Donegal School District
Mount Joy, Pennsylvania
Lancaster County

Financial Statements
Year Ended June 30, 2018

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DONEGAL SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Board of School Directors
Donegal School District
Mount Joy, Pennsylvania

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 Donegal School District, Mount Joy, Pennsylvania as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Donegal School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Change In Accounting Principle

As described in Note 13 to the financial statements, the District changed its method of accounting for pensions as a result of implementing GASB Statement No. 68, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"*. Our opinions are not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited the Donegal School District's 2017 financial statements, and our report dated October 23, 2017 expressed unmodified opinions on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule – General Fund, the schedules of the District's proportionate share of the net pension liability and pension plan contributions, schedule of changes in OPEB liability single-employer plan, and the schedules of the District's proportionate share of the OPEB liability - PSERS and OPEB plan PSERS contributions on pages 3 through 14 and 51 through 56 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 Donegal School District's basic financial statements. The schedule of expenditures of federal awards and certain state grants 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 schedule of expenditures of federal awards and certain state grants is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and certain state grants is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2018, on our consideration of Donegal 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 Donegal School District's internal control over financial reporting and compliance.

BBD, LLP

Philadelphia, Pennsylvania
November 6, 2018

Management's discussion and analysis (***"MD&A"***) of the financial performance of the Donegal School District (the ***"District"***) provides an overview of the District's financial performance for fiscal year ended June 30, 2018. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

DISTRICT PROFILE

The District consists of one elementary school, an intermediate school, a junior high school and a senior high school consisting of approximately 3,000 students. The District covers 34 square miles 10 miles east of the City of Lancaster and is comprised of the Marietta and Mount Joy Boroughs, East Donegal Township and approximately one third of Mount Joy Township. During 2017-2018, there were 397 employees in the District, consisting of 205 teachers, 20 administrators, including general administration, principals, and supervisors, and 172 support personnel including administrative assistants, maintenance staff, custodial staff, transportation staff, food service staff and technology staff.

The mission of the District is to develop each learner as a productive citizen who thoughtfully meets personal, community and global challenges.

FINANCIAL HIGHLIGHTS

- Effective 2017-2018, the District was required to comply with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The major impact of GASB Statement No. 75 is to present, on the Statement of Financial Position (Deficit), certain items related to the District's proportionate liability from its participation in the Commonwealth's Public School Employees' Retirement System (***"PSERS"***) healthcare insurance premium assistance program, which was not required to be presented in the prior years. Consequently, the implementation of GASB Statement No. 75 resulted in an increase in the deficit in the District's unrestricted net position as of June 30, 2018. For consistency purposes, the June 30, 2017 Statement of Net Position (Deficit) has been restated in the financial statements as if GASB Statement No. 75 had been applied, retroactively.

  Elements of GASB Statement No. 75 included within the Statement of Net Position include actuarially determined liabilities for other postemployment benefits single and cost sharing multiple-employer plans of $2,342,577 and $2,827,928, respectively, and deferred outflows of $729,370 (primarily changes in actuarial assumptions under the new standard and contributions subsequent to the measurement date – an effective reduction of the liability) and deferred inflows of $382,000 (difference between expected and actual experience and changes in assumptions, to be recognized as a future reduction in OPEB expense – an effective increase in the liability until fully recognized).

- On a government-wide basis including all governmental activities and the business type activities, the liabilities and deferred inflows of resources of the District exceeded the assets and deferred outflows of resources resulting in a deficit in total net position at the close of the 2017-2018 fiscal year of $8,535,868. During the 2017-2018 fiscal year, the District had a decrease in total net position of $596,171. The net position of governmental activities decreased by $508,065 and the net position of the business-type activities decreased by $88,106.

- The General Fund reported an increase of fund balance of $5,072, bringing the cumulative balance to $11,308,628 at the conclusion of the 2017-2018 fiscal year.

- At June 30, 2018, the General Fund fund balance includes $8,030,000 committed by the School Board for the following purposes:

  - $2,500,000 committed to fund future self insurance expenditures

  - $1,890,000 committed to fund future curriculum initiatives

  - $1,890,000 committed to fund future technology initiatives
  - $1,500,000 committed for equipment and capital improvements
  - $250,000 committed for anticipated increases in the District's required share of retirement contributions

- Actual revenues and other financing sources were $1,904,454 more than budgeted amounts and actual expenditures and other financing uses were $939,472 more than budgeted amounts resulting in a net positive variance of $964,982.

OVERVIEW OF THE FINANCIAL STATEMENTS

The MD&A is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the District’s finances, in a manner similar to a private-sector business.

The *Statement of Net Position (Deficit)* presents information on all of the District’s assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating. To assess the District’s overall health, the reader will need to consider additional nonfinancial factors such as changes in the District’s property tax base and the condition of school buildings and other facilities.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish the functions of the District that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

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

Governmental Activities

Most of the District's basic services are included here, such as regular and special education, support services, maintenance, transportation and administration.

Business-Type Activities

The District charges fees to cover the costs of its food services program.

The government-wide financial statements can be found on Pages 15 and 16 of this report.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the District's funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds

Most of the District's activities are included in the governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the governmental near-term financing decisions. Both the *Balance Sheet – Governmental Funds* and *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds* provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains three major individual governmental funds. Information is presented separately in the *Balance Sheet – Governmental Funds* and *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds* for each of the major funds.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the budget.

The governmental fund financial statements can be found on Pages 17 through 20 of this report.

Proprietary Fund

The District maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Food Service Fund is reported as an enterprise fund of the proprietary fund type.

The proprietary fund financial statements provide separate financial information for its major fund. The proprietary fund financial statements can be found on Pages 21 through 23 of this report.

Fiduciary Fund

The District is the trustee, or fiduciary, for assets that belong to others, consisting of a student activity fund. The District is responsible for ensuring that the assets reported in this fund are used for their intended purpose and by those to whom the assets belong. This fund is used to account for resources held for the benefit of parties outside the District. The fiduciary fund is not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

The fiduciary fund financial statements can be found on Page 24 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The notes to the financial statements can be found on Pages 25 through 50 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which consists of the budgetary comparison schedule for the General Fund, schedules of the District’s proportionate share of the net pension liability and pension plan contributions-PSERS, schedule of changes in OPEB liability single-employer plan, and the schedules of the District’s proportionate share of the net OPEB liability and OPEB plan contributions-PSERS.

The required supplementary information can be found on Pages 51 through 56 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted above, net position may serve over time as a useful indicator of the District's financial condition. At the close of the 2017-2018 fiscal year the District's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by $8,535,868. The following table presents condensed information for the *Statement of Net Position (Deficit)* of the District at June 30, 2018 and 2017.

	Governmental Activities		Business-Type Activities		Totals	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
ASSETS						
Current assets	$ 31,271,381	$ 31,092,388	$ 672,829	$ 685,260	$ 31,944,210	$ 31,777,648
Noncurrent assets	76,972,166	80,238,815	341,816	328,258	77,313,982	80,567,073
Total assets	108,243,547	111,331,203	1,014,645	1,013,518	109,258,192	112,344,721
DEFERRED OUTFLOWS OF RESOURCES	14,640,892	16,147,510	227,520	341,193	14,868,412	16,488,703
LIABILITIES						
Current liabilities	6,582,052	5,760,466	75,025	59,226	6,657,077	5,819,692
Noncurrent liabilities	123,570,391	128,708,966	1,639,004	1,680,158	125,209,395	130,389,124
Total liabilities	130,152,443	134,469,432	1,714,029	1,739,384	131,866,472	136,208,816
DEFERRED INFLOWS OF RESOURCES	781,555	550,775	14,445	13,530	796,000	564,305
NET POSITION (DEFICIT)						
Net investment in capital assets	28,447,067	25,510,872	341,816	328,258	28,788,883	25,839,130
Restricted	13,168,941	13,858,973	-	-	13,168,941	13,858,973
Unrestricted (deficit)	(49,665,567)	(46,911,339)	(828,125)	(726,461)	(50,493,692)	(47,637,800)
Total net position (deficit)	$ (8,049,559)	$ (7,541,494)	$ (486,309)	$ (398,203)	$ (8,535,868)	$ (7,939,697)

The District's total assets as of June 30, 2018 were $109,258,192 of which $26,574,166 or 24.32% consisted of unrestricted cash and investments and $77,313,982 or 70.76% consisted of the District's net investment in capital assets. The District's total liabilities as of June 30, 2018 were $131,866,472 of which $50,136,474 or 38.02% consisted of general obligation debt used to acquire and construct capital assets and $68,551,106 or 51.99% consisted of the actuarially determined net pension liability.

The District had a deficit in unrestricted net position of $50,493,692 at June 30, 2018. The District's unrestricted net position decreased by $2,855,892 during 2017-2018 primarily due to the change in the District's actuarially determined net pension and other post-employment benefit liabilities.

A portion of the District's net position reflects its restricted net position which totaled $13,168,941 as of June 30, 2018. All of the District's restricted net position related to amounts restricted for capital expenditures and debt service.

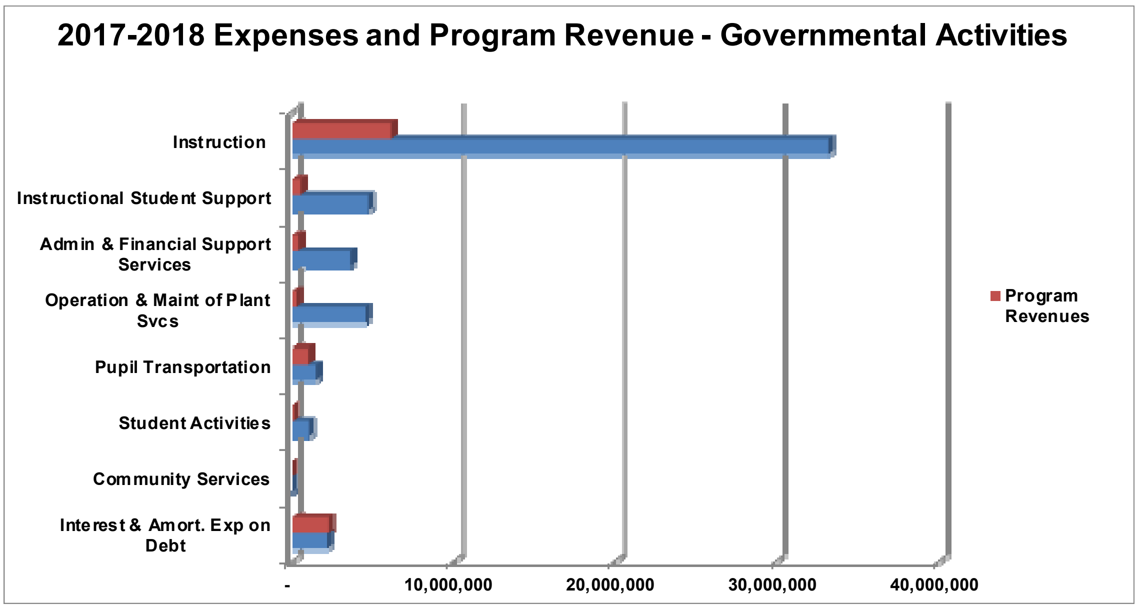
Another portion of the District's net position reflects its investment in capital assets net of accumulated depreciation less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. For the year ended June 30, 2018, the District's net investment in capital assets, increased by $2,949,753 because the debt used to acquire the capital assets was being repaid faster than the capital assets were being depreciated and capital assets were acquired with funding sources other than long-term debt.

The following table presents condensed information for the *Statement of Activities* of the District for 2018 and 2017:

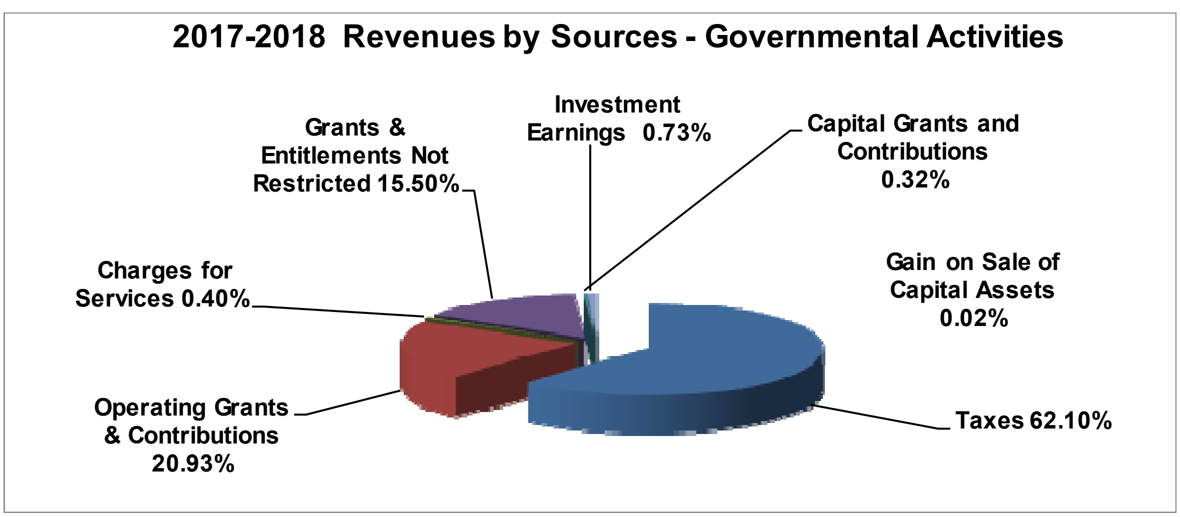
	Governmental Activities		Business-Type Activities		Totals	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
REVENUES						
Program revenues						
Charges for services	$ 202,556	$ 181,177	$ 652,533	$ 643,160	$ 855,089	$ 824,337
Operating grants and contributions	10,545,692	11,580,395	953,787	904,192	11,499,479	12,484,587
Capital grants and contributions	159,000	180,000	-	-	159,000	180,000
General revenues						
Property taxes levied for general purposes	27,844,885	27,032,573	-	-	27,844,885	27,032,573
Earned income taxes levied for general purposes	2,902,793	2,871,797	-	-	2,902,793	2,871,797
Other taxes	538,673	549,868	-	-	538,673	549,868
Grants and entitlements not restricted to specific programs	7,809,089	7,705,976	-	-	7,809,089	7,705,976
Gain on sale of capital assets	8,605	23,545	-	-	8,605	23,545
Investment earnings	365,899	69,895	575	596	366,474	70,491
Total revenues	50,377,192	50,195,226	1,606,895	1,547,948	51,984,087	51,743,174
EXPENSES						
Instruction	33,276,618	31,608,364	-	-	33,276,618	31,608,364
Instructional student support services	4,742,422	4,412,550	-	-	4,742,422	4,412,550
Administrative and financial support services	3,609,932	4,159,014	-	-	3,609,932	4,159,014
Operation and maintenance of plant services	4,542,481	4,306,368	-	-	4,542,481	4,306,368
Pupil transporation	1,474,091	1,501,152	-	-	1,474,091	1,501,152
Student activities	1,060,195	1,108,350	-	-	1,060,195	1,108,350
Community services	4,866	6,131	-	-	4,866	6,131
Interest and amortization expense related to non-current liabilities	2,174,652	2,162,509	-	-	2,174,652	2,162,509
Food service	-	-	1,695,001	1,724,879	1,695,001	1,724,879
Total expenses	50,885,257	49,264,438	1,695,001	1,724,879	52,580,258	50,989,317
CHANGE IN NET POSITION (DEFICIT)	$ (508,065)	$ 930,788	$ (88,106)	$ (176,931)	$ (596,171)	$ 753,857

During 2017-2018, the District's net position decreased by $596,171 in part due to increased medical costs, pension contributions, state-mandated programs and negotiated contracts. Management of the District continues to aggressively implement cost efficiencies and revenue-generating strategies to combat these factors. In the governmental activities, the District's assessed property tax base drives the majority of the revenue generated. A majority of the District's property tax base is in the form of residential housing. Although the District is primarily a residential community, the District also has a property tax base derived from commercial facilities.

The *Statement of Activities* provides detail that focuses on how the District finances its services. The *Statement of Activities* compares the costs of the District functions and programs with the resources those functions and programs generate themselves in the form of program revenues. As demonstrated by the following graph, all of the District's governmental activities are not self-supporting, raising enough program revenue to cover their costs, as most traditional governmental services are not.



To the degree that the District's functions or programs cost more than they raise, the *Statement of Activities* shows how the District chose to finance the difference through general revenues. The following chart shows that the District relies on tax revenues to finance its governmental activities.



GOVERNMENTAL FUNDS

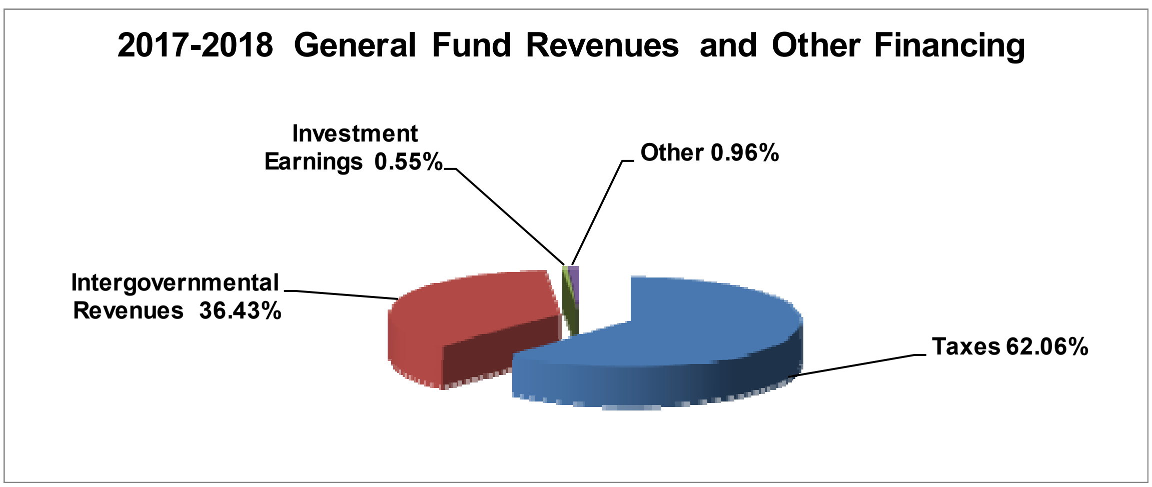
The governmental fund financial statements provide detailed information of the District's major funds. Some funds are required to be established by State statute while other funds are established by the District to manage monies restricted for a specific purpose. As of June 30, 2018, the District's governmental funds reported a combined fund balance of $24,477,569 which is a decrease of $684,960 from the prior year. The following table summarizes the District's total governmental fund balances as of June 30, 2018 and 2017 and the total 2018 change in governmental fund balances.

	2018	2017	Change
General Fund	$ 11,308,628	$ 11,303,556	$ 5,072
Capital Projects Fund	11,186,681	12,113,403	(926,722)
Debt Service Fund	1,982,260	1,745,570	236,690
	$ 24,477,569	$ 25,162,529	$ (684,960)

GENERAL FUND

The General Fund is the District's primary operating fund. At the conclusion of the 2017-2018 fiscal year, the General Fund fund balance was $11,308,628 representing an increase of $5,072 in relation to the prior year. The increase in the District's General Fund fund balance is due to many factors. The following analysis has been provided to assist the reader in understanding the financial activities of the General Fund during the 2017-2018 fiscal year.

The District's reliance upon tax revenues is demonstrated by the graph below that indicates 62.06% of General Fund revenues are derived from local taxes.



General Fund Revenues and Other Financing Sources

	2018	2017	Change	% Change
Tax revenues	$ 31,266,834	$ 30,521,120	$ 745,714	2.44%
Intergovernmental revenues	18,354,781	19,269,210	(914,429)	-4.75%
Investment earnings	277,681	125,736	151,945	120.84%
Other	483,898	621,890	(137,992)	-22.19%
	$ 50,383,194	$ 50,537,956	$ (154,762)	-0.31%

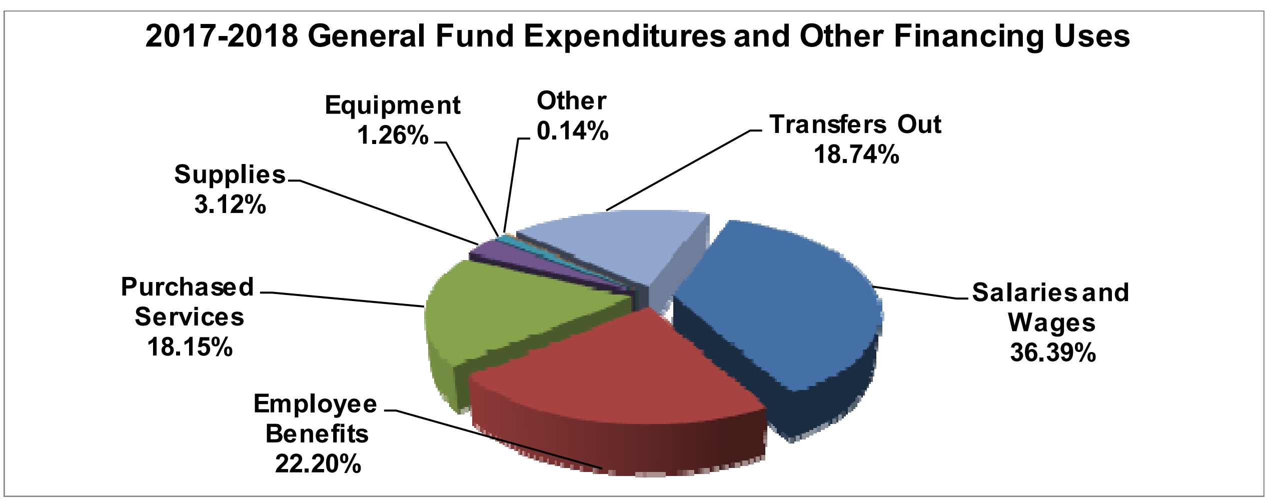
Net tax revenues increased by $745,714 or 2.44% due to several factors. Compared to 2016-2017, the real estate tax millage rate increased 1.85% in 2017-2018. The District also saw an increase in collections for real estate taxes which also then contributed to less delinquent real estate taxes collected. The following table summarizes changes in the District's tax revenues for 2018 compared to 2017:

	2018	2017	Change	% Change
Real estate tax	$ 27,193,561	$ 26,471,613	$ 721,948	2.73%
Interim tax	246,296	171,327	74,969	43.76%
PURTA tax	30,562	32,987	(2,425)	-7.35%
Local services tax	41,014	36,435	4,579	12.57%
Earned income tax	2,902,793	2,871,797	30,996	1.08%
Transfer tax	466,558	477,329	(10,771)	-2.26%
Delinquent real estate tax	385,511	456,515	(71,004)	-15.55%
Delinquent per capita tax	539	3,117	(2,578)	-82.71%
	$ 31,266,834	$ 30,521,120	$ 745,714	2.44%

Intergovernmental revenues decreased primarily due to the prior year, 2016-2017, including the deferred one-time subsidies related to the state program to reimburse costs associated with construction projects (Plancon). If the Plancon subsidy was taken from the equation for 2017-2018, total intergovernmental revenues would have increased in comparison to the prior year, due to the additional funding received for the state retirement subsidy which increased proportionately with the employer annual contribution percentage. Also, the District received additional federal funding in 2017-2018 compared to 2016-2017.

Investment earnings increased significantly compared to the prior year due to the current favorable economic conditions.

As the graph below illustrates, the largest portion of General Fund expenditures are for salaries and benefits. The District is an educational service entity and as such is labor intensive.



General Fund Expenditures and Other Financing Uses

	2018	2017	Change	% Change
Salaries and wages	$ 18,482,647	$ 18,164,410	$ 318,237	1.75%
Employee benefits	11,364,340	11,082,330	282,010	2.54%
Purchased services	9,987,462	9,058,893	928,569	10.25%
Supplies	1,575,303	1,555,705	19,598	1.26%
Equipment	312,470	626,784	(314,314)	-50.15%
Other	94,758	78,856	15,902	20.17%
Transfers out	8,561,142	9,352,913	(791,771)	-8.47%
	$ 50,378,122	$ 49,919,891	$ 458,231	0.92%

Salaries and wages increased primarily due to matrix movement in the professional staff and additional long term substitute costs. During 2017-2018, long term substitute costs were approximately $213,000 while the prior year, 2016-2017, was only $105,000. The increased costs were due to 8 professional staff members taking either partial or the full school year as an unpaid leave requiring long term subs.

Employee benefits increased from the prior year due primarily to the retirement rate increase. The retirement employer contribution rate for 2017-2018 was 32.57% compared to 30.03% in 2016-2017.

Purchased services saw the largest increase compared to the prior year due predominantly to an increase in special education services rendered and tuition paid to other educational agencies. This was due in part to an increase in students qualifying for special education services and an increase in the types of services required. The tuition cost increases compared to the prior year were due to a change in the methodology of calculating the per pupil tuition rate required by the Pennsylvania Department of Education. The rate was previously calculated using prior years' actual amounts but was changed in the middle of the 2017-2018 year to rely on budgeted amounts. This change in calculation methodology resulted in the regular education per pupil tuition rate increasing 19% and the special education per pupil tuition rate increasing 16%.

Transfers out decreased due to the prior year's, 2016-2017, transfers including additional transfers resulting from the one-time subsidy reimbursement from Plancon and savings realized from the refinancing of general obligation bonds.

CAPITAL PROJECTS FUND

The Capital Projects Fund accounts for construction and renovation activity associated with the District's buildings and major equipment purchases. The Capital Projects Fund receives the majority of its revenues from the issuance of general obligation debt and transfers from the General Fund. During 2017-2018, the Capital Projects Fund reported a decrease in fund balance of $926,722 due to capital expenditures in excess of amounts transferred from the General Fund. The remaining fund balance of $11,186,681 as of June 30, 2018 is restricted for future capital expenditures.

DEBT SERVICE FUND

The Debt Service Fund accounts for the interest and principal payments due on the District's outstanding general obligation debt. Transfers are made during the year from the General Fund to finance debt service payments as they become due.

Pursuant to loan agreements with the State Public School Building Authority under its Qualified School Construction Bonds program, the District established a Debt Sinking Fund. The District is required to make deposits annually into the Debt Sinking Fund. The deposits and investment earnings on the deposits are available for payment of maturities under the loan agreement.

As of June 30, 2018, the fund balance in the Debt Service Fund was $1,982,260 and is restricted for future debt service expenditures.

GENERAL FUND BUDGET INFORMATION

Actual revenues and other financing sources were $1,904,454 more than budgeted amounts and actual expenditures and other financing uses were $939,472 more than budgeted amounts resulting in a net positive variance of $964,982. Major budgetary highlights for 2017-2018 were as follows:

Local source revenues exceeded budgeted amounts by $1,012,692, resulting from higher than anticipated collections for earned income and real estate taxes. The District also experienced more favorable investments earnings than was anticipated when the budget was prepared. The contribution by the Donegal Athletic Club in the amount of $160,000 also contributed to the variance. These funds were then transferred to the Capital Projects Fund and utilized on the athletic complex.

State and Federal source revenues exceeded budgeted amounts by $883,157 and was due to receipt of the deferred payments for reimbursement of costs associated with previous construction projects (Plancon). In addition, the District budgeted either modest to no increases in its Basic Education as well as Title I program revenues.

Regular program expenditures were $709,663 less than budget. The favorable variance is primarily due to amounts under expended for professional salaries and corresponding benefits.

Special education costs were $266,927 more than budget. The unfavorable variance is primarily due to an increase in special education services rendered. The District also saw an increase with its special education contract with the Lancaster-Lebanon Intermediate Unit #13.

Total support services expenditures were $614,335 less than budget due to a several factors. The favorable variance can be attributed to amounts under expended for salaries and benefits. Also, the District experienced cost savings related to utility usage and less transportation services being required than anticipated.

BUSINESS-TYPE ACTIVITIES AND FOOD SERVICE FUND

During 2017-2018, the net position of the business-type activities and Food Service Fund decreased by $88,106. As of June 30, 2018, the business-type activities and Food Service Fund had a deficit in net position of $486,309.

CAPITAL ASSETS

The District's net investment in capital assets for its governmental and business-type activities as of June 30, 2018 amounted to $77,313,982 net of accumulated depreciation. This investment in capital assets includes land, site improvements, buildings and improvements, furniture and equipment and vehicles. The total decrease in the District's net investment in capital assets for the current fiscal year was $3,253,091 or 4.04%. The decrease was the result of current year depreciation expense in excess of current year capital additions.

Current year capital additions were $1,172,482 and depreciation expense was $4,425,573.

Major capital additions for the current fiscal year included the following:

- Donegal Junior High auxiliary gym (DIG) renovation – construction in progress $437,458
- Donegal Primary School building envelope – construction in progress $257,489

NONCURRENT LIABILITIES

At the end of the current fiscal year, the District had total general obligation debt of $50,136,474 consisting of $25,040,000 in bonds payable, $22,950,000 in qualified school construction bonds and net deferred credits of $2,146,474. The entire amount is backed by the full faith and credit of the District. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior obligation debt. The District's general obligation debt decreased by $6,433,040 or 11.37% during the fiscal year.

State statutes limit the amount of general obligation debt the District may issue up to 225% of its borrowing base capacity which is calculated as the annual arithmetic average of the total revenues for the preceding three fiscal years. The current debt limitation for the District is $106,735,283 which exceeds the District's outstanding general obligation debt as of June 30, 2018.

The District maintains an AA rating from Standard and Poor's.

The District reports its allocated portion of its defined benefit unfunded benefit obligation related to its participation in PSERS. The District's allocated portion of the net pension liability is an actuarially determined estimate of the unfunded cost of the pension plan obligation which totaled $68,601,107 as of June 30, 2018. The District's net pension liability increased by $857,107 or 1.27% during the fiscal year.

The District reports a liability for its other post-employment benefits (***"OPEB"***) related to its single employer OPEB plan and its participation in the PSERS health insurance premium assistance program. The District’s net OPEB liability is an actuarially determined estimate of the unfunded cost of the OPEB obligation which totaled $5,170,505 as of June 30, 2018. The District’s net OPEB liability increased by $359,301 or 7.47% during the fiscal year.

Other noncurrent liabilities consist of the District's liabilities for accrued retirement bonuses and compensated absences, which totaled $1,301,309 as of June 30, 2018. These liabilities increased by $36,903 or 2.92% during the fiscal year.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District continues to be strong financially, however there continues to be concerns regarding the economic and political outlook for the state and local community. There remains uncertainty surrounding the future of real estate tax collection in the state of Pennsylvania with a desire to enact legislation for Property Tax Reform. The District relies heavily on real estate collection, approximately 49.00% of total revenues comes from real estate taxes.

With the passage of Act 1 in 2006, there remains a "ceiling" on the percentage increase of local real estate taxes that can be levied. For the 2018-2019 fiscal year, the District was allowed to increase the real estate property tax rate by 3.10% under the Act 1 index. However, the board approved property tax rate increase for the 2018-2019 fiscal year was 1.00 %. The index for the 2019-2020 budget for the District is 3.00%. The administration continues to review revenue projections and to identify ways to reduce operating costs in an effort to develop a balanced budget that provides adequate current revenue to cover current expenditures.

The cost of mandated employee retirement benefits through the Pennsylvania Public School Employees’ Retirement System (***"PSERS"***) continues to burden the District. The employer contribution rate for the 2017-2018 school year was 32.57% which is a significant rise compared to a decade prior, the 2008-2009 employer contributions rate was just 4.76%. The employer contribution for the 2018-2019 school year was certified by the legislature to be 33.43%. PSERS rates are estimated to continue increasing to a projected 36.40% employer contribution expense in the 2021-2022 school year.

The District offers a competitive benefits package to employees through the District’s self-insured plan. As such actual health care costs continue to be a concern for the District’s budget. The District has seen a steady rise in health insurance costs and will continue to research strategies to lower the pace of medical inflation.

The Board has established five committed fund balances; self–insurance, curriculum, technology, equipment and capital projects, and PSERS. The District is self-insured for its health care costs and amounts committed for self-insurance will protect the District’s assets from medical claims which may from time to time exceed the current year’s budgeted expenses. The fund balance committed for curriculum will help the District to fund major curriculum changes that are expected in the next few years. The committed fund balance for technology will be utilized to fund a seven-year technology refresh cycle and its one to one initiative so that the District can maintain adequate technology to continue its educational programs. The fund balance committed for equipment and capital projects will be utilized to fund major maintenance or instructional equipment or furniture needed that exceed the current year’s budget. The fund balance committed for PSERS was established to offset the anticipated, significant increase in mandated contributions to the school employee retirement program.

The actual enrollment in the District at October 1, decreased by 12 students from 2016-2017 to 2017-2018. Over the last few years the District has experienced a slight increase in total enrollment but does not expect a significant growth in student population in the future. The District will continue to watch for trends that will impact growth and/or decline in student population; however, no formal study has been undertaken in recent years.

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Business Services, Donegal School District, 1051 Koser Road, Mount Joy, PA 17552.

DONEGAL SCHOOL DISTRICT

STATEMENT OF NET POSITION (DEFICIT)

June 30, 2018 with summarized comparative totals for 2017

	Governmental Activities	Business-type Activities	Totals 2018	Totals 2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
CURRENT ASSETS				
Cash	$ 9,357,666	$ 671,535	$ 10,029,201	$ 5,951,990
Investments	16,544,965	-	16,544,965	20,820,234
Restricted assets:				
Cash held by fiscal agent	783	-	783	1,110
Investments held by fiscal agent	1,981,477	-	1,981,477	1,744,460
Taxes receivable	1,047,698	-	1,047,698	1,019,908
Due from other governments	2,085,601	12,621	2,098,222	2,080,418
Internal balances	57,190	(57,190)	-	-
Other receivables	191,379	-	191,379	116,397
Prepaid expenses	4,622	-	4,622	3,962
Inventories	-	45,863	45,863	39,169
Total current assets	31,271,381	672,829	31,944,210	31,777,648
NONCURRENT ASSETS				
Capital assets, net	76,972,166	341,816	77,313,982	80,567,073
Total assets	108,243,547	1,014,645	109,258,192	112,344,721
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amounts on debt refunding	1,611,375	-	1,611,375	1,841,571
Deferred charges on proportionate share of pension - PSERS	12,302,341	225,326	12,527,667	14,146,021
Deferred charges OPEB - single employer	424,722	-	424,722	351,152
Deferred charges on proportionate share of OPEB - PSERS	302,454	2,194	304,648	149,959
Total deferred outlfows of resources	14,640,892	227,520	14,868,412	16,488,703
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)				
CURRENT LIABILITIES				
Accounts payable	1,624,638	34,226	1,658,864	970,806
Accrued salaries, payroll withholdings and benefits	4,316,282	3,722	4,320,004	4,021,278
Accrued interest payable	467,758	-	467,758	490,607
Unearned revenue	173,374	37,077	210,451	337,001
Total current liabilities	6,582,052	75,025	6,657,077	5,819,692
NONCURRENT LIABILITIES				
Due within one year	3,278,040	-	3,278,040	3,208,058
Due in more than one year	120,292,351	1,639,004	121,931,355	127,181,066
Total noncurrent liabilities	123,570,391	1,639,004	125,209,395	130,389,124
Total liabilities	130,152,443	1,714,029	131,866,472	136,208,816
DEFERRED INFLOWS OF RESOURCES				
Deferred credits on proportionate share of pension - PSERS	404,709	9,291	414,000	564,305
Deferred credits on proportionate share of OPEB - PSERS	376,846	5,154	382,000	-
Total deferred inflows of resources	781,555	14,445	796,000	564,305
NET POSITION (DEFICIT)				
Net investment in capital assets	28,447,067	341,816	28,788,883	25,839,130
Restricted	13,168,941	-	13,168,941	13,858,973
Unrestricted (deficit)	(49,665,567)	(828,125)	(50,493,692)	(47,637,800)
Total net position (deficit)	$ (8,049,559)	$ (486,309)	$ (8,535,868)	$ (7,939,697)

See accompanying notes

DONEGAL SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year ended June 30, 2018 with summarized comparative totals for 2017

		Program Revenues			Net (Expense) Revenue and Changes in Net Position (Deficit)			
							Totals	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	2018	2017
GOVERNMENTAL ACTIVITIES								
Instruction	$ 33,276,618	$ 112,061	$ 6,035,409	$ -	$ (27,129,148)	$ -	$ (27,129,148)	$ (25,614,099)
Instructional student support services	4,742,422	-	533,082	-	(4,209,340)	-	(4,209,340)	(3,930,097)
Administrative and financial support services	3,609,932	12,292	388,898	-	(3,208,742)	-	(3,208,742)	(3,747,399)
Operation and maintenance of plant services	4,542,481	38,926	232,796	-	(4,270,759)	-	(4,270,759)	(4,073,793)
Pupil transportation	1,474,091	-	996,694	-	(477,397)	-	(477,397)	(476,257)
Student activities	1,060,195	39,277	82,499	159,000	(779,419)	-	(779,419)	(788,319)
Community services	4,866	-	-	-	(4,866)	-	(4,866)	(6,131)
Interest and amortization expense related to noncurrent liabilities	2,174,652	-	2,276,314	-	101,662	-	101,662	1,313,229
Total governmental activities	50,885,257	202,556	10,545,692	159,000	(39,978,009)	-	(39,978,009)	(37,322,866)
BUSINESS-TYPE ACTIVITIES								
Food service	1,695,001	652,533	953,787	-	-	(88,681)	(88,681)	(177,527)
Total primary government	$ 52,580,258	$ 855,089	$ 11,499,479	$ 159,000	(39,978,009)	(88,681)	(40,066,690)	(37,500,393)
GENERAL REVENUES								
Property taxes levied for general purposes					27,844,885	-	27,844,885	27,032,573
Earned income taxes levied for general purposes					2,902,793	-	2,902,793	2,871,797
Other taxes levied for general purposes					538,673	-	538,673	549,868
Grants and entitlements not restricted to specific programs					7,809,089	-	7,809,089	7,705,976
Gain on sale of capital assets					8,605	-	8,605	23,545
Investment earnings					365,899	575	366,474	70,491
Total general revenues					39,469,944	575	39,470,519	38,254,250
CHANGE IN NET POSITION (DEFICIT)					(508,065)	(88,106)	(596,171)	753,857
NET POSITION (DEFICIT)								
Beginning of year					(7,541,494)	(398,203)	(7,939,697)	(8,693,554)
End of year					$ (8,049,559)	$ (486,309)	$ (8,535,868)	$ (7,939,697)

See accompanying notes

DONEGAL SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2018 with summarized comparative totals for 2017

	Major Funds			Totals	
	General Fund	Capital Projects Fund	Debt Service Fund	2018	2017
ASSETS					
Cash	$ 7,546,420	$ 1,811,246	$ -	$ 9,357,666	$ 5,245,242
Investments	9,205,188	7,339,777	-	16,544,965	20,820,234
Restricted assets:					
Cash held by fiscal agent	-	-	783	783	1,110
Investments held by fiscal agent	-	-	1,981,477	1,981,477	1,744,460
Taxes receivable	1,047,698	-	-	1,047,698	1,019,908
Due from other funds	57,190	2,597,000	-	2,654,190	2,215,763
Due from other governments	1,716,079	-	-	1,716,079	1,706,365
Other receivables	191,379	-	-	191,379	116,304
Prepaid items	4,622	-	-	4,622	3,962
Total assets	$ 19,768,576	$ 11,748,023	$ 1,982,260	$ 33,498,859	$ 32,873,348
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
LIABILITIES					
Accounts payable	$ 1,063,296	$ 561,342	$ -	$ 1,624,638	$ 953,941
Due to other funds	2,597,000	-	-	2,597,000	2,150,482
Accrued salaries, payroll withholdings and benefits	4,316,282	-	-	4,316,282	4,014,062
Unearned revenues	173,374	-	-	173,374	301,856
Total liabilities	8,149,952	561,342	-	8,711,294	7,420,341
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues - property and per capita taxes	309,996	-	-	309,996	290,478
FUND BALANCES					
Nonspendable					
Prepaid items	4,622	-	-	4,622	3,962
Restricted for					
Capital projects	-	11,186,681	-	11,186,681	12,113,403
Debt service	-	-	1,982,260	1,982,260	1,745,570
Committed to					
Self-insured health insurance	2,500,000	-	-	2,500,000	2,500,000
Curricumlum initiatives	1,890,000	-	-	1,890,000	1,890,000
Technology initiatives	1,890,000	-	-	1,890,000	1,890,000
Equipment and capital improvements	1,500,000	-	-	1,500,000	1,500,000
Retirement rate stabilization	250,000	-	-	250,000	250,000
Unassigned	3,274,006	-	-	3,274,006	3,269,594
Total fund balances	11,308,628	11,186,681	1,982,260	24,477,569	25,162,529
Total liabilities, deferred inflows of resources and fund balances	$ 19,768,576	$ 11,748,023	$ 1,982,260	$ 33,498,859	$ 32,873,348

See accompanying notes

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION (DEFICIT)

June 30, 2018

TOTAL GOVERNMENTAL FUND BALANCES	$ 24,477,569
Amounts reported for governmental activities in the statement of net position (deficit) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.	76,972,166
Deferred outflows of resources for deferred amounts on debt refunding are currently expended in the governmental funds, whereas they are capitalized and amortized over the life of the respective debt in the government-wide statement of net position (deficit).	1,611,375
Deferred outflows of resources and deferred inflows of resources related to pensions and other post-employment benefits are not reported as assets and liabilities in the governmental funds balance sheet.	12,247,962
Some of the District's property and per capita taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflows of resources on the governmental funds balance sheet.	309,996
Receivables related to subsidies for long-term debt are not available to pay for current period expenditures and thus are not recognized in the governmental funds but are recognized in the statement of net position (deficit).	369,522
Noncurrent liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds balance sheet.	(123,570,391)
Accrued interest payable on long-term liabilities is included in the statement of net position (deficit), but is excluded from the governmental funds balance sheet until due and payable.	(467,758)
NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES	$ (8,049,559)

See accompanying notes

DONEGAL SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year ended June 30, 2018 with summarized comparative totals for 2017

	Major Funds			Totals	
	General Fund	Capital Projects Fund	Debt Service Fund	2018	2017
REVENUES					
Local sources	$ 32,212,030	$ 133,059	$ (44,840)	$ 32,300,249	$ 31,405,185
State sources	15,865,651	-	-	15,865,651	16,859,142
Federal sources	2,296,908	-	-	2,296,908	2,194,243
Total revenues	50,374,589	133,059	(44,840)	50,462,808	50,458,570
EXPENDITURES					
Current					
Instruction	28,412,392	-	-	28,412,392	27,306,605
Support services	12,645,755	-	-	12,645,755	12,849,049
Operation of noninstructional services	758,637	-	-	758,637	792,860
Facilities acquisition, construction and improvement services	-	939,047	-	939,047	868,952
Debt service	-	3,344,734	5,055,612	8,400,346	2,621,647
Total expenditures	41,816,784	4,283,781	5,055,612	51,156,177	44,439,113
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	8,557,805	(4,150,722)	(5,100,452)	(693,369)	6,019,457
OTHER FINANCING SOURCES (USES)					
Sale of/compensation for capital assets	8,605	-	-	8,605	23,545
Refund of prior year receipts	(196)	-	-	(196)	-
Issuance of debt - refunding	-	-	-	-	22,495,000
Payment of debt - refunding	-	-	-	-	(23,211,571)
Bond premiums	-	-	-	-	1,098,107
Transfers in	-	3,224,000	5,337,142	8,561,142	9,352,913
Transfers out	(8,561,142)	-	-	(8,561,142)	(9,352,913)
Total other financing sources (uses)	(8,552,733)	3,224,000	5,337,142	8,409	405,081
NET CHANGE IN FUND BALANCES	5,072	(926,722)	236,690	(684,960)	6,424,538
FUND BALANCES					
Beginning of year	11,303,556	12,113,403	1,745,570	25,162,529	18,737,991
End of year	$ 11,308,628	$ 11,186,681	$ 1,982,260	$ 24,477,569	$ 25,162,529

See accompanying notes

DONEGAL SCHOOL DISTRICT

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF ACTIVITIES

Year ended June 30, 2018

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS		$ (684,960)
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 and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.		
Capital outlay expenditures	$ 1,055,917	
Depreciation expense	(4,322,566)	(3,266,649)
Because some property and per capita taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred inflows of resources increased by this amount in the current period.		
Deferred inflows of resources June 30, 2017	(290,478)	
Deferred inflows of resources June 30, 2018	309,996	19,518
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on the change in net position of governmental activities. Also, governmental funds report the effect of premiums, discounts and similar items when long-term debt is 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 debt and related items.		
Repayment of bonds and note payable	6,190,000	
Amortization of discounts, premiums and deferred amounts on refunding	12,844	6,202,844
Some expenses reported in the statement of activities do not require the use of current financial resources, and, therefore are not reported as expenditures on governmental funds.		
Current year change in accrued interest payable	22,849	
Current year change in accrued retirement bonus	(23,044)	
Current year change in compensated absences	(17,568)	
Current year change in net pension liability - PSERS and deferred outflows and inflows	(2,251,424)	
Current year change in OPEB liability - single employer and deferred outflows and inflows	(402,306)	
Current year change in net OPEB liability - PSERS and deferred outflows and inflows	(107,325)	(2,778,818)
CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES		$ (508,065)

See accompanying notes

DONEGAL SCHOOL DISTRICT

STATEMENT OF NET POSITION (DEFICIT) - PROPRIETARY FUND

June 30, 2018 with summarized comparative totals for 2017

	Food Service Fund	
	2018	**2017**
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash	$ 671,535	$ 706,748
Due from other funds	-	482
Due from other governments	12,621	4,531
Other receivables	-	93
Inventories	45,863	39,169
Total current assets	730,019	751,023
NONCURRENT ASSETS		
Capital assets, net	341,816	328,258
Total assets	1,071,835	1,079,281
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charges on proportionate share of pension - PSERS	225,326	339,170
Deferred charges on proportionate share of OPEB - PSERS	2,194	2,023
Total deferred outflows of resources	227,520	341,193
LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION (DEFICIT)		
LIABILITIES		
Accounts payable	34,226	16,865
Due to other funds	57,190	65,763
Accrued salaries, payroll withholdings and benefits	3,722	7,216
Unearned revenue	37,077	35,145
Total current liabilities	132,215	124,989
NONCURRENT LIABILITIES		
Accrued retirement bonus	12,471	16,179
Net OPEB liability	38,153	39,725
Net pension liability	1,588,380	1,624,254
Total noncurrent liabilities	1,639,004	1,680,158
Total liabilities	1,771,219	1,805,147
DEFERRED INFLOWS OF RESOURCES		
Deferred credits on proportionate share of pension - PSERS	9,291	13,530
Deferred credits on proportionate share of OPEB - PSERS	5,154	-
Total deferred inflows of resources	14,445	13,530
NET POSITION (DEFICIT)		
Net investment in capital assets	341,816	328,258
Unrestricted (deficit)	(828,125)	(726,461)
Total net position (deficit)	$ (486,309)	$ (398,203)

See accompanying notes

DONEGAL SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (DEFICIT) - PROPRIETARY FUND

Year ended June 30, 2018 with summarized comparative totals for 2017

	Food Service Fund	
	2018	**2017**
OPERATING REVENUES		
Charges for services	$ 652,533	$ 643,160
OPERATING EXPENSES		
Salaries	424,297	446,215
Employee benefits	351,244	405,100
Purchased professional and technical services	21,216	22,155
Purchased property services	12,244	14,983
Supplies	780,769	739,943
Depreciation	103,007	94,812
Other operating expenses	2,224	1,671
Total operating expenses	1,695,001	1,724,879
Operating loss	(1,042,468)	(1,081,719)
NONOPERATING REVENUES		
Earnings on investments	575	596
State sources	128,645	128,759
Federal sources	825,142	775,433
Total nonoperating revenues	954,362	904,788
CHANGE IN NET POSITION (DEFICIT)	(88,106)	(176,931)
NET POSITION (DEFICIT)		
Beginning of year	(398,203)	(221,272)
End of year	$ (486,309)	$ (398,203)

See accompanying notes

DONEGAL SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year ended June 30, 2018 with summarized comparative totals for 2017

	Food Service Fund	
	2018	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from charges for services	$ 654,558	$ 647,195
Cash payments to employees for services	(714,174)	(736,903)
Cash payments to supplies for goods and services	(671,403)	(649,012)
Cash payments for other operating expenses	(2,224)	(1,671)
Net cash used for operating activities	(733,243)	(740,391)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State sources	128,161	129,728
Federal sources	685,859	672,735
Net cash provided by noncapital financing activities	814,020	802,463
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(116,565)	(19,726)
CASH FLOWS FROM INVESTING ACTIVITIES		
Earnings on investments	575	596
Net increase (decrease) in cash	(35,213)	42,942
CASH		
Beginning of year	706,748	663,806
End of year	$ 671,535	$ 706,748
Reconciliation of operating loss to net cash provided by (used for) operating activities:		
Operating income (loss)	$ (1,042,468)	$ (1,081,719)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities		
Depreciation	103,007	94,812
Donated commodities used	131,677	113,986
(Increase) decrease in		
Due from other funds	482	161
Other receivables	93	1,696
Inventories	(6,694)	63
Deferred outflows of resources	113,673	(165,904)
Increase (decrease) in		
Accounts payable	17,361	13,859
Due to other funds	(8,573)	(7,002)
Accrued salaries, payroll withholdings and benefits	(3,494)	235
Unearned revenue	1,932	2,339
Accrued retirement bonus	(3,708)	(8,033)
Net OPEB liability	(1,572)	-
Net pension liability	(35,874)	298,140
Deferred inflows of resources	915	(3,024)
Net cash used for operating activities	$ (733,243)	$ (740,391)
SUPPLEMENTAL DISCLOSURE		
Noncash noncapital financing activity		
USDA donated commodities	$ 131,677	$ 113,986

See accompanying notes

DONEGAL SCHOOL DISTRICT

STATEMENT OF NET POSITION - FIDUCIARY FUND

June 30, 2018 with summarized comparative totals for 2017

	Agency Fund	
	2018	**2017**
ASSETS		
Cash	$ 66,699	$ 69,449
Other accounts receivable	-	436
Total assets	66,699	69,885
LIABILITIES		
Accounts payable	6,149	9,436
Due to student groups	60,550	60,449
Total liabilities	$ 66,699	$ 69,885

See accompanying notes

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Donegal School District (the ***"District"***) operates one elementary school, one intermediate school, one junior high school and a senior high school to provide education and related services to the residents in the Boroughs of Marietta and Mount Joy, East Donegal Township and approximately one third of Mount Joy Township. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania as a school district of the third class. The District operates under a locally elected nine-member board form of government (the ***"School Board"***).

The financial statements of the District have been prepared in accordance with generally accepted accounting principles (***"GAAP"***) as applied to governmental units. The Governmental Accounting Standards Board (***"GASB"***) is the 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

GASB has established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. In evaluating the District as a reporting entity, management has addressed all potential component units which may or may not fall within the District's accountability. The criteria used to evaluate component units for possible inclusion as part of the District's reporting entity are financial accountability and the nature and significance of the relationship. The District is considered to be an independent reporting entity and has no component units.

Basis of Presentation

Government-Wide Financial Statements

The statement of net position (deficit) and the statement of activities display information about the District as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities. These statements include the financial activities of the primary government except for fiduciary funds.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flow. 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 as further defined below. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements of governmental funds.

The government-wide statement of net position (deficit) presents the financial position of the District which is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources and is classified in one of three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing or improving those assets. The net position of the District is reported as restricted when constraints placed on net position use is either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Unrestricted net position is the net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

The statement of net position (deficit) includes separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time.

The government-wide statement of activities presents a comparison between expenses and program revenues for each function of the business-type activities of the District and for each governmental function. Expenses are those that are specifically associated with a service or program and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the District.

Except for interfund activity and balances between the funds that underlie governmental activities and the funds that underlie business-type activities, which are reported as transfers and internal balances, the effect of interfund activity has been removed from these statements.

Fund Financial Statements

During the school year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Fiduciary fund financial statements are presented by fund type.

Governmental Funds

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. The District reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Projects Fund accounts for financial resources restricted, committed or assigned to be used for capital expenditures or for the acquisition, construction of capital facilities, improvements and/or equipment.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term principal, interest and other related costs.

Revenue Recognition

In applying the "susceptible to accrual concept" under the modified accrual basis, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Deferred inflows of resources are reported in connection with receivables for tax revenues that are not considered to be available to liquidate liabilities of the current period. Revenue from federal, state and other grants designated for payment of specific District expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as unearned revenues until earned. Other receipts are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, special termination benefits, other post-employment benefits and claims and judgments are recorded only when payment is due. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Proprietary Funds

Like the government-wide financial statements, proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Allocations of certain costs, such as depreciation, are recorded in proprietary funds. The District reports the following proprietary fund:

The Food Service Fund accounts for the revenues and costs of providing meals to students during the school year.

These funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the District's proprietary funds are charges for services. Operating expenses for the District's proprietary funds include payroll, employee benefits, supplies and administrative costs. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary Funds

Fiduciary funds account for the assets held by the District as a trustee or agent for individuals, private organizations and/or governmental units and are, therefore, not available to support the District's own programs. The District accounts for these assets in an agency fund. The agency fund accounts for funds held on behalf of the students in the District. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

Investments are stated at fair value based upon quoted market prices, except for certificates of deposit which are recorded at cost, which approximates fair value.

Fair Value Measurements of Assets and Liabilities

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the District. Unobservable inputs reflect the District's assumptions about the inputs market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the District has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these assets and liabilities does not require a significant degree of judgment.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable, that is, inputs that reflect the District's own assumptions.

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/due from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes

Taxes are levied on July 1 and are payable in the following periods:

July 1 – August 31	-	Discount period, 2% of gross levy
September 1 – October 31	-	Face period
November 1 to collection	-	Penalty period, 10% of gross levy
January 1	-	Lien date

The County Board of Assessments determines assessed valuations of property, and the District bills and collects its own property taxes. The tax on real estate for public school purposes for fiscal 2017-2018 was 22.879 mills ($22.88 for $1,000 of assessed valuation). The District experiences very small losses from uncollectible property taxes. Property taxes constitute a lien against real property and usually can be collected in full when title transfers. Only balances that remain after tax sales are written off each year. Accordingly, an allowance for doubtful accounts has not been established by the District for property taxes receivable.

Taxpayers within the District have the option of paying in three installments. These installments have the following due dates:

Installment One	-	August 31
Installment Two	-	October 31
Installment Three	-	December 31

The discount (two percent) is not applicable to installment payments; however, the penalty (10 percent) will be added if second and third installments are paid subsequent to the due dates.

Unearned Revenues

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

Prepaid Items and Inventories

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide and fund financial statements.

All inventories are valued at the lower of cost (first-in, first-out method) or market.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than $5,000. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed, inclusive of ancillary costs.

Property, plant and equipment (net of salvage value) of the District is depreciated using the straight-line method over the following estimated useful lives: site improvements – 20-40 years; buildings and improvements – 15-40 years; furniture and equipment – 5-10 years and vehicles – 8-10 years.

Impairment of Long-Lived Assets

The District evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. If a capital asset is considered to be impaired, the amount of impairment is measured by the method that most reflects the decline in service utility of the capital asset at the lower of carrying value or fair value for impaired capital assets that will no longer be used by the District. No impairment losses were recognized in the year ended June 30, 2018.

Compensated Absences

District policies permit employees to accumulate earned but unused vacation, personal and sick days. The liability for these compensated absences is recorded as a noncurrent liability in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only to the extent they have matured, for example, as a result of employee resignations and retirements.

Accrued Retirement Bonus

Upon voluntary retirement, employees with qualifying years of service according to their respective employment contract are eligible to receive a lump sum retirement bonus.

Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bonds payable are reported net of the applicable bond premium or discount. Bond premiums and discounts are deferred and amortized over the life of the bonds. Deferred amounts on refunding are recorded as a deferred outflow of resources and amortized over the life of the old debt or the life of the new debt, whichever is shorter. All amounts are amortized using the straight-line method.

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

Fund Equity

As prescribed by GASB, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the fund can be spent. The District reports the following fund balance classifications:

Non-spendable

Non-spendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form – such as inventory or prepaid insurance or (b) legally or contractually required to be maintained intact – such as a trust that must be retained in perpetuity.

Restricted

Restricted fund balances are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Committed

Committed fund balances are amounts that can only be used for specific purposes determined by a formal action of the District's highest level of decision-making authority, the School Board. Committed amounts cannot be used for any other purpose unless the School Board removes those constraints by taking the same type of formal action (e.g., resolution).

Assigned

Assigned fund balances are amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by (a) the Director of Business Services or (b) an appointed body or (c) an official to which the District has delegated the authority to assign, modify or rescind amounts to be used for specific purposes.

Assigned fund balance includes (a) all remaining amounts that are reported in governmental funds (other than the General Fund) that are not classified as non-spendable, restricted or committed, and (b) amounts in the General Fund that are intended to be used for a specific purpose. Specific amounts that are not restricted or committed in a special revenue fund or the capital projects fund are assigned for purposes in accordance with the nature of their fund type.

Unassigned

Unassigned fund balance is the residual classification for the General Fund. This classification represents General Fund balance that has not been assigned to other funds, and that has not been restricted, committed or assigned to specific purposes within the General Fund.

When both restricted and unrestricted resources are available for use, it is the District's policy to use externally restricted resources first, then unrestricted resources–committed, assigned or unassigned–in order as needed.

The School Board has set a policy to maintain an unassigned General Fund fund balance of not less than 5% and a maximum unassigned General Fund fund balance of 8% of the following year's expenditure budget. Unassigned General Fund fund balance in excess of 8% of the following year's expenditure budget may be appropriated by the School Board for nonrecurring expenditures.

Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation. However, presentation of prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the District's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Use of Estimates

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

Implementation of New Accounting Pronouncements

Effective July 1, 2017, the District adopted the provisions of GASB Statement No. 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"*, GASB Statement No. 80 *"Blending Requirements for Certain Component Units-amendment of GASB Statement No. 14",* GASB Statement No. 81, *"Irrevocable Split-Interest Agreements",* GASB Statement No. 82, *"Pension Issues-an amendment of GASB Statements No. 67, No. 68 and No. 73";* GASB Statement No. 85, *"Omnibus 2017"* and GASB Statement No. 86*, "Certain Debt Extinguishment Issues".*

GASB Statement No. 75 replaces the requirements of GASB Statement No. 45 and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. GASB Statement No. 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (***"RSI"***) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

GASB Statement No. 80 amended the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39, *"Determining Whether Certain Organizations Are Component Units"*.

GASB Statement No. 81 required that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, GASB Statement No. 81 required that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. GASB Statement No. 81 required that a government recognize revenue when the resources become applicable to the reporting period. The implementation of GASB Statement No. 81 had no impact on the financial statements of the District for the year ended June 30, 2018.

GASB Statement No. 82 addressed 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.

GASB Statement No. 85 established accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

GASB Statement No. 86 established standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources—that is, resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the purpose of extinguishing debt. GASB Statement No. 86 also amended accounting and financial reporting requirements for prepaid insurance associated with debt that is extinguished, whether through a legal extinguishment or through an insubstance defeasance, regardless of how the cash and other monetary assets were acquired. Finally, GASB Statement No. 86 established an additional disclosure requirement related to debt that is defeased in substance, regardless of how the cash and other monetary assets were acquired. The implementation of GASB Statement No. 86 had no impact on the financial statements of the District for the year ended June 30, 2018.

New Accounting Pronouncements

GASB Statement No. 83, *"Certain Asset Retirement Obligations"* will be effective for the District for the year ended June 30, 2019. GASB Statement No. 83 addresses accounting and financial reporting for certain asset retirement obligations (***"AROs"***). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in GASB Statement No. 83.

GASB Statement No. 84, *"Fiduciary Activities"* will be effective for the District for the year ended June 30, 2019. The objective GASB Statement No. 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

GASB Statement No. 87, *"Leases"* will be effective for the District for the year ended June 30, 2021. The objective of GASB Statement No. 87 is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. GASB Statement No. 87 increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB Statement No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about leasing activities.

(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

An annual budget is adopted prior to the beginning of each year for the General Fund on a modified accrual basis of accounting. The General Fund is the only fund for which a budget is legally required, although project-length financial plans are adopted for the Capital Projects fund.

The District is required to publish notice by advertisement at least once in a newspaper of general circulation in the municipalities in which it is located, and within 20 days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative offices of the District. Notice that public hearings will be held on the proposed operating budget must be included in the advertisement; such hearings are required to be scheduled at least 10 days prior to when final action on adoption is taken by the School Board.

After the legal adoption of the budget, the School Board is required to file a copy of the budget with the Pennsylvania Department of Education by July 31. Additional copies of the budget also are required to be filed with the Housing Education Committee and the Senate Education Committee by September 15.

Legal budgetary control is maintained at the sub-function/major object level. The School Board may make transfers of funds appropriated in any particular item of expenditure by legislative action in accordance with Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without approval from the School Board. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments.

(3) DEPOSITS AND INVESTMENTS

State statutes authorize the District to invest in U.S. Treasury bills, time or share accounts of institutions insured by the Federal Deposit Insurance Corporation or in certificates of deposit when they are secured by proper bond or collateral, repurchase agreements, state treasurer's investment pools or mutual funds.

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At June 30, 2018, the carrying amount of the District's deposits was $10,096,683 and the bank balance was $10,158,613. The District is required by state statute to deposit funds in depositories that are either banks, banking institutions or trust companies located in the Commonwealth of Pennsylvania. To the extent that such deposits exceed federal insurance, the depositories must pledge as collateral obligations of the United States, Commonwealth of Pennsylvania or any political subdivision. Under Act 72 of 1971, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit. Of the bank balance, $250,782 was covered by federal depository insurance and $4,382,877 was collateralized by the District's depositories in accordance with Act 72. The remaining cash deposits of the District are in the Pennsylvania School District Liquid Asset Fund (***"PSDLAF"***). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PSDLAF acts like a money market mutual fund in that its objective is to maintain a stable net assets value of $1 per share, is rated by a nationally recognized statistical rating organization and is subject to an independent annual audit. As of June 30, 2018, PSDLAF was rated as AAA by a nationally recognized statistical rating agency.

Investments

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

		Investment Maturities (In Years)			
Investment Type	**Fair Value**	**Less than 1**	**1 - 5**	**6 - 10**	**11 - 15**
Certificates of deposit	$ 1,736,632	$ 1,736,632	$ -	$ -	$ -
US. Treasury and agencies	14,808,333	14,808,333	-	-	-
U.S. Treasury strips	1,981,477	-	-	34,472	1,947,005
	$ 18,526,442	$ 16,544,965	$ -	$ 34,472	$ 1,947,005

U.S. Treasury and agencies and U.S. Treasury strips were valued using Level 2 inputs.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of the investments or collateral security that are in the possession of an outside party. The District had no investments subject to custodial credit risk as of June 30, 2018.

Interest Rate Risk

The District's investment policy limits investment maturities in accordance with state statutes as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The District's investment policy limits its investments that are not backed by the "full faith and credit" of the federal and state government to those with the highest credit rating available for such investments issued by a recognized statistical rating organization.

Restricted Deposits and Investments

The District maintains restricted cash and investment balances held by fiscal agents, which are restricted for the repayment of Qualified School Construction Bonds ***(See Note 6)***. The total carrying amounts and related bank balances of these cash and investment accounts are $1,982,260 as of June 30, 2018.

(4) CAPITAL ASSETS

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

	Beginning Balance	Increases	Decrease	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	$ 1,403,584	$ -	$ -	$ 1,403,584
Construction in progress	-	694,947	-	694,947
Total capital assets not being depreciated	1,403,584	694,947	-	2,098,531
Capital assets being depreciated				
Site improvements	11,041,212	-	-	11,041,212
Buildings and improvements	93,976,242	9,397	-	93,985,639
Furniture and equipment	14,140,250	351,573	-	14,491,823
Vehicles	425,966	-	-	425,966
Total capital assets being depreciated	119,583,670	360,970	-	119,944,640
Less accumulated depreciation for				
Site improvements	(2,742,123)	(2,522,560)	-	(5,264,683)
Buildings and improvements	(29,179,361)	(436,167)	-	(29,615,528)
Furniture and equipment	(8,550,781)	(1,326,842)	-	(9,877,623)
Vehicles	(276,175)	(36,997)	-	(313,172)
Total accumulated depreciation	(40,748,440)	(4,322,566)	-	(45,071,006)
Total capital assets being depreciated, net	78,835,231	(3,961,596)	-	74,873,635
Governmental activities, net	$ 80,238,815	$ (3,266,649)	-	$ 76,972,166
Business-type activities				
Machinery and equipment	$ 1,108,809	$ 116,565	$ -	$ 1,225,374
Less accumulated depreciation	(780,551)	(103,007)	-	(883,558)
Business-type activities, net	$ 328,258	$ 13,558	$ -	$ 341,816

Depreciation expense was charged to functions/programs of the District as follows:

Governmental activities	
Instruction	$ 3,261,207
Instructional student support	124,502
Administrative and financial support services	55,687
Operation and maintenance of plant services	615,369
Pupil transportation	1,687
Student activities	264,114
Total depreciation expense - governmental activities	$ 4,322,566
Business-type activities	
Food service	$ 103,007

As of June 30, 2018, the District had outstanding construction projects to be completed. Construction commitments and the amounts completed as of June 30, 2018 are as follows:

	Project Amount	Completed Through June 30, 2018	Remaining Commitments
Donegal Primary School Building Envelope	$ 1,226,619	$ 257,489	$ 969,130
Donegal Junior High auxiliary gym (DIG) renovation	643,250	437,458	205,792
	$ 1,869,869	$ 694,947	$ 1,174,922

(5) INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2018 is as follows:

Receivable To	Amount	Payable From	Amount
Capital Projects Fund	$ 2,597,000	General Fund	$ 2,597,000
General Fund	57,190	Food Service Fund	57,190
	$ 2,654,190		$ 2,654,190

Interfund balances between funds represent temporary loans recorded at year-end as the result of a final allocation of expenses.

A summary of interfund transfers for the year ended June 30, 2018 is as follows:

Transfers In	Amount	Transfers out	Amount
Capital Projects Fund	$ 3,224,000	General Fund	$ 3,224,000
Debt Service Fund	5,337,142	General Fund	5,337,142
	$ 8,561,142		$ 8,561,142

Transfers from the General Fund to the Capital Projects Fund represent transfers to subsidize costs associated with the acquisition of capital assets and debt service requirements.

(6) CHANGE IN NONCURRENT LIABILITIES

The following summarizes the changes in noncurrent liabilities for the year ended June 30, 2018:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018	Amount Due Within One Year
Governmental activities					
General obligation debt					
Bonds payable	$ 31,230,000	$ -	$ 6,190,000	$ 25,040,000	$ 3,035,000
Qualified school construction bonds	22,950,000	-	-	22,950,000	-
Bond premiums	2,484,009	-	252,755	2,231,254	252,755
Bond discounts	(94,495)	-	(9,715)	(84,780)	(9,715)
Total general obligation debt	56,569,514	-	6,433,040	50,136,474	3,278,040
Other noncurrent liabilities					
Accrued retirement bonus	1,111,473	23,044	-	1,134,517	-
Compensated absences	136,754	17,568	-	154,322	-
OPEB liability	1,866,701	475,876	-	2,342,577	-
Net OPEB liability - PSERS	2,904,778	-	115,003	2,789,775	-
Net pension liability - PSERS	66,119,746	892,980	-	67,012,726	-
Total other noncurrent liabilities	72,139,452	1,409,468	115,003	73,433,917	-
Total governmental activities	128,708,966	1,409,468	6,548,043	123,570,391	3,278,040
Business-type activities					
Accrued retirement bonus	16,179	-	3,709	12,470	-
Net OPEB liability - PSERS	39,725	-	1,572	38,153	-
Net pension liability - PSERS	1,624,254	-	35,873	1,588,381	-
Total business-type activities	1,680,158	-	41,154	1,639,004	-
Total noncurrent liabilities	$ 130,389,124	$ 1,409,468	$ 6,589,197	$ 125,209,395	$ 3,278,040

Noncurrent liabilities of governmental activities are generally liquidated by the General Fund, while noncurrent liabilities of the business-type activities are generally liquidated by the Food Service Fund.

(7) GENERAL OBLIGATION DEBT

General obligation debt is a direct obligation of the District for which full faith and credit are pledged and is payable from unrestricted local sources. The District has not pledged any assets as collateral for general obligation debt. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior general obligation debt.

Qualified School Construction Bonds

The District participates in the Qualified School Construction Bonds (***"QSCB"***) program sponsored by the State Public School Building Authority (***"SPSBA"***). The SPSBA was formed by the Commonwealth of Pennsylvania for the purpose of financing the construction and improvement of public school facilities under the jurisdiction of the Pennsylvania Department of Education. The QSCB program was created by the American Recovery and Reinvestment Act (***"ARRA"***) and allows schools to borrow at nominal or zero percent to fund new construction, renovation and rehabilitation of schools as well as the purchase of land and equipment. The SPSBA issues the bonds through the QSCB program and provides loans to schools for qualified projects. Under the QSCB program the SPSBA receives direct interest subsidy payments from the United States Treasury which are then transferred to the borrowers as a reimbursement of the interest portion of their loan repayments. On October 1, 2010, the District borrowed $17,000,000 from the SPSBA under the QSCB program. The District is required to deposit amounts ranging from $5,000 to $3,089,000 annually into a sinking fund through the maturity date of September 1, 2027. On November 1, 2011, the District borrowed $5,950,000 from the SPSBA under the QSCB program. The District is required to deposit $330,556 annually into a sinking fund through the maturity date of September 1, 2029. Sinking fund deposits are included as restricted assets held by fiscal agent in the accompanying financial statements.

General obligation debt outstanding as of June 30, 2018 consisted of the following:

Description	Interest Rate(s)	Original Issue Amount	Final Maturity	Principal Outstanding
General obligation bonds				
Series of 2011	1.00% - 5.00%	$ 28,100,000	06/01/2019	$ 2,885,000
Series of 2016	0.85% - 3.00%	$ 9,855,000	06/30/2030	9,520,000
Series of 2017	0.95% - 5.00%	$ 12,640,000	06/02/2025	12,635,000
Total general obligation bonds				25,040,000
Qualified school construction bonds				
Series of 2010B	5.00%	$ 17,000,000	09/01/2027	5,950,000
Series of 2011A	5.088%	$ 5,950,000	09/01/2029	17,000,000
Total qualified school construction bonds				22,950,000
Total general obligation debt				$ 47,990,000

Annual debt service requirements to maturity on these obligations are as follows:

Year ending June 30,	Principal Maturities	Interest Maturities	Debt Sinking Fund	Total
2019	$ 3,035,000	$ 1,991,656	$ 335,556	$ 5,362,212
2020	2,920,000	1,845,461	335,556	5,101,017
2021	3,435,000	1,742,686	335,556	5,513,242
2022	3,560,000	1,618,936	335,556	5,514,492
2023	2,255,000	1,499,536	1,830,556	5,585,092
2024-2028	21,395,000	6,372,193	97,780	27,864,973
2029-2030	11,390,000	643,479	(5,288,888)	6,744,591
	$ 47,990,000	$ 15,713,947	$ (2,018,328)	$ 61,685,619

In-Substance Defeasance

The District has defeased bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. Government securities that were placed in the trust funds. The investments and earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the District's government-wide financial statements. As of June 30, 2018, the amount of defeased outstanding debt is as follows:

Description	Final Maturity	Principal Outstanding
Series of 2011	06/01/2019	$20,550,000

(8) PENSION PLAN

Plan Description

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

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year credited service; (b) age 60 with 30 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 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 2.00% or 2.50%, 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 2.00% or 2.50%, depending upon membership class, of the member's final average salary (as defined in the code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

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

Contributions

Member Contributions

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

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

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

Members who joined PSERS after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.50% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect T-F membership, contribute at 10.30% (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 Membership Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%.

Employer Contributions

The District's contractually required contribution rate for fiscal year ended June 30, 2018 was 31.74% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the plan from the District were $5,875,667 for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of $68,601,107 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward PSERS' total pension liability as of June 30, 2016 to June 30, 2017. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2017, the District's proportion was 0.1388 percent, which was an increase of 0.0021 percent from its proportion measured as of June 30, 2016. As of June 30, 2018, the net pension liability of $67,012,726 is related to the governmental funds and is recorded in the governmental activities in the government-wide statement of net position and the remaining $1,588,381 of the net pension liability is recorded as a liability in the proprietary fund statement of net position, and in the business-type activities in the government-wide statement of net position (deficit).

For the year ended June 30, 2018, the District recognized pension expense of $2,251,424. At June 30, 2018, the 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
Net difference between projected and actual experience	$ 715,000	$ 414,000
Changes in assumptions	1,862,000	-
Net difference between projected and actual investment earnings	1,588,000	-
Changes in proportions	2,487,000	-
Contributions subsequent to the measurement date	5,875,667	-
	$ 12,527,667	$ 414,000

$5,875,667 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30,	
2018	$ 1,995,000
2019	2,626,000
2020	1,648,000
2021	(31,000)
	$ 6,238,000

Actuarial Assumptions

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

- Actuarial cost method - entry age normal - level % of pay
- Investment return – 7.25%, includes inflation at 2.75%
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were based on the RP-2014 mortality tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 mortality improvement scale.

The long-term expected rate of return on 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 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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The 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	20.00 %	5.10%
Fixed income	36.00 %	2.60%
Commodities	8.00 %	3.00%
Absolute return	10.00 %	3.40%
Risk parity	10.00 %	3.80%
Infrastructure/MLPs	8.00 %	4.80%
Real estate	10.00 %	3.60%
Alternative investments	15.00 %	6.20%
Cash	3.00 %	0.60%
Financing (LIBOR)	(20.00)%	1.10%
	100.0 %	

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

Discount Rate

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

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

The following represents 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%) that the current rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
District's proportionate share of the net pension liability	$84,380,449	$68,601,107	$55,186,661

Pension Plan Fiduciary Net Position

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

(9) OTHER POST-EMPLOYMENT BENEFITS

Single-Employer Defined Benefit OPEB Plan

The District's other post-employment benefits (***"OPEB"***) include a single-employer defined benefit plan that provides medical and dental insurance to all retirees and their dependents. The School Board has the authority to establish and amend benefit provisions. The OPEB Plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

OPEB Plan Membership

Membership in the OPEB plan consisted of the following at July 1, 2017:

Active employees	282
Retirees and beneficiaries currently receiving benefits	-
Terminated OPEB plan members entitled to but not yet receiving benefits	11
Total	293

Funding Policy

The District's contributions are funded on a pay-as-you-go basis. The contribution requirements of retirees are established and may be amended by the School Board.

OPEB Liability

The District's OPEB liability has been measured as of June 30, 2018. The total OPEB liability was determined by an actuarial valuation as of July 1, 2017, and by rolling forward the liabilities from the July 1, 2017 actuarial valuation through the measurement date. No significant events or changes in assumptions occurred between the valuation date and the fiscal year end. The OPEB liability is $2,342,577, all of which is unfunded. As of June 30, 2018, the OPEB liability is related to the governmental funds and is recorded in the governmental activities in the government-wide statement of net position.

The District's change in its OPEB liability for the year ended June 30, 2018 was as follows:

Balance as of July 1, 2017	$1,866,701
Changes for the year	
Service cost	162,439
Interest on total OPEB liability	49,351
Differences between expected and actual experience	291,284
Changes in assumptions	59,868
Benefit payments	(87,066)
Net changes	475,876
Balance as of June 30, 2018	$ 2,342,577

OPEB Expense and Deferred Outflows Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of $402,306. At June 30, 2018, the District had deferred outflows of resources related to the OPEB plan from the following sources:

	Deferred Outflows of Resources
Net difference between expected and actual experience	$ 270,478
Changes in assumptions	55,592
Contributions subsequent to the measurement date	98,652
	$ 424,722

$98,652 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending June 30,	
2019	$ 25,082
2020	25,082
2021	25,082
2022	25,082
2023	25,082
Thereafter	200,660
	$ 326,070

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

The following presents the OPEB liability for June 30,2018, calculated using current healthcare cost trends as well as what the OPEB liability would be if it health cost trends were 1-percentage point lower or 1-percentage point higher than the current rate:

	1% Decrease	Trend Rate	1% Increase
OPEB liability	$2,053,155	$2,432,577	$2,690,282

Sensitivity of the OPEB Liability to Changes in the Discount Rate

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

	1% Decrease 2.13%	Current Discount Rate 3.13%	1% Increase 4.13%
OPEB Liability	$2,532,445	$2,432,577	$2,164,016

Actuarial Methods and Significant Assumptions

The OPEB Liability as of June 30, 2018, was determined by rolling forward the OPEB Liability as of July 1, 2016 to June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - entry age normal
- Discount rate - 3.13% - Standard and Poors 20 year municipal bond rate. The discount rate changed from 2.49% to 3.13%.
- Salary growth - effective average of 6.25%, comprised of inflation of 2.50%, 1.00% for real wage growth and 0.00% to 2.75% for merit or seniority increases.
- Assumed healthcare cost trends – 6.00% in 2017 and 5.50% in 2018 through 2023.
- Mortality rates were based on the RP-2014 mortality tables for males and females, adjusted to reflect experience and projected using a modified version of the MP-2015 mortality improvement scale.

Cost Sharing Multiple-Employer Defined Benefit OPEB Plan

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

Retirees of PSERS can participate in the health insurance premium assistance program if they satisfy the following criteria:

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

Benefits Provided

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

Employer Contributions

The District's contractually required contribution rate for the fiscal year ended June 30, 2018 was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were $217,999 for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of $2,827,928 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward PSERS' total OPEB liability as of June 30, 2016 to June 30, 2017. The District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2017, the District's proportion was 0.1388 percent, which was an increase of 0.0021 from its proportion measured as of June 30, 2016. As of June 30, 2018, the net OPEB liability of $2,789,775 is related to the governmental funds and is recorded in the governmental activities in the government-wide statement of net position and the remaining $38,153 of the net OPEB liability is recorded as a liability in the proprietary fund statement of net position, and in the business-type activities in the government-wide statement of net position (deficit).

For the year ended June 30, 2018, the District recognized OPEB expense of $107,325. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ -	$ 382,000
Net difference between projected and actual investment earnings	9,000	-
Changes in proportions	142,000	-
Contributions subsequent to the measurement date	153,648	-
	$ 304,648	$ 382,000

$153,648 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending June 30,	
2018	$ (38,000)
2019	(38,000)
2020	(38,000)
2021	(38,000)
2022	(39,000)
Thereafter	(40,000)
	$ (231,000)

Actuarial Assumptions

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

- Actuarial cost method - entry age normal - level % of pay
- Investment return - 3.13% - Standard & Poors 20 year municipal bond rate
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Premium assistance reimbursement is capped at $1,200 per year.
- Assumed healthcare cost trends were applied to retirees with less than $1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 mortality tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 mortality improvement scale.

Participation rate:

- Eligible retirees will elect to participate pre age 65 at 50%
- Eligible retirees will elect to participate post age 65 at 70%

The following assumptions were used to determine the contribution rate:

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

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

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

OPEB – Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	76.40%	0.60%
Fixed income	23.60%	1.50%
	100.00%	

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

Discount Rate

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

Sensitivity of District's Proportionate Share of the Net OPEB Liability to Change in Healthcare Cost Trend Rates

Healthcare cost trends were applied to retirees receiving less than $1,200 in annual health insurance premium assistance. As of June 30, 2017, retirees health insurance premium assistance benefits are not subject to future healthcare cost increases. The healthcare insurance premium assistance reimbursement for qualifying retirees is capped at a maximum of $1,200. The actual number of retirees receiving less than the $1,200 per year cap is a small percentage of the total population and has a minimal impact on healthcare cost trends as depicted below.

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

	1% Decrease	Trend Rate	1% Increase
District's proportionate share of the OPEB liability	$2,827,189	$2,827,928	$2,828,521

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

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

	1% Decrease 2.13%	Current Discount Rate 3.13%	1% Increase 4.13%
District's proportionate share of the OPEB liability	$3,241,602	$2,827,928	$2,506,716

OPEB Plan Fiduciary Net Position

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

(10) JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATION

Joint Ventures

Lancaster County Career and Technology Center

The District and the other 15 Lancaster County school districts participate in the Lancaster County Career and Technology Center (***"LCCTC"***). The LCCTC provides vocational-technical training and education to students of the participating school districts. The LCCTC is controlled by a joint board comprised of representative school board members of the participating school districts. District oversight of the LCCTC operations is the responsibility of the joint board. The District's share of operating costs for the LCCTC fluctuates based on the District's percentage of enrollment. The District's share of operating costs for 2017-2018 was $638,713.

Lancaster County Career and Technology Center Authority

The District and the other 15 Lancaster County school districts also participate in a joint venture for the operation of the Lancaster County Career and Technology Center Authority (the ***"Authority"***). The Authority oversees acquiring, holding, constructing, improving and maintaining the LCCTC school buildings and facilities. The Authority is controlled by a joint board comprised of representative school board members of the participating school districts in the Authority. As further described below, the participating school districts have entered into a long-term lease agreement with the Authority to provide rental payments sufficient to retire the Authority's outstanding debt obligations. The District's share of rent expense for 2017-2018 was $52,354.

On September 20, 2011, the Authority authorized the issuance of Guaranteed Lease Revenue Bonds, Series of 2011 (the ***"2011 Revenue Bonds"***), in the maximum aggregate principal amount of $43,000,000 to provide funds for the renovations and additions to the Brownstown, Mount Joy and Willow Street campuses of the LCCTC and pay for the costs of issuance. The District and the 15 Lancaster County school districts have entered into a long-term lease agreement with the Authority stipulating that each school district will pay its proportionate share of the lease rentals in order to retire the 2011 Revenue Bonds based on real estate market values as set forth in the LCCTC organization agreement. The 2011 Revenue Bonds were issued in three different series over three years. The amount of each series was not to exceed $10,000,000 without the participating school districts' approval. The 2011 Revenue Bonds were intended to be repaid over a period not to exceed thirty years, with gross annual debt service not to exceed $1,985,000 and net annual debt service (after reimbursement by the Commonwealth of Pennsylvania) of $1,330,000. On June 29, 2012, the Authority issued the first of three series in the total amount of $9,995,000. On September 20, 2013 the Authority issued the second of three series in the total amount of $9,995,000 which was refinanced in February 2017 and on July 9, 2014, the Authority issued the final of the three series in the total amount of $3,900,000. The District's lease rental obligations for minimum rental payments related to the issued debt are as follows:

Year ending June 30,	
2019	$ 51,363
2020	51,357
2021	51,314
2022	51,245
2023	51,318
2024-2028	256,722
2029-2033	256,550
2034-2037	205,158
	$ 975,027

Both the LCCTC and the Authority prepare financial statements that are available to the public from their administrative office located at 1730 Hans Herr Drive, P.O. Box 527, Willow Street, PA 17584.

Jointly Governed Organizations

Lancaster-Lebanon Intermediate Unit

The District and the other Lancaster and Lebanon County school districts are participating members of the Lancaster-Lebanon Intermediate Unit (the ***"LLIU"***). The LLIU is a regional educational service agency, established by the Commonwealth of Pennsylvania, which is governed by a joint committee consisting of School Board members from each participating school district. The School Board of each participating school district must approve the annual program budget for the LLIU but the participating school districts have no ongoing fiduciary interest or responsibility to the LLIU. The LLIU is a self-sustaining organization that provides a broad array of services to the participating school districts which include: curriculum development and instructional improvement; educational planning services; instructional material; continuing professional development; pupil personnel services; management services and federal liaison services. During 2017-2018, the District contracted with the LLIU for special education services which totaled $1,922,618.

Lancaster-Lebanon Joint Authority

The District and the other Lancaster and Lebanon County school district are also participating members of the Lancaster-Lebanon Joint Authority (the ***"Authority"***). The Authority oversees acquiring, holding, constructing, improving and maintaining the buildings and facilities maintained for the participating school districts and the LLIU, which is governed by a joint committee consisting of School Board members from each participating school district. During 2017-2018, the District did not have any financial transactions with the Authority.

Lancaster County Tax Collection Bureau

The District and the other 15 Lancaster County school districts along with Octorara Area School District of Chester County and the municipalities represented by those school districts are participating members of the Lancaster County Tax Collection Bureau (the ***"Bureau"***) for the collection of earned income taxes. Each participating school district appoints one member to serve on the joint operating committee and 16 members are appointed by the participating municipalities. The Bureau is a self-sustaining organization in which the participating members have no ongoing fiduciary interest or responsibility. The Bureau's operating expenditures are deducted from each members earned income tax distributions. During 2017-2018, the District's portion of operating expenditures for the Bureau totaled $48,876.

(11) CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

The District receives federal, state and local funding under a number of programs. Payments made by these sources under contractual agreements are provisional and subject to redetermination based on filing of reports and audits of those reports. Final settlements due from or to these sources are recorded in the year in which the related services are performed. Any adjustments resulting from subsequent examinations are recognized in the year in which the results of such examinations become known. District officials do not expect any significant adjustments as a result of these examinations.

Litigation

The District is a defendant in various matters of litigation and claims. These matters result from the normal course of business. It is not presently possible to determine the ultimate outcome or settlement cost, if any, of these matters.

(12) RISK MANAGEMENT

Health Insurance

The District participates in a consortium with the LLIU to provide a self-insurance program for health insurance and related expenses for eligible employees, spouses and dependents. Accordingly, benefit payments plus an administrative charge are made to a third party administrator, who approves and processes all claims.

The District has recorded a liability in the General Fund for claims incurred through June 30, 2018 which has historically been satisfied within 60 days after June 30. The following table presents the components of the self-insurance medical claims liability and the related changes in the claims liability for the year ended June 30, 2018:

	2018	2017
Net self-insurance asset (liability) - beginning of year	$ 256,712	$ 303,676
Current year insurance claims and changes in estimates	3,456,668	3,753,220
Insurance claims paid	(3,458,333)	(3,800,184)
Net self-insurance asset (liability) - end of year	$ 255,047	$ 256,712

Property and Liability

The District and 12 participating member school districts from Lancaster and Lebanon County, the LLIU, the Lancaster County Academy, and the LCCTC participate in the Lancaster-Lebanon Public Schools Insurance Pool (the ***"Pool"***), which is a public entity risk pool currently operating as a common risk management and insurance program. The District and the other participating members pay an annual premium to the Pool for the purpose of seeking prevention or lessening of casualty losses to participating members from injuries to persons or property which might result in claims being made against participating members and to the pools insurance risks, reserves, claims and losses and providing self-insurance and reinsurance thereof. It is the intent of the participating members of the Pool, that the Pool will utilize funds contributed by the participating members to provide self-insurance and reimbursement to the members for certain losses, to defend and protect each participating member of the Pool against certain liabilities and losses, and to purchase excess and aggregate stop-loss insurance for claims greater than $100,000 per occurrence. As of June 30, 2018, the District is not aware of any additional assessments relating to the Pool.

Workers' Compensation

The District and 17 participating member school districts from Lancaster and Lebanon County, the LLIU, and the Lancaster County Academy participate in the Lancaster-Lebanon Public Schools Workers' Compensation Fund (the ***"Fund"***), which is a cooperative voluntary trust arrangement. The District and the other participating members pay an annual premium to the Fund for the purpose of seeking prevention or lessening of claims due to injuries of employees of the participating 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 participating members of the Fund that the Fund will utilize funds contributed by the participating 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, 2018, the District is not aware of any additional assessments relating to this Fund.

Other Risks

The District is exposed to other risks of loss, including errors and omissions. The District has purchased a commercial insurance policy to safeguard its assets from risk of loss due to errors and omissions. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

(13) PRIOR PERIOD ADJUSTMENT

As a result of the implementation of GASB Statement No. 75, the District made a prior period adjustment to record its OPEB liability and deferred outflows of resources related to employer OPEB contributions. This prior period adjustment and its effect on net position at July 1, 2017 are summarized in the following table:

	Governmental Activities	Business-Type Activities	Totals
Net position (deficit) at June 30, 2017, as previously stated	$(4,829,619)	$(183,570)	$(5,013,189)
Prior period adjustment to			
To adjust single employer OPEB liability to reflect unfunded actuarial liability	(1,236,973)	-	(1,236,973)
To record PSERS net OPEB liability	(2,904,778)	(39,725)	(2,944,503)
To record deferred outflows of resources related to PSERS net OPEB liability	499,088	2,023	501,111
Net position (deficit) at June 30, 2017, as restated	$(8,472,282)	$(221,272)	$(8,693,554)

(14) SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 6, 2018, the date on which the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2018 that required recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

DONEGAL SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year ended June 30, 2018

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Local sources	$ 31,199,338	$ 32,212,030	$ 1,012,692
State sources	15,130,902	15,865,651	734,749
Federal sources	2,148,500	2,296,908	148,408
Total revenues	48,478,740	50,374,589	1,895,849
EXPENDITURES			
Instruction			
Regular programs	20,362,089	19,652,426	709,663
Special programs	7,752,940	8,019,867	(266,927)
Vocational programs	705,487	691,067	14,420
Other instructional programs	22,328	43,592	(21,264)
Nonpublic school programs	-	5,440	(5,440)
Higher education programs	1,000	-	1,000
Total instruction	28,843,844	28,412,392	431,452
Support services			
Pupil support services	1,649,413	1,617,536	31,877
Instructional staff services	1,912,427	2,116,456	(204,029)
Administrative services	2,678,336	2,445,508	232,828
Pupil health	570,088	538,764	31,324
Business services	503,433	482,875	20,558
Operation and maintenance of plant services	3,881,319	3,614,998	266,321
Student transportation services	1,601,063	1,468,676	132,387
Support services - central	444,511	341,813	102,698
Other support services	19,500	19,129	371
Total support services	13,260,090	12,645,755	614,335
Operation of noninstructional services			
Student activities	844,910	753,771	91,139
Community services	-	4,866	(4,866)
Total operation of noninstructional services	844,910	758,637	86,273
Total expenditures	42,948,844	41,816,784	1,132,060
Excess (deficiencies) of revenues over (under) expenditures	5,529,896	8,557,805	3,027,909
OTHER FINANCING SOURCES (USES)			
Sale of/compensation for capital assets	-	8,605	8,605
Refund of prior year receipts	-	(196)	(196)
Transfers out	(5,999,806)	(8,561,142)	(2,561,336)
Budgetary reserve	(490,000)	-	490,000
Total other financing sources (uses)	(6,489,806)	(8,552,733)	(2,062,927)
NET CHANGE IN FUND BALANCE	$ (959,910)	5,072	$ 964,982
FUND BALANCE			
Beginning of year		11,303,556	
End of year		$ 11,308,628	

DONEGAL SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - PSERS

Year ended June 30

	2017	2016	2015	2014
District's proportion of the net pension liability	0.1388%	0.1367%	0.1340%	0.1308%
District's proportionate share of the net pension liability	$ 68,601,107	$ 67,744,000	$ 58,042,000	$ 51,771,577
District's covered-employee payroll	$ 18,483,584	$ 17,709,675	$ 17,235,638	$ 16,686,678
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	371%	383%	337%	310%
Plan fiduciary net position as a percentage of the total pension liability	52%	50%	54%	57%
	3.711461316			

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

DONEGAL SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PENSION PLAN CONTRIBUTIONS - PSERS

Year ended June 30

	2017	2016	2015	2014
Contractually required contribution	$ 5,308,972	$ 4,354,741	$ 3,313,332	$ 2,599,945
Contributions in relation to the contractually required contribution	$ 5,308,972	$ 4,354,741	$ 3,313,332	$ 2,599,945
Contribution deficiency (excess)	-	-	-	-
District's covered-employee payroll	$ 18,483,584	$ 17,709,675	$ 17,235,638	$ 16,686,678
Contributions as a percentage of covered-employee payroll	29%	25%	20%	16%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

DONEGAL SCHOOL DISTRICT

SCHEDULE OF CHANGES IN OPEB LIABILITY - SINGLE EMPLOYER PLAN

Year ended June 30

	2018
TOTAL OPEB LIABILITY	
Service cost	$ 162,439
Interest on total OPEB liability	49,351
Differences between expected and actual experience	291,284
Changes of assumptions	59,868
Benefit payments	(87,066)
Net change in total OPEB liability	475,876
Total OPEB liability, beginning	1,866,701
Total OPEB liability, ending	$ 2,342,577
Fiduciary net position as a % of total OPEB liability	0.00%
Covered payroll	$ 17,331,232
Net OPEB liability as a % of covered payroll	13.52%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

DONEGAL SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE OPEB LIABILITY -PSERS

Year ended June 30

	2017
District's proportion of the net OPEB liability	0.1388%
District's proportionate share of the net OPEB liability	$ 2,827,928
District's covered-employee payroll	$ 18,483,584
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	15%
Plan fiduciary net position as a percentage of the total OPEB liability	6%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

DONEGAL SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S OPEB PLAN CONTRIBUTIONS - PSERS

Year ended June 30

	2017
Contractually required contribution	$ 153,455
Contributions in relation to the contractually required contribution	$ 153,455
Contribution deficiency (excess)	-
District's covered-employee payroll	$ 18,483,584
Contributions as a percentage of covered-employee payroll	1%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

SINGLE AUDIT

DONEGAL SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS

Year ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Project Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Dates	Grant Amount	Total Received for Year	Accrued (Deferred) Revenue July 1, 2017	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue June 30, 2018	Passed Through to Subrecipients
U.S. Department of Education											
Passed-Through the Pennsylvania Department of Education											
Title I - Improving Basic Programs	I	84.010	013-170119	07/01/16 - 09/30/17	$ 500,798	$ 99,606	99,606	$ -	$ -	$ -	$ -
Title I - Improving Basic Programs	I	84.010	013-180119	07/01/17 - 09/30/18	551,737	438,084	-	551,737	551,737	113,653	-
Total CFDA #84.010						537,690	99,606	551,737	551,737	113,653	-
Title II - Improving Teacher Quality	I	84.367	020-170119	07/01/16 - 09/30/17	81,568	10,524	10,524	-	-	-	-
Title II - Improving Teacher Quality	I	84.367	020-180119	07/01/17 - 09/30/18	114,203	90,460	-	112,383	112,383	21,923	-
Total CFDA #84.367						100,984	10,524	112,383	112,383	21,923	-
Title IV - Student Support and Academic Enrichment	I	84.424	144-180119	07/01/17 - 09/30/18	12,522	12,522	-	12,522	12,522	-	-
Passed Through the Lancaster-Lebanon I.U.											
I.D.E.A. - Part B, Section 611	I	84.173	062-180013	07/01/17 - 09/30/18	550,990	561,559	-	561,559	561,559	-	-
I.D.E.A. - Part B, Section 619	I	84.027	131-170013	07/01/17 - 06/30/18	4,360	2,958	-	2,958	2,958	-	-
Total U.S. Department of Education						1,215,713	110,130	1,241,159	1,241,159	135,576	-
U.S. Department of Health and Human Services											
Passed Through the Pennsylvania Department of Public Welfare											
Medical Assistance Program	I	93.778	N/A	07/01/16 - 06/30/17	N/A	5,740	5,740	-	-	-	-
Medical Assistance Program	I	93.778	N/A	07/01/17 - 06/30/18	N/A	2,240	-	7,772	7,772	5,532	-
Total CFDA #93.778						7,980	5,740	7,772	7,772	5,532	-
U.S. Department of Agriculture											
Passed-Through the Pennsylvania Department of Education											
State Matching Share	S	N/A	N/A	07/01/16 - 06/30/17	N/A	316	316	-	-	-	-
State Matching Share	S	N/A	N/A	07/01/17 - 06/30/18	N/A	46,603	-	47,403	47,403	800	-
Total State Matching						46,919	316	47,403	47,403	800	-

Continued on next page

Federal Grantor/Pass-Through Grantor/Project Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Dates	Grant Amount	Total Received for Year	Accrued (Deferred) Revenue July 1, 2017	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue June 30, 2018	Passed Through to Subrecipients
Passed-Through the Pennsylvania Department of Education (cont'd)											
Breakfast Program	I	10.553	N/A	07/01/16 - 06/30/17	N/A	1,009	1,009	-	-	-	-
Breakfast Program	I	10.553	N/A	07/01/17 - 06/30/18	N/A	90,144	-	92,211	92,211	2,067	-
Total CFDA #10.553						91,153	1,009	92,211	92,211	2,067	-
National School Lunch Program	I	10.555	N/A	07/01/16 - 06/30/17	N/A	3,206	3,206	-	-	-	-
National School Lunch Program	I	10.555	N/A	07/01/17 - 06/30/18	N/A	591,500	-	601,254	601,254	9,754	-
Passed-Through the Pennsylvania Department of Agriculture											
National School Lunch Program	I	10.555	N/A	07/01/17 - 06/30/18	N/A	a) 128,905	b) (15,444)	c) 131,677	131,677	d) (12,672)	-
Total CFDA #10.555						723,611	(12,238)	732,931	732,931	(2,918)	-
Total U.S. Department of Agriculture						861,683	(10,913)	872,545	872,545	(51)	-
Total Federal Awards and Certain State Grants						$ 2,085,376	$ 104,957	$ 2,121,476	$ 2,121,476	$ 141,057	$ -
Total Federal Awards						$ 2,038,457	$ 104,641	$ 2,074,073	$ 2,074,073	$ 140,257	-
Total State Awards						46,919	316	47,403	47,403	800	-
Total Federal Awards and Certain State Grants						$ 2,085,376	$ 104,957	$ 2,121,476	$ 2,121,476	$ 141,057	$ -
Special Education Cluster (IDEA) (CFDA's #84.027 and #84.173)						$ 564,517	$ -	$ 564,517	$ 564,517	$ -	$ -
Child Nutrition Cluster (CFDA's #10.553 and #10.555)						$ 814,764	$ (11,229)	$ 825,142	$ 825,142	$ (851)	$ -

Footnotes

a) Total amount of commodities received
b) Beginning inventory July 1
c) Total amount of commodities used
d) Ending inventory June 30

Source Codes

D - Direct Funding
I - Indirect Funding
S - State Funding
CFDA - Catalog of Federal Domestic Assistance

(1) FEDERAL EXPENDITURES

The Schedule of Expenditures of Federal Awards and Certain State Grants reflects federal expenditures for all individual grants which were active during the fiscal year. Additionally, the Schedule reflects expenditures for certain state grants.

(2) BASIS OF ACCOUNTING

The District uses the modified accrual method of recording transactions except as noted for the accounting of donated commodities in Note 3. Revenues are recorded when measurable and available. Expenditures are recorded when incurred.

(3) NONMONETARY FEDERAL AWARDS – DONATED FOOD

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals and prisons) and to the needy. Expenditures reported in the Schedule of Expenditures of Federal Awards and Certain State Grants under CFDA #10.555 USDA Commodities represent federal surplus food consumed by the District during the 2017-2018 fiscal year.

(4) ACCESS PROGRAM

The District participates in the ACCESS Program which 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 source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding recognized for the year ended June 30, 2018 was $0.

(5) QUALIFIED SCHOOL CONSTRUCTION BONDS PROGRAM

The District participates in the Qualified School Construction Bonds (***"QSCB"***) program sponsored by the State Public School Building Authority (***"SPSBA"***). In conjunction with the QSCB Program, the District receives subsidy reimbursements for a portion of the interest payments made under its loan agreements with the SPSBA. Reimbursements are federal source revenues but are not considered federal financial assistance. The amount of QSCB subsidy payments recognized for the year ended June 30, 2018 was $1,047,977.

(6) INDIRECT COSTS

The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance. No indirect costs were charged to the District's Federal awards for the year ended June 30, 2018.

There were no audit findings for the year ended June 30, 2017.

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

Board of School Directors
Donegal School District
Mount Joy, 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 Donegal School District, Mount Joy, Pennsylvania, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Donegal School District's basic financial statements, and have issued our report thereon dated November 6, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

BBD, LLP

Philadelphia, Pennsylvania
November 6, 2018

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

Board of School Directors
Donegal School District
Mount Joy, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Donegal School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Donegal School District's major federal programs for the year ended June 30, 2018. Donegal School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Donegal School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations (**"CFR"**) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (the ***"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 Donegal School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

Management of Donegal 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 Donegal School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Donegal 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.

BBD, LLP

Philadelphia, Pennsylvania
November 6, 2018

DONEGAL SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2018

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Donegal School District were prepared in accordance with GAAP.

2. No significant deficiencies or material weaknesses relating to the audit of the financial statements of Donegal School District are reported in the independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.

3. No instances of noncompliance material to the financial statements of Donegal School District, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.

4. No significant deficiencies or material weaknesses in internal control over the major federal award programs are reported in the independent auditor's report on compliance for each major program and on internal control over compliance required by the Uniform Guidance.

5. The auditor's report on compliance for the major federal award programs for Donegal School District expresses an unmodified opinion on all major federal programs.

6. There are no audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a) of the Uniform Guidance.

7. The programs tested as major programs were:

   Child Nutrition Cluster:
   Breakfast Program – CFDA Number 10.553
   National School Lunch Program – CDFA Number 10.555

8. The threshold used for distinguishing between Type A and B programs was $750,000.

9. Donegal School District did qualify as a low-risk auditee.

FINDINGS—FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

None