO) method of food and supplies on hand at June 30, 2017, including the value of commodities donated by the federal government. Any unused commodities donated by the federal government are reported as deferred revenue until used.

Capital Assets and Depreciation

The School District's property, plant, and equipment with useful lives of more than one year are stated at historical cost (or estimated historical cost) and comprehensively reported in the government-wide financial statements. Proprietary fund capital assets are also reported in their fund financial statements. Donated assets are stated at acquisition value on the date donated. The School District capitalizes assets with an individual cost of \$5,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed of, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Depreciation

Estimated historical costs of capital assets were derived, when information supporting historical costs was not obtainable, by adjusting current replacement cost back to the estimated year of acquisition. Estimated useful lives, in years, for depreciable assets are generally as follows:

Building	50 - 100 Years
Building Improvements	15 - 30 Years
Land Improvements	50 Years
Furniture	10 - 25 Years
Equipment	5 - 25 Years
Vehicles	3 - 15 Years

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. They are recharacterized as gains or losses on bond refinancing in the event that debt is refinanced. Amortization continues over the life of the new or refinanced debt, whichever is shorter.

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

Compensated Absences

The School District accrues unused vacation and sick leave as a liability. Upon termination or retirement, the employee will be paid for these accumulated absences in accordance with School District policy. The School District also accrues service stipends to be paid out at retirement in accordance with School District policy.

Vacation and sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive severance benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated vacation and sick leave and employees' wage rates at year end, taking into consideration any limits specified in the School District's severance policy. For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected.

Payments for compensated absences are contributed into a 403(b) tax sheltered annuity account.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration and project control in the general fund. As of June 30, 2017, the School District had no encumbrances.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pension Plan

Substantially all full-time and qualifying part-time employees of the School District participate in a cost-sharing multiple-employer defined benefit pension plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Interfund Activity

Exchange transactions between governmental funds are eliminated on the government-wide statements.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Fund Balance Classification

Fund balance for the governmental funds can be classified in five different categories: nonspendable, restricted, committed, assigned, and unassigned.

Nonspendable fund balance includes amounts that are not in a spendable form or are required to be maintained intact.

Restricted fund balance includes amounts that can be spent only for specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. Restrictions may be changed only with the consent of the resource providers.

Committed fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the School Board. Commitments may be changed only by the School District taking the same formal action that imposed the constraint originally.

Assigned fund balance comprises amounts intended to be used by the government for specific purposes. Intent can be expressed by the Business Manager or designee.

In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned fund balance is the residual classification for the general fund and includes all amounts available for consumption or not restricted in any manner.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classification (Continued)

The School District's policy is to first apply restricted fund balance, then committed, assigned, and unassigned, respectively when an expenditure is incurred for purposes for which amounts in any of these classifications could be used.

The School District has adopted a formal minimum fund balance policy. The School District will strive to maintain an unassigned general fund balance of approximately 5% to 8% of the budgeted expenditures for that fiscal year. The total fund balance, including committed, assigned or unassigned categories may exceed 8% of the budgeted expenditures for that fiscal year.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates used in preparation of these financial statements include depreciation, compensated absences, allowance for uncollectible taxes, claims incurred but not reported, pension related items, and other postemployment benefits.

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2017.

Current Year Changes in Accounting Principles

During the current year, the School District adopted GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and accountability.

During the current year, the School District adopted GASB Statement No. 77, *Tax Abatement Disclosures*. The objective of this statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs in order to better assess (a) whether current-year revenues were sufficient to pay for current-year services, (b) compliance with finance-related legal or contractual requirements, (c) where a government's financial resources come from and how it uses them, and (d) financial position and economic condition and how they have changed over time. As a result of implementation, the School District has provided disclosures regarding tax abatement programs.

During the current year, the School District adopted GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Current Year Changes in Accounting Principles (Continued)

During the current year, the School District adopted GASB Statement No. 80, *Blending Requirements for Certain Component Units*. The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The statement amends GASB Statement No. 14, *The Financial Reporting Entity*, by specifying that a component unit should be included in the reporting entity using the blending method if the component unit is organized as a not-for-profit corporation, the primary government is the sole corporate member, and the component unit is included in the financial reporting entity pursuant to the provisions of paragraphs 21 through 37 of GASB Statement No. 14.

During the current year, the School District adopted GASB Statement No. 82, *Pension Issues - an Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The School District's beginning balances and current year results were not affected by the implementation of these standards.

Pending Changes in Accounting Principles

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The objective of this statement is to improve accounting and financial reporting for state and local governments for postemployment benefits other than pensions (OPEB). The provisions of this statement are effective for the School District's June 30, 2018 financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions of this statement are effective for the School District's June 30, 2018 financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. The objective of this statement is to provide financial statement users with information about asset retirement obligations (AROs) that were not addressed in GASB standards by establishing uniform accounting and financial reporting requirements for these obligations. An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The provisions of this statement are effective for the School District's June 30, 2019 financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how these activities should be reported. The provisions of this statement are effective for the School District's June 30, 2020 financial statements.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 1 - SUMMARY of SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pending Changes in Accounting Principles (Continued)

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements. The statement addresses a variety of topics including blending component units, goodwill, fair value measurement and application, and postemployment benefits. The provisions of this statement are effective for the School District's June 30, 2018 financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt using only existing resources. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished. The provisions of this statement are effective for the School District's June 30, 2018 financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*. The primary objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases; enhancing the comparability of financial statements between governments; and also enhancing the relevance, reliability, and consistency of information about the leasing activities of governments. The provisions of this statement are effective for the School District's June 30, 2021 financial statements.

The effects of implementation of these standards have not yet been determined.

NOTE 2 - CASH and CASH EQUIVALENTS and INVESTMENTS

Under Section 440.1 of the Public School Code of 1949, as amended, the School District is permitted to invest its monies as follows:

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

Certain high-quality bank and corporate debt instruments.

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

The deposit and investment policy of the School District adheres to state statutes. There were no deposit or investment transactions during the year that were significant violations of either the state statutes or the policy of the School District.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 2 - CASH and CASH EQUIVALENTS and INVESTMENTS (Continued)

Cash and Cash Equivalents - Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a policy for custodial credit risk although the public school code requires all deposits of the School District which are not insured to be collateralized by the depository institution.

As of June 30, 2017, \$10,837,600 of the School District's bank balance of \$11,087,600 was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	-0-
Collateralized with Securities Held by the Pledging Financial Institution	-0-
Uninsured and Collateral Held by the Pledging Bank's Trust Department not in the School District's Name	<u>10,837,600</u>
	10,837,600

Reconciliation of Cash and Cash Equivalents to the Financial Statements

Uninsured Amount Above	10,837,600
Insured Amount	<u>250,000</u>
Bank Balance	11,087,600
Outstanding Checks	<u>(186,005)</u>
Carrying Amount - Bank Balances	10,901,595
Petty Cash	<u>905</u>
Total Cash and Cash Equivalents Per Financial Statements	10,902,500

Restricted Cash

At June 30, 2017, \$577,970 is restricted to guarantee satisfaction of performance of facility renovation projects included in construction in progress.

Investments

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that GASB Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. At June 30, 2017, the School District did not hold any investments classified in the fair value hierarchy.

At June 30, 2017, the School District holds the following investments recorded at cost or amortized cost:

PSDLAF Collateralized Flex CD Pool	14,100,000
PSDLAF/Max Series	<u>2,017,912</u>
	16,117,912

The PSDLAF Collateralized Flex CD Pool positions mature from 30 to 180 days. The PSDLAF Max Series balances are liquid.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 2 - CASH and CASH EQUIVALENTS and INVESTMENTS (Continued)

Investments (Continued)

The Pennsylvania School District Liquid Asset Fund (PSDLAF) Collateralized Flex CD Pool is an external short-term fixed income investment pool. The School District carries fixed income investments at cost when the maturity of the underlying collateralized or FDIC insured certificate of deposit investments is one year or less.

PSDLAF Max Series is a 2a7-like pool. The amortized cost, which approximates fair value of the pool, is determined by the pool's share price. The School District has no regulatory oversight for the pool, which is governed by the Board of Trustees and is administered by PMA Financial Network, Inc. The pool is audited annually by CliftonLarsonAllen, LLP, an independently elected public official.

Restrictions on Qualified Investment Pool Withdrawals

The School District has an investment in a qualified investment pool with PSDLAF. Except for direct deposits from the Commonwealth, investments in the PSDLAF/MAX account are subject to a 14-day minimum holding period, and to penalty for early withdrawal. This requirement has been waived by the trust since inception.

Interest Rate Risk

The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Management monitors rates of returns for investments on a monthly basis and governance reviews investment returns on at least a quarterly basis.

Credit Risk

The School District has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2017, the School District investments were rated as:

Investments	Standard & Poor's
PSDLAF - Max Series	AAAm
PSDLAF - Collateralized Flex CD Pool	Unrated

Concentration of Credit Risk

The School District places no limit on the amount they may invest in any one issuer. At June 30, 2017, the School District does not have any concentration of credit risk in its investments.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The School District has no investments which are subject to custodial credit risk at June 30, 2017.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 3 - REAL ESTATE TAXES

Based upon assessments provided by the County, the School District bills and collects its own property taxes. The School District tax rate for the year ended June 30, 2017, was 19.90 mills as levied by the Board of School Directors. The schedule for real estate taxes levied for the fiscal year ended June 30, 2017, follows:

July 1	- Levy Date
July 1 - August 31	- 2% Discount Period
September 1 - October 31	- Face Payment Period
November 1 - December 31	- 10% Penalty Period
January 1	- Lien Date (Lancaster County Tax Claim Bureau)

NOTE 4 - TAXES RECEIVABLE and DEFERRED TAXES

The School District, in accordance with accounting principles generally accepted in the United States of America, recognizes delinquent and unpaid taxes receivable. All taxes are determined to be collectible. A portion of the receivable amount which was measurable and available within 60 days was recognized as revenue and the balance deferred in the fund financial statements.

The balances at June 30, 2017, are as follows:

	Taxes Receivable	Estimated Uncollectable	Net Taxes Receivable	Revenue Recognized	Deferred Taxes
Real Estate Taxes	748,455	-0-	748,455	300,014	488,441
Realty Transfer Taxes	53,432	-0-	53,432	53,432	-0-
Earned Income Taxes	<u>682,481</u>	<u>-0-</u>	<u>682,481</u>	<u>682,481</u>	<u>-0-</u>
	1,484,368	-0-	1,484,368	1,035,927	448,441

NOTE 5 - DUE from OTHER GOVERNMENTS

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2017, the following amounts are due from other governmental units:

	General Fund	Enterprise Fund	Total
Federal Grants	123,938	94,747	218,685
State Match for Lunch Program	-0-	6,708	6,708
State Retirement Subsidy	1,385,609	-0-	1,385,609
State Social Security Subsidy	336,834	-0-	336,834
Other State Subsidies	87,804	-0-	87,804
Local	<u>452,591</u>	<u>-0-</u>	<u>452,591</u>
	2,386,776	101,455	2,488,231

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 6 - INTERFUND ACCOUNTS

Individual fund receivable and payable balances at June 30, 2017, are as follows:

Fund	Due from Other Funds	Due to Other Funds
General Fund	28,453	132,846
Enterprise Fund - Food Service	82,978	132,385
Internal Service Fund	155,113	-0-
Capital Projects Fund	1,366	-0-
Student Activity Fund	<u>2,476</u>	<u>5,155</u>
	270,386	270,386

The general fund has interfund receivables that represent other fund expenses that were paid for by the general fund. The general fund and enterprise fund - food service have interfund payables that represent net amounts owed to the internal service fund for health costs paid by the internal service fund. The student activity fund owes the general fund for procurement card purchases. The capital projects fund and student activity fund have interfund receivables that represent paid other fund expenses.

Interfund transfers for the year ended June 30, 2017, are as follows:

Fund	Transfers In	Transfers Out
General Fund	-0-	3,404,686
Capital Projects Fund	358,000	-0-
Debt Service Fund	<u>3,046,686</u>	<u>-0-</u>
	3,404,686	3,404,686

Transfers are made from the general fund to the capital projects fund to provide resources for future capital projects. Transfers are made from the general fund to the debt service funds to provide resources for the payment of principal and interest on general obligation bonds.

NOTE 7 - CHANGES in CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended June 30, 2017, is as follows:

	Balance July 01, 2016	Additions	Deletions	Balance June 30, 2017
Historical Cost:				
Capital Assets not Being				
Depreciated:				
Land	1,095,713	-0-	-0-	1,095,713
Construction in Progress	<u>99,721</u>	<u>1,696,281</u>	<u>(10,321)</u>	<u>1,785,681</u>
Total Cost	1,195,434	1,696,281	(10,321)	2,881,394

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 7 - CHANGES in CAPITAL ASSETS (Continued)

	Balance July 01, 2016	Additions	Deletions	Balance June 30, 2017
Capital Assets Being Depreciated:				
Land Improvements	7,897,130	5,800	-0-	7,902,930
Building and Building Improvements	83,917,270	35,233	-0-	83,952,503
Furniture and Equipment	5,027,959	76,337	-0-	5,104,296
Vehicles	<u>328,981</u>	<u>29,237</u>	<u>-0-</u>	<u>358,218</u>
Total Cost	97,171,340	146,607	-0-	97,317,947
Accumulated Depreciation:				
Land Improvements	3,018,281	338,899	-0-	3,357,180
Building and Building Improvements	21,872,712	1,372,933	-0-	23,245,645
Furniture and Equipment	2,784,708	256,059	-0-	3,040,767
Vehicles	<u>293,608</u>	<u>15,183</u>	<u>-0-</u>	<u>308,791</u>
Total Accumulated Depreciation	27,969,309	1,983,074	-0-	29,952,383
Net Capital Assets Being Depreciated	69,202,031	(1,836,467)	-0-	67,365,564
Net Capital Assets	70,397,465	(140,186)	(10,321)	70,246,958

Capital asset activity for business-type activities for the year ended June 30, 2017, is as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Historical Cost:				
Capital Assets Being Depreciated:				
Equipment	108,747	-0-	-0-	108,747
Accumulated Depreciation:				
Equipment	<u>105,684</u>	<u>776</u>	<u>-0-</u>	<u>106,460</u>
Net Capital Assets	3,063	776	-0-	2,287

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 7 - CHANGES in CAPITAL ASSETS (Continued)

Depreciation expenses were charged to governmental functions as follows:

Instructional Programs	1,339,074
Instructional Student Support	119,500
Administration and Financial Support Services	230,300
Operation and Maintenance of Plant Services	167,300
Transportation	83,200
Student Activities	40,300
Community Services	<u>3,400</u>
	1,983,074

NOTE 8 - ACCRUED SALARIES and BENEFITS

At June 30, 2017, the School District was liable for \$5,138,245 of payroll, payable during July and August 2017, to those employees who have a ten-month contract but are paid over a twelve-month period, to non-salaried employees who performed services through June 30, 2017, and to retiring professional employees who are receiving a payout of their accumulated compensated absences and service stipends.

NOTE 9 - UNEARNED REVENUE

Unearned revenue in the general fund consists of student activities funding received, but not yet earned of \$75,886 as of June 30, 2017.

Unearned revenue in the food service fund consists of prepaid lunch sales of \$52,388 as of June 30, 2017.

NOTE 10 - LONG-TERM DEBT

General Obligation Debt

The School District issues general obligation to provide funds for major capital improvements. These bonds and notes are direct obligations and pledge the full faith and credit of the School District.

On May 9, 2017, the School District issued general obligation bonds, Series of 2017, in the amount of \$9,525,000. The purpose of the bonds was to (1) finance the acquisition, design, construction, furnishing and equipping of improvements to Bainbridge Elementary School and other ongoing and proposed capital projects as determined by the School District, and (2) pay costs expenses of issuing the bonds. The bonds bear interest rates ranging from 1.00% to 4.00% with principal maturities from \$5,000 to \$1,480,000.

On December 1, 2016, the School District issued general obligation bonds, Series of 2016, in the principal amount of \$5,410,000. The purpose of the bonds was to (1) refund of the School District's outstanding general obligation bonds, Series of 2011 currently outstanding in the amount of \$5,230,000, and (2) pay costs, fees, and expenses with respect to issuing the Series of 2016 bonds. The bonds bear interest rates ranging from .90% to 3.00% with principal maturities from \$15,000 to \$2,335,000. The School District achieved a cash flow savings of approximately \$373,000 and an economic gain of approximately \$291,000 as a result of the refunding.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 10 - LONG-TERM DEBT (Continued)

General Obligation Debt (Continued)

On December 1, 2016, the School District issued general obligation bonds, Series A of 2016, in the principal amount of \$4,585,000. The purpose of the bonds was to (1) finance the acquisition, design, construction, furnishing and equipping of improvements to Bainbridge Elementary School and other ongoing and proposed capital projects as determined by the School District, and (2) pay costs expenses of issuing the bonds. The bonds bear interest rates ranging from .90% to 4.00% with principal maturities from \$40,000 to \$1,835,000.

On August 18, 2015, the School District issued general obligation bonds, Series A of 2015, in the amount of \$8,930,000. The purpose of the bonds was to (1) refund the General Obligation Bonds, Series A of 2010, (2) refund the General Obligation Bonds, Series of 2010, (3) finance various capital projects for existing school facilities, (4) and to pay the costs of issuing the bonds. The bonds bear interest rates ranging from .29% to 3.00% with principal maturities from \$65,000 to \$1,295,000.

On June 23, 2015, the School District issued general obligation bonds, Series of 2015, in the amount of \$8,865,000. The purpose of the bonds was to refund a portion of the General Obligation Bonds, Series of 2010 and to pay the costs of issuing the bonds. The bonds bear interest rates ranging from .30% to 3.00% with principal maturities from \$85,000 to \$1,460,000.

On October 30, 2013, the School District issued general obligation bonds, Series of 2013, in the amount of \$9,450,000. The purpose of the bonds was to refund a portion of the General Obligation Bonds, Series A of 2009 and to pay the costs of issuing the bonds. The bonds bear interest rates ranging from .29% to 3.10% with principal maturities from \$75,000 to \$2,400,000.

On March 26, 2012, the School District issued general obligation bonds, Series of 2012, in the amount of \$9,995,000. The purpose of the bonds was to refund a portion of the General Obligation Bonds, Series of 2007 and to pay the costs of issuing the bonds. The bonds bear interest rates ranging from 1.67% to 3.52% with principal maturities from \$5,000 to \$1,215,000.

On November 22, 2011, the School District issued general obligation bonds, Series of 2011, in the amount of \$5,250,000. The purpose of the bonds is to finance renovations, additions, and alterations to existing school facilities and to pay the costs of issuing the bonds. The bonds bear interest rates ranging from 1.75% to 3.75% with principal maturities from \$5,000 through \$2,330,000. These bonds were fully redeemed upon issuance of the Series of 2016 bonds.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 10 - LONG-TERM DEBT (Continued)

General Obligation Debt (Continued)

Currently, the School District has general obligation debt with interest rates and outstanding principal amounts at June 30, 2017, as follows:

Issue	Final Maturity Date	Interest Rates	Principal Amount Outstanding at June 30, 2017	Due Within One Year
Series of 2012	06/30/2024	1.67% - 3.52%	8,630,000	1,300,000
Series of 2013	11/15/2025	.29% - 3.10%	9,055,000	65,000
Series of 2015	02/15/2031	.30% - 3.00%	8,720,000	60,000
Series A of 2015	02/15/2031	.29% - 3.00%	8,220,000	610,000
Series of 2016	09/01/2032	.90% - 3.00%	5,380,000	15,000
Series A of 2016	09/01/2039	.90% - 4.00%	4,585,000	50,000
Series of 2017	11/15/2039	1.00% - 4.00%	<u>9,525,000</u>	<u>-0-</u>
			54,115,000	2,100,000

Long-term obligation activity can be summarized as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017
General Obligation Debt	41,770,000	19,520,000	7,175,000	54,115,000
Net Bond Premium (Discount)	(241,200)	496,735	(250,759)	506,294
Deferred Loss on Bond Refunding	(149,528)	(22,064)	(11,062)	(160,530)
Estimated Liability for Compensated Absences	<u>1,154,989</u>	<u>84,001</u>	<u>60,780</u>	<u>1,178,210</u>
	42,534,261	20,078,672	6,973,959	55,638,974

Aggregate annual debt service requirements to maturity for the above governmental debt obligations are as follows:

	Interest	Principal	Total
2018	1,597,690	2,100,000	3,697,690
2019	1,553,111	2,175,000	3,728,111
2020	1,510,151	2,220,000	3,730,151
2021	1,465,775	2,265,000	3,730,775
2022	1,418,569	2,315,000	3,733,569
2023 - 2027	6,101,758	12,780,000	18,881,758
2028 - 2032	4,038,867	14,425,000	18,463,867
2033 - 2037	2,100,060	9,725,000	11,825,060
2038 - 2040	<u>372,800</u>	<u>6,110,000</u>	<u>6,482,800</u>
	20,158,781	54,115,000	74,273,781

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 10 - LONG-TERM DEBT (Continued)

General Obligation Debt (Continued)

The School District pays the long-term obligations of the governmental activities from the general fund, except for debt service. Debt service payments are paid from the debt service fund which is, however, funded by transfers from the general fund.

Interest costs incurred during the year ended June 30, 2017 were \$1,547,593, all of which was charged to expense.

NOTE 11 - OPERATING LEASES

The School District leases copiers under an operating lease ending March 2021. Total lease rental expense for the operating leases reflected in the accompanying financial statements is \$137,406 during the year ended June 30, 2017. Minimum future rental payments under the operating lease in excess of one year as of June 30, 2017, is as follows:

2018	137,406
2019	137,406
2020	137,406
2021	<u>103,055</u>
	515,273

In September 2011, the Lancaster County Career and Technology Center Authority (Authority) adopted a resolution approving capital projects for the Lancaster County Career and Technology Center (LCCTC) and to have the Authority issue Guaranteed Lease Revenue Bonds totaling between \$21,000,000 to \$30,000,000.

The LCCTC and the sixteen-member School Districts entered into an agreement with the Authority stipulating that each School District will pay its proportionate share of the lease rentals in order to fund the debt based on real estate market values as set forth in the LCCTC Organization Agreement.

The Authority issued Lease Revenue Bonds and Notes between June 2012 and February 2017. Total lease expense for the Authority rentals amounted to \$65,214 for the year ended June 30, 2017.

The School District's lease rental obligation for future minimum rental payments related to these bond and note issues are as follows:

Fiscal Year Ended June 30,	Estimated Future Minimum Rental Payments
2018	68,960
2019	68,939
2020	69,012
2021	69,019
2022	68,935
2023 - 2027	345,023
2028 - 2032	344,508
2033 - 2037	<u>344,491</u>
	1,378,887

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 12 - COMPENSATED ABSENCES

A summary of the amount recorded as a liability in the governmental activities for compensated absences is as follows as of June 30, 2017:

Accumulated Sick Days	735,004
Accumulated Vacation Days	171,521
Accrued Service Stipend	<u>271,685</u>
	1,178,210

NOTE 13 - DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan Description

The School District contributes to a governmental cost-sharing multi-employer defined benefit pension plan administered by the Public School Employees' Retirement System (PSERS).

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

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2.0% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

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

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 13 - DEFINED BENEFIT PENSION PLAN (Continued)

Benefits Provided (Continued)

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

Contributions

The contribution policy is set by the Code and requires contributions by active members, participating employers, and the Commonwealth of Pennsylvania. Plan members may belong to four membership classes. Class T-C, Class T-D, Class T-E and Class T-F are available to plan members.

Member Contributions

Active members who joined the plan before July 22, 1983, are required to contribute 5.25% of their compensation if they are in Class T-C or 6.50% for Class T-D. Members who joined on or after July 22, 1983, and were active or inactive as of July 1, 2001, are required to contribute 6.25% for Class T-C or 7.50% for Class T-D. Members who joined the plan after June 30, 2001 and before July 1, 2011, are automatically in Class T-D and are required to contribute 7.50%.

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

Employer Contributions

The School District's contractually required contribution rate for fiscal year ended June 30, 2017, was 29.20% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School District were \$7,377,000 for the year ended June 30, 2017.

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

At June 30, 2017, the School District reported a liability of \$96,091,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by rolling forward PSERS's total pension liability as of June 30, 2015 to June 30, 2016. The School District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2016, the School District's proportion was 0.1939%, which was an increase of .00090% from its proportion measured as of June 30, 2015.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 13 - DEFINED BENEFIT PENSION PLAN (Continued)

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

For the year ended June 30, 2017, the School District recognized pension expense of \$11,258,417. At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	-0-	801,000
Changes in Assumptions	3,468,000	-0-
Net Difference between Projected and Actual Investment Earnings	5,335,000	-0-
Change in Proportions	4,775,000	-0-
Difference between Employer Contributions and Proportionate Share of Total Contributions	60,000	-0-
Contributions Subsequent to the Measurement Date	<u>7,377,000</u>	<u>-0-</u>
	21,015,000	801,000

\$7,377,000 reported as deferred outflows of resources related to pensions resulting from the School District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2018	3,066,500
2019	3,075,500
2020	3,879,000
2021	<u>2,816,000</u>
	12,837,000

Actuarial Assumptions

The total pension liability as of June 30, 2016, was determined by rolling forward PSERS's total pension liability as of the June 30, 2015, actuarial valuation to June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Changes in assumptions used in measurement of the total pension liability beginning June 30, 2016 are as follows:

The investment rate of return was adjusted from 7.50% to 7.25%.

The inflation assumption was decreased from 3.0% to 2.75%.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 13 - DEFINED BENEFIT PENSION PLAN (Continued)

Actuarial Assumptions (Continued)

Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.

Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and 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. 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 pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Public Equity (Hedged)	22.5%	5.3%
Fixed Income	28.5%	2.1%
Commodities	8.0%	2.5%
Absolute Return (HF)	10.0%	3.3%
Risk Parity	10.0%	3.9%
Infrastructure/MLPs	5.0%	4.8%
Real Estate	12.0%	4.0%
Alternative Investments (PE)	15.0%	6.6%
Cash	3.0%	0.2%
Financing (LIBOR)	<u>(14.0%)</u>	0.5%
	100.0%	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2016.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 13 - DEFINED BENEFIT PENSION PLAN (Continued)

Discount Rate

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

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

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

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
School District's Proportionate Share of the Net Pension Liability	117,545,000	96,091,000	78,063,000

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plan

At June 30, 2017, the School District reported a payable of \$2,308,245 to PSERS. \$225,411 was withheld from participants' pay during June 2017, and is payable to PSERS by July 10, 2017. \$2,082,834 is the School District's contribution attributable to payroll during the second quarter of 2017, and is payable to PSERS within five business days of the School District receiving its related retirement subsidy from the Commonwealth of Pennsylvania.

Pension Reform

Pursuant to Commonwealth Act 2017-5, members hired on or after July 1, 2019 will be required to choose one of three new retirement plan design options for retirement benefits. The current defined benefit plan will no longer be available to new members hired on or after July 1, 2019. The new plan design options include two hybrid plans consisting of defined benefit and defined contribution components. The third option is a stand-alone defined contribution plan.

PSERS school employers will be charged interest at the assumed rate of return, currently 7.25%, for delinquent payments to PSERS rather than 6%.

The pension reform act is anticipated to result in increases to employer contribution rates for the next 15 years through 2034 due to higher initial costs of the new retirement plans. From 2035 to 2050, employer rates are projected to begin to decline due to the lower long-term employer costs of the new retirement plans.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 14 - RISK MANAGEMENT

Self-Insured Health Benefits

The School District self-insures medical and prescription benefits for eligible employees and their dependents. The claims for these self-insured benefits are processed by the School District's third-party administrator. The School District remits funds to the third-party administrator. The third-party administrator invoices the School District weekly for paid claims. The School District was limited in liability to \$175,000 per individual and \$8,115,097 in total for medical and prescription claims for the year ended June 30, 2017. The School District has recorded a liability for claims incurred prior to June 30, 2017 and paid subsequently in the amount of \$296,217. School District obligations for health claims incurred by participants are estimated as claims paid after year end that have service dates during the reporting period, and adding an additional reserve for unreported claims which is determined by the third-party administrator. The claim liability is reflected in accounts payable in the internal service fund on the statement of net position - proprietary funds.

Change in Aggregate Claim Liabilities - Health Benefits

	June 30, 2017	June 30, 2016
Claim Liability - Beginning of Year	594,846	207,120
Current Year Claims and Changes in Estimates	5,923,638	6,456,275
Claim Payments by School District	<u>(6,222,267)</u>	<u>(6,068,549)</u>
Claim Liability - End of Year	296,217	594,846

Workers' Compensation

The School District is participating in the Lancaster-Lebanon Public Schools Workers' Compensation Fund (the Fund) which is a cooperative voluntary trust arrangement for 19 member school districts and the Lancaster-Lebanon Intermediate Unit, and the Lancaster County Academy. This agreement states that the School District pays an annual premium to the Fund for the purpose of seeking prevention or lessening of claims due to injuries of employees of the members and pooling workers' compensation and occupational disease insurance risks, reserves, claims and losses, and providing self-insurance and reinsurance thereof. It is the intent of the members of the Fund that the Fund will utilize funds contributed by the members, which shall be held in trust by the Fund, to provide self-insurance and reimbursement to the members for their obligations to pay compensation as required under the Workers' Compensation Act and the Pennsylvania Occupational Disease Act and to purchase excess and aggregate insurance.

As of June 30, 2017, the School District is not aware of any additional assessments relating to the Fund.

Other Risks

The School District is exposed to various risks of loss related to theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. The School District has purchased various insurance policies to safeguard its assets from risk of loss. During the year ended June 30, 2017, and the two previous fiscal years, no settlements exceeded insurance coverage.

The School District fully insures dental and vision benefits for employees electing coverage.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 15 - POSTEMPLOYMENT HEALTH CARE BENEFITS and LIABILITIES

Description

The School District follows the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. In addition to the relevant disclosures within this note related to GASB Statement No. 45, the financial statements reflect a long-term liability of \$833,573 for other postemployment benefits.

The School District maintains a single employer defined benefit plan to provide postemployment health care benefits to School District employees who retire through PSERS. Benefits are available to the retiree, spouse, and eligible dependents until age 65. Upon the death of the retiree, the spouse and/or eligible dependents must pay the COBRA-equivalent premium to continue coverage. The plan does not issue stand-alone financial statements.

Funding Policy

The School District has elected to finance postemployment benefits on a pay-as-you-go basis. The School District recognizes expenditures for postemployment group insurance when claims are filed with the plan administrator. These financial statements assume that pay-as-you-go funding will continue.

Annual OPEB Cost and Net OPEB Obligation

The School District's annual cost for other postemployment retirement benefits (OPEB) is calculated based on the annual required contribution (ARC) of the School District, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 20 years.

The following illustrates the components of the School District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the School District's net OPEB obligation:

Annual Required Contribution	388,060
Interest on OPEB Obligation	25,539
Adjustment to Annual Required Contribution	<u>(45,173)</u>
Annual OPEB Cost	368,426
Estimated Contributions Made	<u>(173,329)</u>
Estimated Increase in Net OPEB Obligation	195,097
Net OPEB Obligation - Beginning of Year	<u>638,476</u>
Net OPEB Obligation - End of Year	883,573

The School District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017, 2016, and 2015 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation- End of Year
6/30/2017	368,426	47%	883,573
6/30/2016	193,361	60%	638,476
6/30/2015	194,733	57%	560,265

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 15 - POSTEMPLOYMENT HEALTH CARE BENEFITS and LIABILITIES (Continued)

Funding Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits equaled \$3,167,110, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,167,110. The covered payroll (annual payroll of active employees covered by the plan) equaled \$23,168,923, and the ratio of the UAAL to the covered payroll equaled 13.7%.

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 the future employment, mortality, and the health care cost trend. 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 schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is to present multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial liability for benefits. However, because the School District maintains no plan assets, information relative to plan asset required disclosure is not applicable.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the School District and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the School District and plan members to that point. There are no legal or contractual funding limitations that would potentially affect the projection of benefits for financial accounting purposes.

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the actuarial valuation dated July 1, 2016, the unit credit cost method was used. Because the School District funds its OPEB on a pay-as-you-go basis, the plan has no assets (investments) legally held exclusively for paying the postemployment medical benefits. Actuarial assumptions included an interest rate of 4.0% per annum, medical inflation of 10.0% in 2017, decreasing by 1.0% per year to a rate of 5.0% for 2021 and thereafter.

NOTE 16 - FUND BALANCE CLASSIFICATIONS

Nonspendable fund balance represents fund balances that are not in a spendable form or are required to be maintained intact.

General Fund - Nonspendable Prepaid Expenses	38,059
General Fund - Nonspendable Inventories	<u>151,535</u>
	189,594

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 16 - FUND BALANCE CLASSIFICATIONS (Continued)

Restricted fund balance is restricted by a third party.

Capital Project Fund - Cash in Escrow to Guarantee Satisfactory Completion of Capital Projects	577,970
Capital Project Fund - Future Capital Projects	<u>15,018,706</u>
	15,596,676

Committed fund balances represent fund balances that can be used only for the specific purposes determined by a formal action of the government's highest level of decision making authority. At June 30, 2017, the School District has included the following as committed fund balances:

General Fund - Committed to Offset Future Retirement Contributions	1,000,000
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Assigned fund balance comprises amounts intended to be used by the government for specific purposes determined by the governing body or by an official or a body to which the governing body delegates the authority.

General Fund - Assigned for Fiscal Year 2017-2018 Budget Deficit	2,354,600
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NOTE 17 - COMPONENTS of NET POSITION

The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt that is attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources attributable to capital assets or related debt are also included in this component of net position.

The restricted component of net position consists of the resources of the School District's capital reserve fund, which pursuant to Commonwealth legislation, may only be spent for capital improvements; replacement of, addition to and improvement to public works; deferred maintenance and the replacement of school buses. The Pennsylvania Department of Education has determined that new construction and the associated debt service may also be accounted for in the capital reserve fund.

NOTE 18 - CONTINGENCIES and COMMITMENTS

Grant Programs

Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the School District expects such amounts, if any, to be immaterial.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 18 - CONTINGENCIES and COMMITMENTS (Continued)

Legal Matters

The School District is involved in claims and legal actions arising in the ordinary course of business. The outcome of these matters cannot be determined at this time.

The School District and various officials are defendants in a lawsuit filed by the parents of a student who was hit by a car and killed while walking home from school. Damages were not specified in the suit. The School District's insurance company is providing a vigorous defense.

Construction Commitments

The School District has entered into various contracts for renovations and improvements to a School District elementary school. The amount remaining on the outstanding contracts is approximately \$11,160,000 at June 30, 2017.

Transportation Contract

The School District has entered into an agreement for the transportation of school pupils. The original agreement was for the period of July 1, 2010 through June 30, 2015 with one two-year and one one-year extensions added. The current agreement expires on June 30, 2018. The contractor provides all equipment and labor necessary. The cost for the transportation services will be determined based on rate schedules included in the contract which are subject to annual CPI increases based on the transportation cost index adjustment determined by the Department of Education.

Collective Bargaining Agreement

The School District has entered into a collective bargaining agreement with the Elizabethtown Area Education Association. The agreement in effect is for the period of July 1, 2014 through June 30, 2017. The agreement stipulates the overall working conditions as well as the provisions for wages and employee benefits for the School District's professional staff for the term of the contract. Subsequent to June 30, 2017, the School District has entered into a new collective bargaining agreement for the period July 1, 2017 through June 30, 2020.

NOTE 19 - TAX ABATEMENTS

The School District is a local taxing authority, authorized by the Local Economic Revitalization Tax Assistance Act (LERTA) to provide tax exemption for new construction in deteriorated areas of economically depressed communities and for improvements to certain deteriorated industrial, commercial and other business properties to encourage development and job growth within the School District. The School District, in conjunction with the county and municipal taxing authorities, approved eligible areas on November 19, 2013 and on July 14, 2014. Applications for exemption must be made within five years of the effective date of the School Board's approval of the area. The property tax abatement is equal to 100% of the real property tax on the assessed value of the property improvement to the deteriorated property. The percentage of tax abatement declines in increments of 10% from years 2 through 10. Exemption is revoked and forfeited for failure by the property owner to pay any nonexempt real estate taxes by the last day of the time period to pay such taxes in the penalty period.

For the year ended June 30, 2017, the School District abated approximately \$704,000 of property taxes under these agreements.

Elizabethtown Area School District

NOTES to FINANCIAL STATEMENTS

(Continued)

NOTE 20 - PAYMENTS in LIEU of TAXES

The School District, as a taxing Authority, is permitted to accept payment in lieu of taxes (PILOT) from charitable organizations owning exempt real estate within its boundaries. The School District, in 2008, entered into a 20-year agreement with a charitable organization that provides for PILOT of approximately \$804,000 in the initial year escalating to approximately \$1,049,000 in the final year of the agreement. The receipt from this agreement, along with other PILOT receipts, is recorded as unrestricted contributions of the governmental activities in the statement of activities.

Elizabethtown Area School District

SCHEDULE of REVENUES, EXPENDITURES, and CHANGES in FUND BALANCES -

BUDGET and ACTUAL -

GENERAL FUND

Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Budgetary Basis	Final Budget - Favorable (Unfavorable)
REVENUES				
Local Sources:				
Real Estate Taxes	\$ 32,309,064	\$ 32,309,064	\$ 32,460,143	\$ 151,079
Other Taxes	4,389,500	4,389,500	4,662,356	272,856
Investment Earnings	25,000	25,000	43,678	18,678
Other Revenue	800,000	800,000	826,191	26,191
Total Local Sources	37,523,564	37,523,564	37,992,368	468,804
State Sources	17,790,201	17,790,201	18,715,262	925,061
Federal Sources	1,235,000	1,235,000	1,404,923	169,923
Total Revenues	56,548,765	56,548,765	58,112,553	1,563,788
EXPENDITURES				
Instructional Services:				
Regular Programs	26,440,661	26,872,678	26,824,397	48,281
Special Programs	7,312,357	7,391,168	7,385,130	6,038
Vocational Programs	2,459,835	2,384,850	2,331,780	53,070
Other Instructional Programs	236,020	236,020	231,359	4,661
Nonpublic School Programs	-0-	2,800	2,141	659
Total Instructional Services	36,448,873	36,887,516	36,774,807	112,709
Support Services:				
Pupil Personnel Services	1,994,112	2,053,714	2,049,172	4,542
Instructional Staff Services	619,166	729,263	729,194	69
Administrative Services	3,685,021	3,728,463	3,706,697	21,766
Pupil Health	741,360	741,359	724,105	17,254
Business Services	1,017,155	1,007,069	994,522	12,547
Operation of Plant and Maintenance Services	4,869,069	4,622,825	4,616,638	6,187
Student Transportation Services	2,448,629	2,309,029	2,295,553	13,476
Central and Other Business Services	1,933,857	1,667,757	1,667,480	277
Total Support Services	17,308,369	16,859,479	16,783,361	76,118
Noninstructional Services:				
Student Activities	1,108,142	1,113,144	1,112,534	610
Community Services	100,200	100,201	94,536	5,665
Total Noninstructional Services	1,208,342	1,213,345	1,207,070	6,275
Total Expenditures	54,965,584	54,960,340	54,765,238	195,102
EXCESS of REVENUES OVER EXPENDITURES	1,583,181	1,588,425	3,347,315	1,758,890
OTHER FINANCING SOURCES (USES)				
Transfer Out	(3,732,781)	(3,732,725)	(3,404,686)	328,039
Refund of Prior Year's Expenditures	-0-	-0-	160,297	160,297
Refund of Prior Year's Receipts	(5,000)	(9,500)	(9,228)	272
Budgetary Reserve	(200,000)	(200,000)	-0-	200,000
Net Other Financing Uses	(3,937,781)	(3,942,225)	(3,253,617)	688,608
NET CHANGES in FUND BALANCES	\$ (2,354,600)	\$ (2,353,800)	93,698	\$ 2,447,498
FUND BALANCES				
Beginning			6,665,781	
Change in Inventory			(47,109)	
Ending			\$ 6,712,370	

See independent auditors' report.

Elizabethtown Area School District
NOTES to REQUIRED SUPPLEMENTARY INFORMATION

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

1. The Pennsylvania Department of Education (PDE) issues a schedule of actions for school districts for the development of the annual budget under Act 1. One deadline is the action to resolve to keep any tax increase in the real estate tax millage rate below the index announced by the PDE. Prior to that deadline, management submits to the School Board, for consideration, a draft operating budget projection or other information to review, for the fiscal year commencing the following July 1. The School Board determines if it will approve a resolution to keep any tax increase below the index.
2. If the School Board adopts the resolution, management submits prior to May 31 to the School Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the general fund.
3. A public hearing is conducted to obtain taxpayer comments.
4. If the School Board does not adopt the resolution, management prepares and submits a proposed operating budget for the fiscal year commencing the following July 1 in accordance with the deadlines established by PDE under Act 1. These deadlines will vary with the setting of the spring municipal election date each year.
5. In either case, prior to June 30, the budget is legally enacted through adoption of a resolution.
6. Legal budgetary control is maintained by the School Board at the departmental level. Transfers between departments, whether between funds or within a fund, or revisions that alter the total revenues and expenditures of any fund, must be approved by the School Board. Budgetary information in the combined operating statements is presented at or below the legal level of budgetary control. It also includes the effects of approved budget amendments.
7. Budgetary data is included in the School District's management information system and is employed as a management control device during the year.
8. Unused appropriations lapse at the end of each fiscal year; however, the School District increases the subsequent year's appropriation by an amount equal to outstanding encumbrances and reserves a portion of the fund balance in a like amount. There were no outstanding encumbrances for the year ended June 30, 2017.
9. The budget for the general fund is adopted on the modified accrual basis of accounting which is consistent with accounting principles generally accepted in the United States of America.
10. Where applicable, unbudgeted federal and state revenues and expenditures have been added to the original budgeted revenues and expenditures.

See independent auditors' report.

Elizabethtown Area School District
 SCHEDULE of FUNDING PROGRESS -
 OTHER POSTEMPLOYMENT BENEFITS (OPEB) -
 POSTRETIREMENT HEALTH CARE BENEFITS PLAN

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a] / c)
July 1, 2012	-0-	1,195,880	1,195,880	0.00%	21,733,751	5.50%
July 1, 2014	-0-	1,592,129	1,592,129	0.00%	22,485,876	7.08%
July 1, 2016	-0-	3,167,110	3,167,110	0.00%	23,168,923	13.67%

See independent auditors' report.

Elizabethtown Area School District
SCHEDULE of EMPLOYER CONTRIBUTIONS
OTHER POSTEMPLOYMENT BENEFITS (OPEB) -
POSTRETIREMENT HEALTH CARE BENEFITS PLAN

Fiscal Year Ended	Annual OPEB Cost	Percentage Contributed
June 30, 2015	194,733	57.0%
June 30, 2016	193,361	59.6%
June 30, 2017	368,426	47.0%

See independent auditors' report.

Elizabethtown Area School District
NOTES to REQUIRED SUPPLEMENTARY INFORMATION

The information presented on the required supplementary schedules on the prior two pages was determined as part of the actuarial valuations at the dates indicated. Key factors used in the actuarial valuations are as follows:

Valuation Dates	July 1, 2016	July 1, 2014	July 1, 2012
Actuarial Cost Method	Unit Credit	Entry Age Normal	Entry Age Normal
Amortization Method	Level Dollar Method	Level Dollar Method	Level Dollar Method
Amortization Period	20 Years	30 Years	30 Years
Discount Rate	4.0%	4.5%	4.5%
Mortality	RP-2014 as published By the Society Of Actuaries	Same as Rates in the PSERS Actuarial Valuation	Same as Rates in the PSERS Actuarial Valuation
Retirement	Retirement Rate as Published by the Society of Actuaries	Retirement Rate Based on PSERS Plan Experience	Retirement Rate Based on PSERS Plan Experience
Coverage Election	45%	45%	45%
Percent Married with Election of Spousal Coverage by Plan	10%	20%	20%
Per Capita Claims Cost:			
Female (Age 45 - 64)		\$8,666 - \$11,773	\$7,202 - \$9,784
Male (Age 45 - 64)		\$6,000 - \$12,631	\$4,987 - \$10,497
Males and Females (Age 0 to 64)	\$7,944 - \$21,688		
Demographic Information:			
Active Participants	392	399	405
Retired Participants	<u>14</u>	<u>18</u>	<u>26</u>
Total Participants	406	417	431
Health Care Cost Trend Rate	10.0% decreasing to 9.0% in 2018 and to 5.0% in 2022	6.5% decreasing to 5.5% in 2016 and to 4.2% in 2089	7.5% decreasing to 5.5% in 2016 and to 4.2% in 2089

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Accordingly, actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective, and, consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities. Actuarial calculations are based on the types of benefits provided under the terms of the plan and on the pattern of cost-sharing between the employer and plan members at the time of the valuations.

See independent auditors' report.

Elizabethtown Area School District
 SCHEDULE of EMPLOYER CONTRIBUTIONS -
 PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
 Last 10 Fiscal Years

	Contractually Required Contribution	Contributions from Employer	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
Defined Benefit Pension Plan:					
2008	1,265,185	1,265,185	-0-	19,645,738	6.44%
2009	812,918	812,918	-0-	20,322,940	4.00%
2010	854,302	854,302	-0-	21,357,556	4.00%
2011	1,111,803	1,111,803	-0-	22,236,068	5.00%
2012	1,713,123	1,713,123	-0-	21,414,031	8.00%
2013	2,599,517	2,599,517	-0-	22,601,376	11.50%
2014	3,743,461	3,743,461	-0-	23,392,576	16.00%
2015	4,876,343	4,876,343	-0-	23,787,038	20.50%
2016	6,271,943	6,271,943	-0-	25,087,772	25.00%
2017	7,376,604	7,376,604	-0-	25,106,006	29.38%

See independent auditors' report.

Elizabethtown Area School District

SCHEDULE of SCHOOL DISTRICT'S PROPORTIONATE SHARE of the NET PENSION LIABILITY -

PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Last 10 Fiscal Years

For the Fiscal Year Ended June 30	School District's Proportion of the Net Pension Liability (Asset)	School District's Proportionate Share of the Net Pension Liability (Asset)	School District's Covered- Employee Payroll	School 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
2014	0.1833%	72,551,711	23,392,576	310.15%	57.24%
2015	0.1849%	80,090,261	23,787,038	336.70%	54.36%
2016	0.1939%	96,091,000	25,106,006	382.74%	50.14%

Note : This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The data provided in the schedule is based on the measurement date, which is the beginning of the School District's fiscal year.

See independent auditors' report.

Elizabethtown Area School District
NOTES to REQUIRED SUPPLEMENTARY INFORMATION

Changes of Benefit Terms:

None.

Changes of Assumptions:

The investment rate of return was adjusted from 7.50% to 7.25%.

The inflation assumption was decreased from 3.00% to 2.75%.

Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and merit or seniority increases of 2.50%, to an effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.

Mortality rates were modified from the RP-2000 Combined Healthy Annuitants Tables (male and female) with age set back 3 years for both males and 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. 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.

See independent auditors' report.

Elizabethtown Area School District

COMBINING BALANCE SHEET -

CAPITAL PROJECTS FUND

June 30, 2017

	Capital Projects Fund	Capital Reserve Fund	2017 Bond Construction Fund	Totals
ASSETS				
Cash and Cash Equivalents	\$ 914,239	\$ 511,525	\$ 4,338,906	\$ 5,764,670
Restricted Cash	-0-	-0-	577,970	577,970
Investments	-0-	1,038,476	9,136,287	10,174,763
Due from Other Funds	<u>818</u>	<u>384</u>	<u>164</u>	<u>1,366</u>
TOTAL ASSETS	<u>915,057</u>	<u>1,550,385</u>	<u>14,053,327</u>	<u>16,518,769</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	<u>-0-</u>	<u>-0-</u>	<u>922,093</u>	<u>922,093</u>
TOTAL LIABILITIES	<u>-0-</u>	<u>-0-</u>	<u>922,093</u>	<u>922,093</u>
FUND BALANCES				
Restricted	<u>915,057</u>	<u>1,550,385</u>	<u>13,131,234</u>	<u>15,596,676</u>
TOTAL FUND BALANCES	<u>915,057</u>	<u>1,550,385</u>	<u>13,131,234</u>	<u>15,596,676</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 915,057</u>	<u>\$ 1,550,385</u>	<u>\$ 14,053,327</u>	<u>\$ 16,518,769</u>

See independent auditors' report.

Elizabethtown Area School District
 COMBINING STATEMENT of REVENUES, EXPENDITURES and
 CHANGES IN FUND BALANCES - CAPITAL PROJECTS FUND
 Year Ended June 30, 2017

	Capital Projects Fund	Capital Reserve Fund	2017 Bond Construction Fund	Totals
REVENUES				
Local Sources:				
Investment Earnings	\$ 1,059	\$ 4,775	\$ 7,412	\$ 13,246
Other Revenue	<u>818</u>	<u>384</u>	<u>164</u>	<u>1,366</u>
TOTAL REVENUES	1,877	5,159	7,576	14,612
EXPENDITURES				
Current:				
Support Services	9,511	54,063	10,550	74,124
Bonds Issuance Costs	<u>-0-</u>	<u>-0-</u>	<u>220,131</u>	<u>220,131</u>
Total Current	9,511	54,063	230,681	294,255
Capital Outlay:				
Facilities Acquisition, Construction, and Improvement Services	<u>531,544</u>	<u>-0-</u>	<u>1,242,581</u>	<u>1,774,125</u>
TOTAL EXPENDITURES	541,055	54,063	1,473,262	2,068,380
DEFICIENCY of REVENUES OVER EXPENDITURES	(539,178)	(48,904)	(1,465,686)	(2,053,768)
OTHER FINANCING SOURCES (USES)				
Transfers In	-0-	358,000	-0-	358,000
Premium on Issuance of Debt	-0-	-0-	486,920	486,920
Issuance of Debt	<u>-0-</u>	<u>-0-</u>	<u>14,110,000</u>	<u>14,110,000</u>
Total Other Financing Sources	-0-	358,000	14,596,920	14,954,920
NET CHANGES in FUND BALANCES	(539,178)	309,096	13,131,234	12,901,152
FUND BALANCES				
Beginning	<u>1,454,235</u>	<u>1,241,289</u>	<u>-0-</u>	<u>2,695,524</u>
Ending	<u>\$ 915,057</u>	<u>\$ 1,550,385</u>	<u>\$ 13,131,234</u>	<u>\$ 15,596,676</u>

See independent auditors' report.

Elizabethtown Area School District
 COMBINING STATEMENT of FIDUCIARY NET POSITION -
 PRIVATE-PURPOSE TRUST FUND
 June 30, 2017

	Scholarship Fund	Health Fund	H.K. Alwine Fund	Northwest Lancaster County Medical Association Educational Fund	Total Private - Purpose Trust Fund
ASSETS					
Cash and Cash Equivalents	\$ 102,511	\$ 383	\$ 18,965	\$ 86,069	\$ 207,928
Investments	<u>249,427</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>249,427</u>
TOTAL ASSETS	<u>351,938</u>	<u>383</u>	<u>18,965</u>	<u>86,069</u>	<u>457,355</u>
LIABILITIES					
Accounts Payable	<u>9,100</u>	<u>-0-</u>	<u>-0-</u>	<u>2,000</u>	<u>11,100</u>
TOTAL LIABILITIES	9,100	-0-	-0-	2,000	11,100
NET POSITION					
Held in Trust for Scholarships	117,838	-0-	113	9,069	127,020
Held in Trust for Health Programs	-0-	383	-0-	-0-	383
Endowments	<u>225,000</u>	<u>-0-</u>	<u>18,852</u>	<u>75,000</u>	<u>318,852</u>
TOTAL NET POSITION	<u>342,838</u>	<u>383</u>	<u>18,965</u>	<u>84,069</u>	<u>446,255</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 351,938</u>	<u>\$ 383</u>	<u>\$ 18,965</u>	<u>\$ 86,069</u>	<u>\$ 457,355</u>

See independent auditors' report.

Elizabethtown Area School District
 COMBINING STATEMENT of CHANGES IN FIDUCIARY NET POSITION -
 PRIVATE-PURPOSE TRUST FUND
 Year Ended June 30, 2017

	Scholarship Fund	Health Fund	H.K. Alwine Fund	Northwest Lancaster County Medical Association Educational Fund	Total Private - Purpose Trust Fund
ADDITIONS					
Gifts and Contributions	\$ 19,629	\$ -0-	\$ -0-	\$ -0-	\$ 19,629
Investment Earnings	<u>920</u>	<u>4</u>	<u>9</u>	<u>724</u>	<u>1,657</u>
TOTAL ADDITIONS	<u>20,549</u>	<u>4</u>	<u>9</u>	<u>724</u>	<u>21,286</u>
DEDUCTIONS					
Scholarships Awarded	<u>14,650</u>	<u>-0-</u>	<u>-0-</u>	<u>2,000</u>	<u>16,650</u>
CHANGES IN NET POSITION	5,899	4	9	(1,276)	4,636
NET POSITION					
Beginning	<u>336,939</u>	<u>379</u>	<u>18,956</u>	<u>85,345</u>	<u>441,619</u>
Ending	<u>\$ 342,838</u>	<u>\$ 383</u>	<u>\$ 18,965</u>	<u>\$ 84,069</u>	<u>\$ 446,255</u>

See independent auditors' report.

Elizabethtown Area School District
SCHEDULE of EXPENDITURES of FEDERAL AWARDS
Year Ended June 30, 2017

Federal Grantor	Pass-Through Agency	Federal Program	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/Ending Date	Grant Amount	Accrued (Deferred) Revenue at July 1, 2016	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2017	Passed Through to Subrecipients	
Child Nutrition Cluster													
U.S. Department of Agriculture	Pennsylvania Department of Education	School Breakfast Program	I	10.553	N/A	07/01/16 - 06/30/17	N/A	\$ -0-	\$ 73,038	\$ 89,930	\$ 16,892	\$ -0-	
U.S. Department of Agriculture	Pennsylvania Department of Education	School Breakfast Program	I	10.553	N/A	07/01/15 - 06/30/16	N/A	<u>3,181</u>	<u>3,181</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	
			Total	10.553				3,181	76,219	89,930	16,892	-0-	
U.S. Department of Agriculture	Pennsylvania Department of Education	National School Lunch Program	I	10.555	N/A	07/01/16 - 06/30/17	N/A	-0-	421,973	499,828	77,855	-0-	
U.S. Department of Agriculture	Pennsylvania Department of Education	National School Lunch Program	I	10.555	N/A	07/01/15 - 06/30/16	N/A	15,690	15,690	-0-	-0-	-0-	
U.S. Department of Agriculture	Pennsylvania Department of Agriculture	National School Lunch Program (Note 2)	I	10.555	N/A	07/01/16 - 06/30/17	N/A	<u>(21,867) A)</u>	<u>104,528 B)</u>	<u>110,057 C)</u>	<u>(16,338) D)</u>	<u>-0-</u>	
			Total	10.555				(6,177)	542,191	609,885	61,517	-0-	
			Total Child Nutrition Cluster						(2,996)	618,410	699,815	78,409	-0-
Special Education Cluster													
U.S. Department of Education	Lancaster-Lebanon Intermediate Unit #13	Special Education - Grants to States	I	84.027	062-170013	07/01/16 - 09/30/17	635,019	-0-	625,019	635,019	10,000	-0-	
U.S. Department of Education	Lancaster-Lebanon Intermediate Unit #13	Special Education - Grants to States	I	84.027	062-160013	07/01/15 - 09/30/16	618,219	<u>7,001</u>	<u>9,333</u>	<u>2,332</u>	<u>-0-</u>	<u>-0-</u>	
			Total	84.027				7,001	634,352	637,351	10,000	-0-	
U.S. Department of Education	Lancaster-Lebanon Intermediate Unit #13	Special Education - Preschool Grants	I	84.173	131-170013	07/01/16 - 09/30/17	2,378	-0-	-0-	2,378	2,378	-0-	
U.S. Department of Education	Lancaster-Lebanon Intermediate Unit #13	Special Education - Preschool Grants	I	84.173	131-160013	07/01/15 - 06/30/16	3,380	<u>3,380</u>	<u>3,380</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	
			Total	84.173				3,380	3,380	2,378	2,378	-0-	
			Total Special Education Cluster						\$ 10,381	\$ 637,732	\$ 639,729	\$ 12,378	\$ -0-

See independent auditors' report.

Elizabethtown Area School District
SCHEDULE of EXPENDITURES of FEDERAL AWARDS
(Continued)
Year Ended June 30, 2017

Federal Grantor	Pass-Through Agency	Federal Program	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/Ending Date	Grant Amount	Accrued (Deferred) Revenue at July 1, 2016	Total Received for the Year	Expenditures	Accrued (Deferred) Revenue at June 30, 2017	Passed Through to Subrecipients
U.S. Department of Education	Pennsylvania Department of Education	Title I Grants to Local Educational Agencies	I	84.010	013-170135	07/01/16 - 9/30/17	374,580	\$ -0-	\$ 374,580	\$ 374,580	\$ -0-	\$ -0-
U.S. Department of Education	Pennsylvania Department of Education	Title I Grants to Local Educational Agencies	I	84.010	013-160135	07/01/15 - 09/30/16	354,183	<u>118,148</u>	<u>118,148</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total				84.010				118,148	492,728	374,580	-0-	-0-
U.S. Department of Education	Pennsylvania Department of Education	Improving Teacher Quality State Grants	I	84.367	020-170135	07/01/16 - 9/30/17	85,764	-0-	73,596	85,764	12,168	-0-
U.S. Department of Education	Pennsylvania Department of Education	Improving Teacher Quality State Grants (Note 4)	I	84.367	020-160135	07/01/15 - 09/30/16	87,689	<u>29,118</u>	<u>29,118</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total				84.367				29,118	102,714	85,764	12,168	-0-
Medicaid Cluster												
U.S. Department of Health and Human Services	Pennsylvania Department of Public Welfare	Medical Assistance Program	I	93.778	N/A	07/01/16 - 9/30/17	N/A	-0-	6,615	15,314	8,699	-0-
U.S. Department of Health and Human Services	Pennsylvania Department of Public Welfare	Medical Assistance Program	I	93.778	N/A	07/01/15 - 09/30/16	N/A	<u>7,626</u>	<u>7,626</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Medicaid Cluster								7,626	14,241	15,314	8,699	-0-
TOTAL EXPENDITURES OF FEDERAL AWARDS								\$ 162,277	\$ 1,865,825	\$ 1,815,202	\$ 111,654	\$ -0-

Legend

I = Indirect funding

CFDA = Catalog of Federal Domestic Assistance

See independent auditors' report.

Elizabethtown Area School District
SCHEDULE of EXPENDITURES of FEDERAL AWARDS
(Continued)
Year Ended June 30, 2017

NOTES to SCHEDULE of EXPENDITURES of FEDERAL AWARDS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

NOTE 2 - NATIONAL SCHOOL LUNCH PROGRAM - PASSED THROUGH the PENNSYLVANIA DEPARTMENT of AGRICULTURE

- A) Beginning inventory at July 1.
- B) Total amount of commodities received from the Department of Agriculture.
- C) Total amount of commodities used.
- D) Ending inventory at June 30.

NOTE 3 - DE MINIMIS INDIRECT COST RATE

The School District did not elect to use the 10% de minimis indirect cost rate.

NOTE 4 - ACCESS

The ACCESS Program is a medical assistance program that reimburses local educational agencies for direct, eligible health-related services provided to enrolled special needs students. Reimbursements are federal monies but are classified as fee-for-service revenues and are not considered federal financial assistance. Because only federal financial assistance is included on the schedule of expenditures of federal awards, ACCESS reimbursements are not included on the schedule. The amount of ACCESS funding received for the year ended June 30, 2017, was \$253,391 which is listed on the PDE Confirmation as program #044-007135.

See independent auditors' report.

INDEPENDENT AUDITORS' REPORT on INTERNAL CONTROL over FINANCIAL REPORTING and on COMPLIANCE and OTHER MATTERS BASED on an AUDIT of FINANCIAL STATEMENTS PERFORMED in ACCORDANCE with GOVERNMENT AUDITING STANDARDS

To the Board Officers and Members
Elizabethtown Area School District
Elizabethtown, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Elizabethtown Area School District**, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise **Elizabethtown Area School District's** basic financial statements, and have issued our report thereon dated November 7, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered **Elizabethtown Area School District's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Elizabethtown Area School District's** internal control. Accordingly, we do not express an opinion on the effectiveness of **Elizabethtown Area School District's** internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item #2017-001 to be a material weakness.

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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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item #2017-002 to be a significant deficiency.

Compliance and Other Matters

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

Elizabethtown Area School District's Response to Findings

Elizabethtown Area School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. **Elizabethtown Area School District's** response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

November 7, 2017
Lancaster, Pennsylvania

Trout, Ebersole & Groff, LLP
TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT on COMPLIANCE for EACH MAJOR PROGRAM
and on INTERNAL CONTROL over COMPLIANCE REQUIRED by the UNIFORM GUIDANCE**

To the Board Officers and Members
Elizabethtown Area School District
Elizabethtown, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited **Elizabethtown Area School District's** compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on **Elizabethtown Area School District's** major federal program for the year ended June 30, 2017. **Elizabethtown Area School District's** major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, contracts, 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 **Elizabethtown Area School District's** major federal program 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 **Elizabethtown Area School District's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of **Elizabethtown Area School District's** compliance.

Opinion on Each Major Federal Program

In our opinion, **Elizabethtown 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 its major federal program for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of **Elizabethtown Area School District** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered **Elizabethtown Area School District's** internal control over compliance with the types of requirements that could have a direct and material effect on its major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Elizabethtown Area School District's** internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

November 7, 2017
Lancaster, Pennsylvania

Trout, Ebersole & Groff, LLP
TROUT, EBERSOLE & GROFF, LLP
Certified Public Accountants

Elizabethtown Area School District
SCHEDULE of FINDINGS and QUESTIONED COSTS
Year Ended June 30, 2017

A. Summary of Auditors' Results

1. The independent auditors' report expresses an unmodified opinion on the financial statements of **Elizabethtown Area School District**.
2. One material weakness and one significant deficiency relating to the audit of the financial statements are reported in the Independent Auditors' 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*.
3. No instances of noncompliance material to the financial statements of **Elizabethtown Area School District** were disclosed during the audit.
4. No material weaknesses or significant deficiencies relating to the audit of the major federal program are reported in the Independent Auditors' Report on Compliance for each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The independent auditors' report on compliance for the major federal award program for **Elizabethtown Area School District** expresses an unmodified opinion.
6. Audit findings relative to the major federal awards program for **Elizabethtown Area School District** are reported in part C of this schedule.
7. The program tested as a major program is: Special Education - Grants to States - CFDA #84.027 and Special Education - Preschool Grants - CFDA #84.173.
8. The threshold for distinguishing type A and B programs was \$750,000.
9. **Elizabethtown Area School District** was determined to be a low-risk auditee.

Elizabethtown Area School District
SCHEDULE of FINDINGS and QUESTIONED COSTS
(Continued)
Year Ended June 30, 2017

B. Findings - Financial Statements Audit

Material Weakness

#2017-001 Internal Service Fund - Accounts Payable

Criteria: The School District should review the amounts recorded as accounts payable in the Internal Service Fund for accuracy and appropriateness.

Statement of Condition: During our audit, we noted the amount recorded as accounts payable in the Internal Service Fund related to all subsequent invoices received for that fund. Accounts payable should only include expenses incurred related to the fiscal year that were not paid prior to year end. For the Internal Service Fund, the School District should record accounts payable based on the Incurred but Not Reported (IBNR) report provided by their third-party administrator as this will be the best estimate of expenses incurred prior to year end, but not paid before year end. Alternately, the School District could record claims runs after year end, and record a payable for only those claims incurred prior to June 30.

Cause and Effect: An adjusting journal entry was proposed to and accepted by management to reduce accounts payable and employee benefits by \$430,897 to reflect the appropriate balance at year end.

Identification of Repeat Finding: No.

Recommendation: The School District should review the IBNR and post the amounts included on the report as accounts payable and employee benefits expenses in the future. A comparison of the amount to the prior year end provides a second level check of the reasonableness of the amount recorded.

Management Response: Based on guidance from our previous auditor and standard practice, at the end of each fiscal year, the District typically records expenses incurred for 60 days beyond the end of the fiscal year back into the previous year. In 2016, the expenses related to the health fund were all recorded back into the previous fiscal year due to the transition to a new health insurance provider. In 2017, the same approach was used because of the establishment of the high deductible plans and the deposit into the health savings accounts. In the future, this approach will not be used and we will follow the guidance of our new auditor.

Significant Deficiency

#2017-002 Adjusting Journal Entries and Year-End Close Process

Criteria: The financial closing process includes preparation of reconciliations, year-end accruals and adjusting journal entries. A well designed financial closing process ensures that the accounting books and records are accurate, and that they provide the basis for preparation of financial statements.

Statement of Condition: During our audit, there were significant adjusting journal entries identified by the auditors that needed to be made in order for the financial statements to be prepared in conformity with generally accepted accounting principles. The School District assumed responsibility for and evaluated the accuracy of the adjusting journal entries and has accepted responsibility for them. The significant audit adjustments that needed to be made were as follows:

Elizabethtown Area School District
SCHEDULE of FINDINGS and QUESTIONED COSTS
(Continued)
Year Ended June 30, 2017

B. Findings - Financial Statements Audit (Continued)

Significant Deficiency (Continued)

#2017-002 Adjusting Journal Entries and Year-End Close Process (Continued)

1. Adjusting accrued payroll for an understatement which was caused by not recording accrued retirement payouts.
2. Adjusting accounts payable for an understatement which was caused by not recording retainage for construction contracts that were included in construction in process.
3. Adjusting retirement subsidy receivable for an overstatement which was caused by a transposed digit.
4. Adjusting delinquent tax revenue for an understatement which was caused by not reconciling the reports received from the Tax Claim Bureau to the amounts received by the School District.
5. Adjusting transportation subsidy receivable for an understatement which was caused by not recording the transportation balance due.

Cause and Effect: When the financial close process does not properly include all year-end accruals and adjusting journal entries, the accounting records do not provide the proper basis for preparation of financial statements.

Identification of Repeat Finding: No.

Recommendation: The School District should reevaluate the year-end close process. The School District should focus on closing the fiscal year accounts, which includes recording as many accrual basis adjustments as possible, within 60 days of year end. The School District should require a second level of management review for all year-end adjusting entries that are posted to the system, focusing on the entries that are judgmental, estimated and/or complex in nature. Additionally, we have the following recommendations which correspond to the items as noted above:

1. The School District should obtain all necessary source documents needed to prepare a complete payroll accrual including listing of September retiree payouts.
2. The School District should review year-end construction contracts to determine whether there is any retainage noted that should be booked as accounts payable.
3. The School District should reconcile grants and subsidies, and compare to the related expenses where relevant, to determine that appropriate receivable balances are recorded.
4. The School District should reconcile delinquent real estate taxes receivable to the amounts reported by the Tax Claim Bureau.

Management Response: The District has year-end closing processes that were developed in consultation with the previous auditor (timing of retirement payments and establishment of employee retirement accounts, delinquent tax issue). Some of the differences in approach between the District and TEG will be reconciled and revised procedures will be implemented.

C. Findings and Questioned Costs - Major Federal Awards Programs Audit

None

Elizabethtown Area School District
SUMMARY SCHEDULE of PRIOR AUDIT FINDINGS
Year Ended June 30, 2017

There are no prior audit findings.



ELIZABETHTOWN AREA SCHOOL DISTRICT
DISTRICT OFFICE

Corrective Action Plan
November 7, 2017

Elizabethtown Area School District respectfully submits the following corrective action plan for the year ending June 30, 2017.

Oversight Agency for Audit: U.S. Department of Education

Name and address of independent public accounting firm: Trout, Ebersole & Groff, LLP, 1705 Oregon Pike, Lancaster, Pennsylvania 17601-4200

Audit Period: July 1, 2016 through June 30, 2017.

The findings from the Schedule of Findings and Questioned Costs for the year ended June 30, 2017 are discussed below. The findings are number consistently with the numbers assigned in the schedule:

Findings - Financial Statements Audit

Material Weakness

#2017-001 Internal Service Fund - Accounts Payable

Criteria: The School District should review the amounts recorded as accounts payable in the Internal Service Fund for accuracy and appropriateness.

Statement of Condition: During our audit, we noted the amount recorded as accounts payable in the Internal Service Fund related to all subsequent invoices received for that fund. Accounts payable should only include expenses incurred related to the fiscal year that were not paid prior to year end. For the Internal Service Fund, the School District should record accounts payable based on the Incurred but Not Reported (IBNR) report provided by their third-party administrator as this will be the best estimate of expenses incurred prior to year end, but not paid before year end. Alternately, the School District could record claims runs after year end, and record a payable for only those claims incurred prior to June 30.

Cause and Effect: An adjusting journal entry was proposed to and accepted by management to reduce accounts payable and employee benefits by \$430,897 to reflect the appropriate balance at year end.

Recommendation: The School District should review the IBNR and post the amounts included on the report as accounts payable and employee benefits expenses in the future. A comparison of the amount to the prior year end provides a second level check of the reasonableness of the amount recorded.

Management Response: Based on guidance from our previous auditor and standard practice, at the end of each fiscal year, the District typically records expenses incurred for 60 days beyond the end of the fiscal year back into the previous year. In 2016, the expenses related to the health fund were all recorded back into the previous fiscal year due to the transition to a new health insurance provider. In 2017, the same approach was used because of the

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DISTRICT OFFICE

establishment of the high deductible plans and the deposit into the health savings accounts. In the future, this approach will not be used and we will follow the guidance of our new auditor.

Significant Deficiency

#2017-002 Adjusting Journal Entries and Year-End Close Process

Criteria: The financial closing process includes preparation of reconciliations, year-end accruals and adjusting journal entries. A well designed financial closing process ensures that the accounting books and records are accurate, and that they provide the basis for preparation of financial statements.

Statement of Condition: During our audit, there were significant adjusting journal entries identified by the auditors that needed to be made in order for the financial statements to be prepared in conformity with generally accepted accounting principles. The School District assumed responsibility for and evaluated the accuracy of the adjusting journal entries and has accepted responsibility for them. The significant audit adjustments that needed to be made were as follows:

1. Adjusting accrued payroll for an understatement which was caused by not recording accrued retirement payouts.
2. Adjusting accounts payable for an understatement which was caused by not recording retainage for construction contracts that were included in construction in process.
3. Adjusting retirement subsidy receivable for an overstatement which was caused by a transposed digit.
4. Adjusting delinquent tax revenue for an understatement which was caused by not reconciling the reports received from the Tax Claim Bureau to the amounts received by the School District.
5. Adjusting transportation subsidy receivable for an understatement which was caused by not recording the transportation balance due.

Cause and Effect: When the financial close process does not properly include all year-end accruals and adjusting journal entries, the accounting records do not provide the proper basis for preparation of financial statements.

Recommendation: The School District should reevaluate the year-end close process. The School District should focus on closing the fiscal year accounts, which includes recording as many accrual basis adjustments as possible, within 60 days of year end. The School District should require a second level of management review for all year-end adjusting entries that are posted to the system, focusing on the entries that are judgmental, estimated and/or complex in nature. Additionally, we have the following recommendations which correspond to the items as noted above:

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3. The School District should reconcile grants and subsidies, and compare to the related expenses where relevant, to determine that appropriate receivable balances are recorded.
4. The School District should reconcile delinquent real estate taxes receivable to the amounts reported by the Tax Claim Bureau.

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Management Response: The District has year-end closing processes that were developed in consultation with the previous auditor (timing of retirement payments and establishment of employee retirement accounts, delinquent tax issue). Some of the differences in approach between the District and TEG will be reconciled and revised procedures will be implemented.

If the United States Department of Education has questions regarding this plan, please call George M. Longridge at 717-367-1521.

Sincerely,

George M. Longridge
Business Manager
Elizabethtown Area School District