

SUGAR VALLEY RURAL CHARTER SCHOOL

Audited Financial Statements

June 30, 2018

SUGAR VALLEY RURAL CHARTER SCHOOL
Audited Financial Statements -Table of Contents
June 30, 2018

	<u>Page</u>
List of Report Distribution	1
Independent Auditors' Report	2 - 3
Management's Discussion and Analysis	4 -12
<u>Basic Financial Statements</u>	
Exhibit A Statement of Net Position June 30, 2018	13
Exhibit B Statement of Activities For the Year Ended June 30, 2018	14
Exhibit C Balance Sheet – Governmental Funds June 30, 2018	15
Exhibit D Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2018	16
Exhibit E Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds For the Year Ended June 30, 2018	17
Exhibit F Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities For the Year Ended June 30, 2018	18
Exhibit G Statement of Net Position – Proprietary Fund June 30, 2018	19
Exhibit H Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund For the Year Ended June 30, 2018	20

Table of Contents
Page 2

Exhibit I	Statement of Cash Flows – Proprietary Fund For the Year Ended June 30, 2018	21 - 22
Exhibit J	Statement of Net Position – Fiduciary Funds June 30, 2018	23
Exhibit K	Statement of Changes in Net Position - Fiduciary Funds For the Year Ended June 30, 2018	24
Notes to Basic Financial Statements		25 - 42
<u>Required Supplementary Information</u>		
Schedule A	Statement of Revenues, Expenditures and Changes in Fund Balances, Budget and Actual For the Year Ended June 30, 2018	43
Schedule B	Schedule of School's Proportionate Share of Net Pension Liability - PSERS June 30, 2018	44
Schedule C	Schedule of School's Contributions for Pension Benefits – PSERS June 30, 2018	45
Schedule D	Schedule of School's Proportionate Share of Net Premium Assistance OPEB Liability - PSERS June 30, 2018	46
Schedule E	Schedule of School's Contributions for Premium Assistance OPEB Benefits –PSERS June 30, 2018	47
Schedule F	Schedule of Changes in Net Liability and Covered Payroll for SVRCS Plan – OPEB Benefits June 30, 2018	48
Notes to Required Supplementary Information		49
Independent Auditors' Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>		50

SUGAR VALLEY RURAL CHARTER SCHOOL

List of Report Distribution

June 30, 2018

Keystone Central School District
Lock Haven, PA

Pennsylvania Department of Education
Bureau of Budget and Fiscal Management
333 Market Street Fourth Floor
Harrisburg, Pennsylvania 17126



MARGARET MCCLUSKEY CPA LLC

INDEPENDENT AUDITORS' REPORT

Board of Trustees
SUGAR VALLEY RURAL CHARTER SCHOOL
Loganton, Pennsylvania

Report on the Financial Statements

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

Sugar Valley Rural Charter School

as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School'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.

Auditors' Responsibility

Our responsibility is to express an opinion 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 to the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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 Sugar Valley Rural Charter School 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.

INDEPENDENT AUDITORS' REPORT (continued)

Emphasis of Matter

Adoption of new accounting standard

As described in Note 1 to the financial statements, the School has adopted the guidance of Governmental Accounting Standards Board Statement 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". This statement became effective for periods beginning after June 15, 2017, and adoption resulted in restatement of net position of governmental activities, business- type activities and the proprietary fund as of June 30, 2017. Our opinion is not modified with respect to this matter.

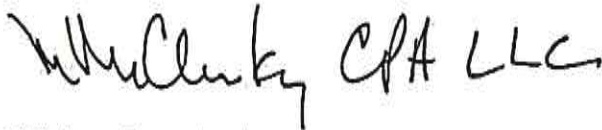
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4 through 12), budgetary information, supplementary pension information, other postemployment benefits information and related notes (pages 43 through 49) 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 and historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United State 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2018 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain 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 the School's internal control over financial reporting and compliance.



Mifflinburg, Pennsylvania
December 20, 2018

MANAGEMENT'S DISCUSSION
AND
ANALYSIS

SUGAR VALLEY RURAL CHARTER SCHOOL

Management Discussion and Analysis Year Ended June 30, 2018

This section of the Sugar Valley Rural Charter School's annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year that ended on June 30, 2018. Please read it in conjunction with the School's financial statements, which immediately follows this section.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standard Discussion Board's (GASB) Statement No. 34- *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. Certain comparative information between the current year (2017-2018) and the prior year (2016-2017) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2017-2018 fiscal year include the following:

- Net position was (\$1,900,294) on June 30, 2017, and (\$1,884,335) on June 30, 2018. The net position includes accounting changes to reflect PSERS losses at the state level in the school district's financial statement. The increase in net position reflects \$775,500 more revenue than expenses. We also had a prior period adjustment of (759,541) making a net increase of 15,959 to our net position. The prior period adjustment resulted from implementation of Governmental Accounting Standards Board Statement 75.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of

- Independent Auditors' Report
- Management's Discussion and Analysis
- Basic Financial Statements
 - School-wide Financial Statements
 - Fund Financial Statements
 - Notes to the Financial Statements
- Budget and Actual Comparison
- Information related to Pension Benefit Obligations
- Information related to Other Post Employment Benefit Obligations

The basic financial statements include two kinds of statements that present different views of the School:

SUGAR VALLEY RURAL CHARTER SCHOOL

Management Discussion and Analysis Year Ended June 30, 2018

- The first two statements are *school-wide financial statements* that provide both short-term and long-term information about the Schools overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the school, reporting the school's operations in more detail than the school-wide statements.
 - The *governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
 - *Proprietary funds* statements offer short-and long-term financial information about the activities the school operates *like businesses*.
 - *Fiduciary funds* statements provide information about the financial relationships in which the School acts solely as a trustee or agent for the benefit of others to whom the resources belong.

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

Following is a description of the School-wide financial statements and the fund financial statements ---

School-wide Statements

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

The two school-wide statements report the School's net position and how they have changed. Net position represents the difference between the School's assets and liabilities. Consideration of net position is one way to measure the School's financial health or position. Over time, increases or decreases in the School's net position are an indicator of whether its financial position is improving or deteriorating. To assess the overall health of the School you also need to consider additional non-financial factors such as changes in the tuition rate received from Home School district of students and the condition of school buildings and other facilities.

In the school wide financial statements the School's activities are shown in two categories:

SUGAR VALLEY RURAL CHARTER SCHOOL

Management Discussion and Analysis Year Ended June 30, 2018

- *Governmental activities*-Most of the School's basic services are included here, such as regular and special education, transportation, administration, and community education. The tuition received from Home School district of students and state aids finance most of these activities.
- *Business Type activities*-The school's cafeteria is a business type activity.

Fund Financial Statements

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

- Some funds are required by State law.

The School has three kinds of funds:

- *Governmental funds*- Most of the School's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short- term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the School-wide statements, we provide additional information at Exhibits D and F that explains the relationship (or differences) between the School-wide statements and the governmental funds statements.
- *Proprietary funds* – Services for which the School charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the School-wide statements.

The school uses enterprise funds to report activities that provide supplies and services for the schools other programs and activities. The school currently has one enterprise fund for the cafeteria.

Enterprise funds are established in the School to account for goods and services provided to the student body and staff. The food service fund is the primary enterprise fund of the school. The prices charged by the cafeteria may not materially exceed its expenditures. Any funds remaining from operations must be used only for the maintenance and improvement of the school's cafeteria facilities.

SUGAR VALLEY RURAL CHARTER SCHOOL

Management Discussion and Analysis
Year Ended June 30, 2018

- *Fiduciary funds*- The School is the trustee, or fiduciary, for assets that belong to others, such as the various student activity groups. The School is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the School’s fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the school-wide financial statements because the School cannot use these assets to finance its operations.

Overview Summary

Figure A-1 summarizes the major features of the School’s financial statements, including the portion of the School’s activities they cover and the types of information they contain.

*Figure A-1
Major Features of the School-wide and Fund Financial Statements*

	<i>School Wide Statements</i>	<i>Fund Financial Statements</i>		
		<i>Governmental Funds</i>	<i>Proprietary Funds</i>	<i>Fiduciary Funds</i>
<i>Scope</i>	<i>Entire School (except fiduciary funds)</i>	<i>The activities of the school that are not Proprietary or Fiduciary, such as special education and building maintenance, food service, and community education</i>	<i>Activities the school that operate similar to private businesses: Enterprise Fund</i>	<i>Instances in which the school administers resources on behalf of someone else, such as student activities funds</i>
<i>Required financial statements</i>	<ul style="list-style-type: none"> • <i>Statement of net position</i> • <i>Statement of activities</i> 	<ul style="list-style-type: none"> • <i>Balance Sheet</i> • <i>Statement of revenue, expenditures and changes in fund balances</i> 	<ul style="list-style-type: none"> • <i>Statement of net position</i> • <i>Statement of revenue, expenses, and changes in fund net position</i> • <i>Statement of cash flows</i> 	<ul style="list-style-type: none"> • <i>Statement of Fiduciary net position</i> • <i>Statement of changes in fiduciary net position</i>
<i>Accounting Basis and Measurement focus</i>	<i>Accrual accounting and economic resources focus</i>	<i>Modified accrual accounting and current financial focus</i>	<i>Accrual accounting and economic resources focus</i>	<i>Accrual accounting and economic resources focus</i>
<i>Type of asset/liability information</i>	<i>All assets and liabilities, both financial and capital, short-term and long-term</i>	<i>Generally assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets of long-term liabilities included</i>	<i>All assets and liabilities, both financial and capital, and short-term and long-term</i>	<i>All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can</i>
<i>Type of inflow/outflow information</i>	<i>All revenues and expenses during the year, regardless of when the cash is received or paid</i>	<i>Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been</i>	<i>All revenues and expenses during the year, regardless of when cash is received or paid.</i>	<i>All additional and dedications during the year, regardless of when cash is received or paid.</i>

SUGAR VALLEY RURAL CHARTER SCHOOL

Management Discussion and Analysis
Year Ended June 30, 2018

		<i>received and the related liability is due and payable.</i>		
--	--	---	--	--

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net position. The School's combined net position was (\$1,884,335) on June 30, 2018. (See Table A-2.)

*Table A-2
Sugar Valley Rural Charter School
Net position
As of June 30, 2017 and 2018*

	2017	2018
<i>Current Assets</i>	<i>5,346,599</i>	<i>6,783,292</i>
<i>Capital Assets</i>	<i>594,511</i>	<i>933,653</i>
<i>Total Assets</i>	<i>5,941,110</i>	<i>7,716,945</i>
<i>Deferred Outflows of Resources</i>	<i>3,286,021</i>	<i>3,486,648</i>
<i>Current Liabilities</i>	<i>318,333</i>	<i>426,881</i>
<i>Accrued Salaries and Benefits</i>	<i>364,209</i>	<i>412,605</i>
<i>Net Pension Liability</i>	<i>10,258,000</i>	<i>11,112,000</i>
<i>Other Post Employment Liabilities</i>	<i>101,883</i>	<i>1,017,893</i>
<i>Long-term Debt</i>	<i>0</i>	<i>0</i>
<i>Total Liabilities</i>	<i>11,042,425</i>	<i>12,969,379</i>
<i>Deferred Inflows of Resources</i>	<i>85,000</i>	<i>118,549</i>
<i>Invested in Capital Assets Net of Related Debt</i>	<i>594,511</i>	<i>933,653</i>
<i>Unrestricted (deficit)</i>	<i>(2,494,805)</i>	<i>(2,817,988)</i>
<i>Total Net position</i>	<i>(1,900,294)</i>	<i>(1,884,335)</i>

The Sugar Valley Rural Charter School continues to exhibit a healthy financial picture due to stable enrollment and careful planning and spending.

SUGAR VALLEY RURAL CHARTER SCHOOL

Management Discussion and Analysis
Year Ended June 30, 2018

Changes in Net position. Total revenues were more than expenses, increasing net position \$775,500 (See Table A-3). We also had a prior period adjustment of (759,541) making a net increase of 15,959 to our net position.

*Table A-3
Sugar Valley Rural Charter School
Change in Net position
For the year ended June 30, 2017 and 2018*

	2017	2018
Revenues		
<i>Instruction/Support Services</i>	7,837,784	8,636,080
<i>Food Service</i>	271,622	287,556
<i>Investment Earnings</i>	7,235	10,149
<i>Misc. Income</i>	18,273	8,705
<i>Other General Revenues</i>	0	5,776
<i>Gain/(loss) on sale of fixed assets</i>	(3,199)	(10,972)
Total	8,131,715	8,937,294
Expenses		
<i>Instruction</i>	4,242,307	4,674,571
<i>Instruction Student Support</i>	850,790	1,011,869
<i>Administrative and Financial Support Services</i>	943,832	853,663
<i>Operation and Maintenance of Plant Services</i>	742,899	951,295
<i>Pupil Transportation</i>	97,086	78,575
<i>Student Activities</i>	98,921	113,377
<i>Facilities Improvement Services</i>	4,814	0
<i>Depreciation</i>	134,297	156,314
<i>Food Service</i>	325,975	322,130
Total	7,440,921	8,161,794
Transfers		
<i>From Governmental activities</i>	(161,649)	(32,565)
<i>Into Business type activities for support of food services</i> ..	161,649	32,565
Net Transfers	0	0
Change in net position	690,794	775,500
Prior Period Adjustment	0	(759,541)
Ending of year net position	(1,900,294)	(1,884,335)

SUGAR VALLEY RURAL CHARTER SCHOOL

Management Discussion and Analysis Year Ended June 30, 2018

The School's total revenues were \$8,937,294 for the year ended June 30, 2018. Tuition from the student's home school district accounted for most of the revenue, the remainder came from federal and state programs and interest on investments.

- The federal and state governments subsidized certain programs with grants and contributions. Federal contributions were \$589,510 and state contributions were \$20,927.
- We received \$8,326,857 from local sources (mostly tuition from the home school districts).

The total cost of all programs and services was \$8,161,794. The School's expenses are predominantly related to educating and caring for students.

- The cost of all governmental activities this year was \$7,839,664. The cost for business like activities was \$322,130.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

Governmental Funds

The financial performance of the School is also reflected in its governmental fund. As the School completed the year, its governmental fund reported a fund balance of \$5,806,649. There is a \$1,650,000 assignment for future operating expenditures including, but not limited to, costs associated with the increasing costs of the PSERS retirement program for this fund balance.

Sugar Valley Rural Charter School has established a fund balance for the purpose of unanticipated expenditures as well as large startup costs of a new school year, improvements based on student needs, for the raising of academic standards and the development of unique educational opportunities for the good of the greater SVRCS community. Funds may be allocated to such areas as curriculum, personnel costs and professional development, capital improvements, cyclical maintenance, and the enhancement of community participation at the SVRCS.

Revenues for the School's governmental fund were \$8,660,658 (\$7,949,201 in 2017) while total expenses were \$7,340,710 (\$6,582,587 in 2017). In the governmental funds, revenues that are measurable but not available within 60 days of year end, are recorded as deferred inflows.

Total governmental fund revenue increased by \$711,457 from the previous year. Tuition is based on average money spent per student in the Home School District. There was a

SUGAR VALLEY RURAL CHARTER SCHOOL

Management Discussion and Analysis Year Ended June 30, 2018

increase in tuition rates in 2017-2018. We had more students in 2017-2018 compared to 2016-2017

Total governmental fund expenditures increased by \$ 758,123 from the previous year.

In fiscal ending June 30, 2018 salaries increased a minimum of 2% of the base pay for staff from the previous year. The School continues to look at various cost containment measures to minimize the effect rising health insurance premiums have on the costs of the school's employee compensation packages.

General Fund Budgetary Highlights

The School's final budget for the general fund anticipated that expenditures would exceed revenues. As a charter school, we need to prepare our budget months before the sending school district is required to complete their updated tuition rates, therefore the best estimate of the tuition from the sending school district is to use the current year's information. Generally there is an increase in tuition rates from one school year to the next.

- Actual revenues were \$585,393 more than expected.
- The actual expenditures were \$686,147 less than budget.

Proprietary Fund

Proprietary funds are established in the School to account for goods and services provided to the student body and staff. The food service fund is the enterprise fund of the school. The prices charged by the cafeteria may not materially exceed its expenditures. In 2018, the food service fund expenses exceeded revenues by \$34,523. A transfer from the general fund of \$32,565 provided support for the food service fund, At June 30, 2018 the food service fund had an accumulated deficit of (\$113,863) and net investment in fixed assets of \$44,517, for total Net Position deficit of (\$69,046).

CAPITAL ASSETS

By the end of 2017-2018 the School had invested \$1,726,051 in a broad range of capital assets, including computer and audio-visual equipment, site and building improvement, playground equipment, furniture and equipment for the students and staff. Total depreciation expense for the year was \$163,387. Accumulated Depreciation at June 30, 2018 was \$1,070,970.

In 2017-18, the School also acquired land for future construction at cost of \$275,357.

SUGAR VALLEY RURAL CHARTER SCHOOL

Management Discussion and Analysis Year Ended June 30, 2018

FACTORS BEARING ON THE SCHOOL'S FUTURE

Our future funding is dependent on student tuition from school districts and from grant awards. Our enrollment rate has remained stable and has seen growth over the last several years. We continue to investigate grant opportunities. We currently and will continue to operate within our budget. We are committed to providing a rewarding working environment for our employees while supplying our students with an effective learning experience.

The School has put into place enrollment caps by grade level and a lottery system for those grades that are at capacity. We currently have 6 grades at capacity with waiting lists, 4 grades with less than 5 openings, and 3 grades with more than 5 openings.

The school has purchased a six classroom addition that has been paid for in the 2018-2019 school year.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customer, and investors and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information contacts the Business Office, Sugar Valley Rural Charter School, 236 East Main Street, Loganton, PA 17747.

BASIC
FINANCIAL
STATEMENTS

SUGAR VALLEY RURAL CHARTER SCHOOL

EXHIBIT A

Statement of Net Position

June 30, 2018

	Governmental Activities	Business-Type Activities	Elimination of Internal Balances	Total
ASSETS				
Current Assets:				
Cash and Cash Equivalents	6,067,129	98,777	-	6,165,906
Due from Other Funds	2,027	-	(2,027)	-
Due from Other Governments	561,213	-	-	561,213
Federal Revenue Receivable	10,178	-	-	10,178
Inventories	-	8,619	-	8,619
Other Current Assets	37,230	146	-	37,376
Total Current Assets	6,677,777	107,542	(2,027)	6,783,292
Noncurrent Assets:				
Construction in Progress	3,215	-	-	3,215
Land	275,357	-	-	275,357
Site Improvements (net of accumulated depreciation)	37,489	-	-	37,489
Building/Building Improvements (net of accumulated depreciation)	246,381	-	-	246,381
Furniture and Equipment (net of accumulated depreciation)	228,329	44,517	-	272,846
Vehicles (net of accumulated depreciation)	98,365	-	-	98,365
Total Noncurrent Assets	889,136	44,517	-	933,653
Total Assets	7,566,913	152,059	(2,027)	7,716,945
DEFERRED OUTFLOWS OF RESOURCES				
Related to Pension Benefits	3,266,929	81,707	-	3,348,636
Related to Other Post Employment Benefits	134,645	3,367	-	138,012
TOTAL DEFERRED OUTFLOWS OF RESOURCES	3,401,574	85,074	-	3,486,648
LIABILITIES				
Current Liabilities:				
Accounts Payable	54,365	-	-	54,365
Accrued Salaries and Benefits	412,605	-	-	412,605
Payroll Deductions and Benefits	366,927	-	-	366,927
Due to Other Funds	-	2,027	(2,027)	-
Unearned Revenue	-	3,717	-	3,717
Other Current Liabilities	-	1,872	-	1,872
Total Current Liabilities	833,897	7,616	(2,027)	839,486
Noncurrent Liabilities:				
Net Pension Liability	10,840,867	271,133	-	11,112,000
Net Liability for Other Post Employment Benefits	993,055	24,838	-	1,017,893
Total Noncurrent Liabilities	11,833,922	295,971	-	12,129,893
Total Liabilities	12,667,819	303,587	(2,027)	12,969,379
DEFERRED INFLOWS OF RESOURCES				
Related to Pension Benefits	65,365	1,635	-	67,000
Related to Other Post Employment Benefits	50,292	1,257	-	51,549
Total Deferred Inflows of Resources	115,657	2,892	-	118,549
NET POSITION				
Investment in Capital Assets, Net of Related Debt	889,136	44,517	-	933,653
Unrestricted deficit	(2,704,125)	(113,863)	-	(2,817,988)
Total Net Position	(1,814,989)	(69,346)	-	(1,884,335)

The accompanying notes are an integral part of these financial statements.

SUGAR VALLEY RURAL CHARTER SCHOOL

EXHIBIT B

Statement of Activities
For the Year Ended June 30, 2018

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental Activities:						
Depreciation - Unallocated Instruction	156,314				(156,314)	(156,314)
Support Services	4,674,571		5,248,006		573,435	573,435
Instructional Student Support	1,011,869		1,124,768		112,899	112,899
Administration and Business Services	853,663		967,545		113,882	113,882
Operation and Maintenance of Plant	951,295		1,078,201		126,906	126,906
Pupil Transportation (including interest of 955)	78,575		89,057		10,482	10,482
Non-Instructional Services	113,377		128,503		15,126	15,126
Total Governmental Activities	7,839,664	-	8,636,080	-	796,416	796,416
Business-Type Activities:						
Food Services	322,130	59,155	228,401			(34,574)
Total	8,161,794	59,155	8,864,481	-	796,416	(34,574)
General Revenues:						
Other General Revenue - Donations				5,776		5,776
Investment Earnings				10,098	51	10,149
Miscellaneous Income/(Loss)				8,705		8,705
Loss on Disposal of Fixed Assets				(10,972)		(10,972)
Transfers Between Governmental/Business Type Activities				(32,565)	32,565	-
Total General Revenues				(18,958)	32,616	13,658
Change in Net Position				777,458	(1,958)	775,500
Net Position - Beginning, As Previously Stated				(1,854,148)	(46,146)	(1,900,294)
Prior Period Adjustment				(738,299)	(21,242)	(759,541)
Net Position - Beginning, As Restated				(2,592,447)	(67,388)	(2,659,835)
Net Position - Ending				(1,814,989)	(69,346)	(1,884,335)

The accompanying notes are an integral part of these financial statements.

SUGAR VALLEY RURAL CHARTER SCHOOL

EXHIBIT C

Balance Sheet
Governmental Funds
June 30, 2018

	<u>General Fund</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	6,067,129	6,067,129
Due from Other Funds	2,027	2,027
Due from Local Governments	561,213	561,213
Federal Revenue Receivable	10,178	10,178
Total Assets	<u>6,640,547</u>	<u>6,640,547</u>
<u>LIABILITIES</u>		
Accounts Payable	54,365	54,365
Accrued Salaries and Benefits	412,605	412,605
Payroll Withholdings and Benefits	366,927	366,927
Total Liabilities	<u>833,897</u>	<u>833,897</u>
<u>FUND BALANCES</u>		
Assigned Fund Balance	1,650,000	1,650,000
Unassigned Fund Balance	4,156,650	4,156,650
Total Fund Balances	<u>5,806,650</u>	<u>5,806,650</u>
Total Liabilities and Fund Balances	<u>6,640,547</u>	<u>6,640,547</u>

The accompanying notes are an integral part of these financial statements.

SUGAR VALLEY RURAL CHARTER SCHOOL

EXHIBIT D

**Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2018**

Total Fund Balances - Governmental Funds	5,806,650
Prepayments of expenses are recognized as expenses in the governmental funds but are recognized as assets in the full accrual statement of net position	37,230
Net capital assets are not recorded in the governmental fund statements but are recorded in the full accrual statement of net position.	889,136
Long-term liabilities that are not due and payable in the current period are not reported as liabilities in the governmental fund statements. Long-term liabilities at year end consist of:	
Net Liability for Pension Benefits	(10,840,867)
Net Liability for Other Post Employment Benefits	(993,055)
Deferred Outflows of Resources are not recorded in the governmental fund statements	
Related to Pension Benefits	3,266,929
Related to Other Post Employment Benefits	134,645
Deferred Inflows of Resources are not recorded in the governmental fund statements	
Related to Pension Benefits	(65,365)
Related to Other Post Employment Benefits	(50,292)
Total Net Position - Governmental Activities	<u>(1,814,989)</u>

The accompanying notes are an integral part of these financial statements.

SUGAR VALLEY RURAL CHARTER SCHOOL

EXHIBIT E

Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2018

	General Fund	Total Governmental Funds
<u>REVENUES</u>		
Local Sources	8,278,622	8,278,622
State Sources	8,914	8,914
Federal Sources	373,122	373,122
Total Revenues	8,660,658	8,660,658
<u>EXPENDITURES</u>		
Instruction	4,108,735	4,108,735
Support Services	2,854,483	2,854,483
Non-Instructional Services	103,732	103,732
Facilities Acquisition, Construction and Improvement	273,759	273,759
Total Expenditures	7,340,709	7,340,709
Excess of Revenue Over Expenditures	1,319,949	1,319,949
<u>OTHER FINANCING SOURCES(USES)</u>		
Interfund Transfers Out - to Food Service Fund	(32,565)	(32,565)
Total Other Financing (Uses)	(32,565)	(32,565)
Change in Fund Balance	1,287,384	1,287,384
Fund Balance - Beginning	4,519,266	4,519,266
Fund Balance - Ending	5,806,650	5,806,650

The accompanying notes are an integral part of these financial statements.

SUGAR VALLEY RURAL CHARTER SCHOOL

EXHIBIT F

**Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balance
to the Statement of Net Activities
For the Year Ended June 30, 2018**

Net Change In Fund Balances - Governmental Funds	1,287,384
Capital outlays are reported in governmental funds as expenditures. In the Statement of Activities, the costs of those assets are allocated over estimated useful lives as depreciation. This is the amount by which capital outlays exceeded depreciation and the net book value of assets disposed of during the year.	328,181
Amounts that are expensed in the fund statements that represent prepayments are recorded on the full accrual basis in the statements of net position and activities. This reconciling item represents an increase in prepaid expense, as compared to last year.	13,546
Long-term liabilities that are not due and payable in the current period are not reported as liabilities in the governmental fund statements. These reconciling items represent the increase in these accounts as compared to the prior year	
Net Pension Liability	(870,091)
Net Liability for Other Post Employment Benefits	(891,172)
Deferred Outflows of Resources are not recorded in the governmental fund statements. These reconciling items represent the increase in these accounts as compared to the year.	
Related to Pension Benefits	69,303
Related to Other Post Employment Benefits	134,645
Deferred Inflows of Resources are not recorded in the governmental fund statements. These reconciling items represent the increase in these accounts as compared to the year.	
Related to Pension Benefits	17,655
Related to Other Post Employment Benefits	(50,292)
Plus amounts related to Other Postemployment Benefits that are recorded as a prior period adjustment in adoption of new accounting principle	738,299
Change In Net Position of Governmental Activities	<u>777,458</u>

The accompanying notes are an integral part of these financial statements.

SUGAR VALLEY RURAL CHARTER SCHOOL

EXHIBIT G

Statement of Net Position
Proprietary Fund
June 30, 2018

	<u>Food Service Fund</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	98,776
Inventories	8,619
Prepaid Expenses	146
Total Current Assets	<u>107,541</u>
Noncurrent Assets:	
Furniture and Equipment (Net of Accumulated Depreciation)	<u>44,517</u>
Total Noncurrent Assets	<u>44,517</u>
Total Assets	<u>152,058</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Related to Pension Benefits	81,707
Related to Other Post Employment Benefits	<u>3,367</u>
Total Deferred Outflows of Resources	<u>85,074</u>
<u>LIABILITIES</u>	
Current Liabilities:	
Due to Other Funds	2,027
Unearned Revenues	3,717
Other Current Liabilities	<u>1,873</u>
Total Current Liabilities	<u>7,617</u>
Noncurrent Liabilities:	
Net Pension Liability	271,133
Net Liability for Other Post Employment Benefits	<u>24,836</u>
Total Noncurrent Liabilities	<u>295,969</u>
Total Liabilities	<u>303,586</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Related to Pension Benefits	1,635
Related to Other Post Employment Benefits	<u>1,257</u>
Total Deferred Inflows of Resources	<u>2,892</u>
<u>NET POSITION</u>	
Investment in Capital Assets, Net of Related Debt	44,517
Unrestricted (deficit)	<u>(113,863)</u>
Total Net Position	<u>(69,346)</u>

The accompanying notes are an integral part of these financial statements.

SUGAR VALLEY RURAL CHARTER SCHOOL

EXHIBIT H

Statement of Revenues, Expenditures and Changes in Net Position
Proprietary Fund
For the Year Ended June 30, 2018

	<u>Food Service Fund</u>
<u>OPERATING REVENUES</u>	
Food Service Revenue	59,155
Total Operating Revenues	59,155
<u>OPERATING EXPENSES</u>	
Salaries	79,653
Employee Benefits	40,554
Purchased Professional Services	6,481
Purchased Property Services	4,614
Supplies	183,755
Depreciation	7,073
Total Operating Expenses	322,130
Operating Loss	(262,975)
<u>NON-OPERATING REVENUES (EXPENSES)</u>	
Interest Income	51
State Sources	12,013
Federal Sources	216,388
Total Non-Operating Revenues	228,452
Loss Before Contributions and Transfers	(34,523)
<u>CONTRIBUTIONS AND TRANSFERS</u>	
Transfer In - from General Fund for Breakfast Program Meals	25,758
Transfers In - from General Fund	6,807
Total Transfers - In	32,565
Change in Net Position	(1,958)
Net Position - Beginning, as originally stated	(46,146)
Prior Period Adjustment	(21,242)
Net Position - Beginning, as restated	(67,388)
Net Position - Ending	(69,346)

The accompanying notes are an integral part of these financial statements.

SUGAR VALLEY RURAL CHARTER SCHOOL

EXHIBIT I
Page 1 of 2

Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2018

	<u>Food Service Fund</u>
<u>CASH FLOWS PROVIDED/(USED) BY OPERATING ACTIVITIES</u>	
Cash Received from Users	57,358
Cash payments for Employee Services and Benefits	(126,444)
Cash payments for Goods and Services	(184,944)
Net Cash (Used) by Operating Activities	<u>(254,030)</u>
<u>CASH FLOWS PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES</u>	
Cash Transferred from General Fund for Breakfast Program	25,758
State Subsidies	12,013
Federal Subsidies	203,908
Decrease in Accounts receivable	28,597
Net Cash Provided By Non-Capital Financing Activities	<u>270,276</u>
<u>CASH FLOWS (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Purchases of Equipment	(18,033)
<u>CASH FLOWS PROVIDED BY INVESTING ACTIVITIES</u>	
Investment Earnings	51
Net Increase in Cash and Cash Equivalents	<u>(1,736)</u>
Cash and Cash Equivalents - Beginning	<u>100,513</u>
Cash and Cash Equivalents - Ending	<u><u>98,777</u></u>

The accompanying notes are an integral part of these financial statements.

SUGAR VALLEY RURAL CHARTER SCHOOL

EXHIBIT I
Page 2 of 2

Statement of Cash Flow
Proprietary Fund
For the Year Ended June 30, 2018

	<u>Food Service Fund</u>
<u>Reconciliation of Operating Loss to Net Cash Provided By Operating Activities</u>	
Operating Loss	<u>(262,975)</u>
Adjustments to Reconcile Operating Loss to Net Cash Provided By Operating Activities	
Depreciation and Net Amortization	7,073
Non-Cash Value of Commodities Used	12,479
(Increase)/Decrease in Inventories	(1,783)
Increase/(Decrease) in Interfund payables	2,027
Increase/(Decrease) in Accounts Payable	(790)
Increase/(Decrease) in Refund of Advanced Sales	(1,797)
Increase/(Decrease) in Net Pension/OPEB Liabilities and Deferred Inflows/Outflows of Resources	<u>(8,264)</u>
Net Cash Provided By Operating Activities	<u>(254,030)</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Sugar Valley Rural Charter School (the School), located in Loganton, Clinton County, Pennsylvania, was formed in accordance with Act 22 of 1997, which permits local citizens to conceive, implement, and operate public schools that are independent of local school boards. The School's original charter was approved on December 14, 1999 and was renewed for each of the five year periods beginning July 1, 2005, 2010 and 2015.

A. Use of Governmental Accounting Standards and Adoption of New Standard

Although the School is a non-profit organization, the School operates under current standards prescribed by the Pennsylvania Department of Education. That Department requires that the School's financial statements be prepared in conformity with U.S. generally accepted accounting principles 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 GASB has issued codification of governmental accounting and financial reporting standards. This codification is recognized as U.S. generally accepted accounting principles for state and local governments.

The School has adopted the guidance of GASB Statement 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". This statement became effective for periods beginning after June 15, 2017, and adoption resulted in the restatement of net position of governmental activities, business type activities and the proprietary fund as of June 30, 2017. The Statement requires recognition of long-term liabilities, deferred inflows and outflows, and expenses related to the School's participation in benefit plans that provide health care related benefits to retirees (see Note 8). Recognition of these amounts is consistent with recognition standards applied to pension obligations and are believed to enhance financial reporting by providing information on these significant long-term obligations.

B. Reporting Entity

The Governmental Accounting Standards Board 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 School as a reporting entity, management has addressed all potential component units which may or may not fall within the School's financial accountability and evaluated the nature and significance of the relationships. No component units were identified for inclusion in these financial statements. Accordingly, this report includes all of the funds of Sugar Valley Rural Charter School, but no component units.

C. Basis of Presentation

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

Government-wide Financial Statements The statement of net position and the statement of activities display information about the School as a whole. These statements include all the financial activities of the School, except for fiduciary funds. The statements distinguish between those activities of the School that are governmental and those that are considered business-type activities.

The statement of net position presents the financial condition of the governmental and business-type activities of the School at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School's governmental activities and for the one business-type activity of the School. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular program. The School receives tuition from neighboring districts, based on enrollment. This revenue is allocated proportionally to instruction, support services, and other functions in the government-wide financial statements. Substantially all grant revenues are presented as program revenues related to the functions each supports. Revenues which are not classified as program revenues are presented as general revenues of the School, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School.

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fund Financial Statements During the year, the School segregates transactions related to certain School functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Any non-major funds are aggregated and presented in a single column. Currently, the School has no non-major funds. Fiduciary funds are reported by type.

D. Fund Accounting

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

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The School's major fund, and only, governmental fund is –

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

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

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

Food Service Fund This fund accounts for the financial transactions related to the food service operations of the School. The food service provides meals and snacks to students and staff. They can also provide food service for other events under School sponsorship.

Fiduciary Funds Fiduciary fund reporting focuses on net position and changes in net position. The School has two types of fiduciary funds – a private-purpose trust fund and an agency fund. The private-purpose trust fund is held by the School to provide college aid to graduating students and is, therefore, not available to support the School's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

E. Measurement Focus and Basis of Accounting

Economic Resources Measurement Focus and Accrual Basis of Accounting The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting, as are the proprietary fund and the fiduciary fund financial statements.

In the accrual basis of accounting, revenues resulting from exchange transactions are recognized when the exchange takes place. Revenues from non-exchange transactions are recognized as follows:

- Revenue from a student's resident District is recognized in the period in which the student attends the School.
- Grants which are expenditure-driven are recognized as revenue when the specified reimbursable expense is incurred, provided any other eligibility criteria have also been met.
- Grants which are not expenditure-driven are recognized as revenue when the applicable recognition criteria have been met.

Expenditures are recognized when liabilities are incurred.

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Current Financial Resources Measurement Focus and Modified Accrual Basis of Accounting The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. In the modified accrual basis of accounting, revenues are recognized as outlined above, but with the added criteria that revenues should only be recognized when both measurable and available to finance expenditures of the fiscal period.

The School has defined that revenues are "available" if received within 60 days of year end. However, the School has noted that revenues from expenditure-driven grants are generally available for collection soon after the related expenditures are incurred. As a matter of practicality and consistency, the School has decided to consider all such expenditure-driven grant revenue as available when the related expenditure has been incurred, provided any other eligibility criteria have also been met.

Revenues that are measurable, but do not meet the definition of "available" are recorded as deferred inflows of resources.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

F. Use of Restricted and Unrestricted Resources

The School's policy is to first apply restricted resources, rather than unrestricted resources, when an expense is incurred for purposes for which both restricted and unrestricted net position, or fund balance, are available.

G. Interfund Activity

The Food Service Fund serves free breakfast to all students. Transfers are made from the General Fund to the Food Service Fund, to pay for the breakfasts served to students who are not eligible for assistance under the School Breakfast Program for low income families.

Transfers are made from the General Fund to the Food Service Fund to support food service activities and reduce food service operating deficits.

Of the total transfers reported, \$25,758 was for breakfasts, and \$6,807 was in general support of food service activities.

I. Inventories

The School inventory consists of Food Service Fund food and supplies, and is valued on a FIFO (first-in, first-out) method.

J. Prepaid Expenses

In the government-wide statements, prepaid expenses are recorded as assets in the specific governmental fund in which future benefits will be derived. In the governmental fund statements pre-payments of insurances and other similar services are not allocated between and among accounting periods. Rather, they are accounted for as expenditures in the period of acquisition. In the proprietary fund statements, the pre-payment of expenses is reported as a current asset.

NOTES TO FINANCIAL STATEMENTS

PAGE 8

NOTE 6 COMPENSATED ABSENCES

Compensated absences are absences for which employees will be paid, such as vacation, sick leave, and sabbatical leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the School and its employees is accrued as employees earn the rights to the benefits. The School had no liabilities for compensated absences as of June 30, 2018.

NOTE 7 PENSION PLAN

General Information about the Pension Plan

Plan description

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

Measurement of financial information

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

Benefits provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined 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% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

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

NOTE 7 PENSION PLAN (Continued)

Contributions

Member Contributions:

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

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

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

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

Employer Contributions:

The School's contractually required contribution rate for fiscal year ended June 30, 2017 was 29.20% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School were \$874,940 for the year ended June 30, 2017.

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

At June 30, 2018, the School reported a liability of \$11,112,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2016 to June 30, 2017. The School'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, 2018, the School's proportion was .0225 percent, which was an increase of .0018 percent from its proportion measured as of June 30, 2017.

Pension liability, and the deferred inflows and outflows related to pensions discussed below, have been allocated between the general fund and the food service fund, based on each fund's share of pension contribution

For the year ended June 30, 2018, the School recognized pension expense of \$1,811,020. At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	116,000	(67,000)
Changes in Assumptions	302,000	-
Net difference between projected and actual investment earnings	257,000	-
Changes in Proportion	1,638,000	-
Difference between employer contributions and proportionate share of total contributions	-	-
Contributions subsequent to the measurement date	1,035,636	
	<u>3,348,636</u>	<u>(67,000)</u>

NOTE 7 PENSION PLAN (Continued)

\$1,035,636 reported as deferred outflows of resources related to pensions resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:

2018	(777,000)
2019	(814,000)
2020	(527,000)
2021	(128,000)
	<u>(2,246,000)</u>

Actuarial Assumptions

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

- Actuarial cost method – Entry Age Normal – level 1% of pay.
- Investment return – 7.25%, includes inflation of 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 pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

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

The above was the 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.

NOTE 7 PENSION PLAN (Continued)

Discount rate

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

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

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

	1% Decrease <u>6.25%</u>	Rate <u>7.25%</u>	1% Increase <u>8.25%</u>
Schools proportionate share of the net pension liability	13,678,000	11,112,000	8,946,000

Additional information about the Plan's fiduciary net position

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

NOTE 8 OTHER POST EMPLOYMENT BENEFITS – (OPEB)

The School participates in the Pennsylvania School Employees Retirement Plan (PSERS). PSERS provides both pension benefits, as described above, and OPEB benefits in the form of health insurance premium assistance (Premium Assistance). The School has also adopted its own Sugar Valley Rural Charter School Postemployment Benefit Plan which provides health insurance benefits to eligible retirees.

1. PREMIUM ASSISTANCE PROGRAM

General information about Premium Assistance:

Plan Description

As part of the PSERS System, Premium Assistance is a governmental cost sharing, multiple-employer postemployment benefit plan for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year.

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

Measurement of financial information

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

NOTE 8 OTHER POST EMPLOYMENT BENEFITS – (OPEB) (Continued)

Benefits Provided

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 (HOP). As of June 30, 2017 there are no assumed future benefit increases to participating eligible retirees.

Eligibility Criteria

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

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

Employer Contributions

The School's contractually required contribution rate for the fiscal year ended June 30, 2017 was .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 Premium Assistance were \$25,000 for the year ended June 30, 2017.

Actuarial Assumptions

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

- Actuarial cost method – Entry Age Normal – level 1% of pay.
- Investment return – 3.13%- S&P 20 year Municipal Bond Rate.
- Salary Growth – Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement 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 the 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 health annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back 7 years for males and 3 years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Health Annuitant Tables with age set back 3 years for both genders assuming the population consisted of 25% males and 75% females is used to determine actuarial equivalent benefits.)

NOTE 8 OTHER POST EMPLOYMENT BENEFITS – (OPEB) (Continued)

Investments

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

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

Premium Assistance 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 is the Board's adopted asset allocation policy and best estimate of geometric real rates of return for each major class as of June 30, 2017.

Discount Rate

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

Sensitivity of the System Net OPEB liability to Change in Healthcare Cost Trends

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual Premium Assistance. As of June 30, 2017, retirees Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200 per year. As of June 30, 2016, 91,797 retirees were receiving the maximum amount allowed of \$1,200 per year. As of June 3, 2016, 1,354 members were receiving less than the maximum amount allowed of \$1,200 per year. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on healthcare cost trends as depicted below.

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

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
School's proportionate share of the net Premium Assistance liability	458,000	458,000	459,000

NOTE 8 OTHER POST EMPLOYMENT BENEFITS – (OPEB) (Continued)

Sensitivity of the School's proportionate share of the net Premium Assistance OPEB liability to changes in the discount rate

The following presents the net Premium Assistance OPEB liability, calculating using the discount rate of 3.13%, as well as what the net Premium Assistance liability would be if it were calculating using a discount rate that 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%
School's proportionate share of the net Premium Assistance liability	521,000	458,000	406,000

Premium Assistance fiduciary net position

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

2. SUGAR VALLEY RURAL CHARTER SCHOOL POSTEMPLOYMENT BENEFITS PLAN

Plan Description.

The Sugar Valley Charter School Postemployment Benefits Plan (the SVRCS Plan) is a single-employer defined benefit healthcare plan administered by the School. The School adopted the SVRCS Plan in February of 2016. The School has elected to pay benefits directly from School assets, rather than create and then fund a trust to provide benefits. As the SVRCS Plan has no trust, the SVRCS Plan does not have a stand-alone financial statement to present.

Benefits Provided

The SVRCS Plan was established in accordance with Act 110 of October 20, 1988, and Act 43 of July 8, 1989, by which the Pennsylvania Public Education Code was amended, obligating the School to make the school group health insurance coverage available to its retirees who have met certain criteria. For subsidized members, the School will pay 100% of the single premium for medical, prescription drug, and vision coverage for the retired employee. Retirees can elect dental coverage by paying the full premium. Spouses and dependents are not eligible to receive subsidized coverage.

Members who do not meet the requirements for subsidized coverage, but do meet requirements of Act 110/43 are eligible to receive coverage for themselves, their spouse and dependents, by paying the full premium determined for the purpose of COBRA.

Coverage continues until the retiree reaches Medicare Age or age 65, whichever comes first.

Eligibility Criteria

Subsidized members must reach age 59 ½ and have 15 years of service with Sugar Valley Rural Charter School.

Employees are eligible under Act 110/43 upon retiring with 30 years PSERS service or upon superannuation retirement.

At June 30, 2017 there were 92 active employees, 1 inactive employee receiving benefits and no inactive employees entitle to but not yet receiving benefits.

Employer Contributions

The School pays premiums for subsidized members as they become due.

NOTE 8 OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

Actuarial Assumptions

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

- Actuarial cost method – Entry Age Normal.
- Discount Rate – 3.13%, Based on S&P Municipal Bond 20-Year High Grade Rate Index at July 1, 2017.
- Salary Growth – Salary increases are composed of a 2.5% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.75% to 0%.
- Withdrawal – Rates of withdrawal vary by age, gender and years of service. Sample rates for employees with more than 10 years of service are shown below

Age	Male Rate	Female Rate
25	3.08%	6.02%
30	3.08%	4.82%
35	1.80%	3.42%
40	1.61%	1.92%
45	1.64%	1.98%
50	2.30%	2.47%
55	4.06%	3.73%
60	6.68%	7.68%

Rates for new employees start at 27.48% for both men and women and decrease with age and service.

- Retirement – Assumed retirement rates are based on PSERS plan experience and vary by age, service and gender.

Age	Age 55 & 25 Years of Service		Superannuation	
	Males	Females	Males	Females
55	19%	19%	27%	10%
56	17%	17%	32%	30%
57	17%	17%	32%	30%
58	17%	17%	32%	35%
59	22%	21%	31%	36%
60	14%	17%	31%	36%
61	29%	30%	29%	31%
62	51%	61%	51%	61%
63	26%	26%	26%	26%
64	21%	22%	21%	22%
65	100%	100%	100%	100%

- Per Capita Claims Cost – The per capita claims cost for medical and prescription drug is based on the expected portion of the group's overall cost attributed to individuals in the specified age and gender brackets. Dental and vision cost are assumed to not vary with age and gender

Age	Medical and Prescription Coverage	
	Males	Females
45-49	\$6,687	\$9,658
50-54	\$8,856	\$10,915
55-59	\$10,787	\$11,421
60-64	\$14,076	\$13,120

- Health care cost trends – 6% in 2017, and 5.5% in 2018 through 2023. Rates gradually decrease from 5.4% in 2014 to 3.9% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.
- Disability – No disability is assumed.
- Mortality rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation. Incorporated into the table are rates projected generationally by Buck Modified 2016 projection scale to reflect mortality improvement.
- Participation rate:
 - 100% of retirees receiving a subsidy are assumed to elect coverage
 - 0% of retirees eligible under Act 110/43 are assumed to elect coverage

Changes in Assumptions –

The discount rate changed from 2.49% at June 30, 2016 to 3.13% at June 30, 2017. The trend assumptions for salaries, mortality, withdrawal and retirement were updated at June 30, 2017 based on new PSERS assumptions.

NOTE 8 OTHER POST EMPLOYMENT BENEFITS – (OPEB) (Continued)

Sensitivity of the System Net OPEB liability to Change in Healthcare Cost Trends

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

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
SVRCS Plan net liability	475,512	559,892	661,668

Sensitivity of the School's proportionate share of the net Premium Assistance OPB liability to changes in the discount rate

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

	<u>1% Decrease 2.13%</u>	<u>Current Discount Rate 3.13%</u>	<u>1% Increase 4.13%</u>
SVRCS Plan net liability	617,953	559,892	506,107

Change in SVRCS Plan Liability

Liability Balance at 6/30/2016	453,251
Service Costs	64,626
Interest	12,722
Changes in Benefit Terms	-
Differences Between Expected and Actual Experience	(32,247)
Changes in Assumptions	74,366
Benefit Payments	(12,826)
Other Changes	-
Total Change	<u>106,641</u>
Liability Balance at 6/30/2017	<u><u>559,892</u></u>

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

At June 30, 2018, the School reported net OPEB liabilities as follows:

Proportionate share of Premium Assistance	458,000
SVRCS Plan	559,893
Total	<u>1,017,893</u>

The net liabilities were measured as of June 30, 2017. The liabilities were calculated by rolling forward the liabilities as of June 30, 2016 to June 30, 2017. The School's proportion of the net Premium Assistance liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the School's proportion was .0225 percent, which was an increase of .0018 percent from its proportion measured as of June 30, 2017.

NOTES TO FINANCIAL STATEMENTS

PAGE 17

NOTE 8 OTHER POST EMPLOYMENT BENEFITS – (OPEB) (Continued)

For the year ended June 30, 2018, the School recognized OPEB expense of:

Proportionate share of Premium Assistance	25,000
SVRCS Plan	<u>79,565</u>
Total	<u>104,565</u>

At June 30, 2018, the School reported deferred outflows of resources and deferred inflows as follows:

Premium Assistance

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	-	-
Changes in Assumptions	-	(21,000)
Net difference between projected and actual investment earnings	-	-
Changes in Proportion	33,000	-
Difference between employer contributions and proportionate share of total contributions	-	-
Contributions subsequent to the measurement date	27,082	-
	<u>60,082</u>	<u>(21,000)</u>

SVRCS Plan

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	-	(30,550)
Changes in Assumptions	70,452	-
Contributions subsequent to the measurement date	7,478	-
	<u>77,930</u>	<u>(30,550)</u>

Total

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	-	(30,549)
Changes in Assumptions	70,452	(21,000)
Net difference between projected and actual investment earnings	-	-
Changes in Proportion	33,000	-
Difference between employer contributions and proportionate share of total contributions	-	-
Contributions subsequent to the measurement date	34,560	-
	<u>138,012</u>	<u>(51,549)</u>

The net liabilities, the deferred outflows/inflows, and OPEB expenses have been allocated between the general fund and the food service fund, based on each fund's share of Premium Assistance contribution.

NOTE 8 OTHER POST EMPLOYMENT BENEFITS – (OPEB) (Continued)

The total \$34,560 reported as deferred outflows of resources resulting from School 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/inflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year Ended June 30:	Premium Assistance	SVRCS Plan	Total
2018	2,000	2,217	4,217
2019	2,000	2,217	4,217
2020	2,000	2,217	4,217
2021	2,000	2,217	4,217
2022	2,000	2,217	4,217
thereafter	2,000	28,817	30,817
	<u>12,000</u>	<u>39,902</u>	<u>51,902</u>

NOTE 9 CONTINGENT LIABILITIES

Grant Programs

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

NOTE 10 RISK MANAGEMENT

The School is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The School has purchased various insurance policies to safeguard its assets from risk of loss. Insurance coverage is consistent with previous years. During the year ended June 30, 2018, and the three previous years, no settlements exceeded insurance coverage.

REQUIRED
SUPPLEMENTARY
INFORMATION

SUGAR VALLEY RURAL CHARTER SCHOOL

SCHEDULE A

Schedule of Revenues, Expenditures and Changes in Fund Balances, Budget and Actual

General Fund

For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Local Sources	7,476,435	7,476,435	8,278,622	802,187
State Sources	59,700	59,700	8,914	(50,786)
Federal Sources	539,130	539,130	373,122	(166,008)
	<u>8,075,265</u>	<u>8,075,265</u>	<u>8,660,658</u>	<u>585,393</u>
Total Revenues				
EXPENDITURES				
Regular Instruction	3,110,251	3,110,251	2,863,973	246,278
Special Programs	1,194,492	1,194,492	1,164,739	29,753
Other Instructional Programs	101,095	101,095	80,023	21,072
<i>Total Instruction</i>	<u>4,405,838</u>	<u>4,405,838</u>	<u>4,108,735</u>	<u>297,103</u>
Pupil Services	186,342	186,342	171,127	15,215
Instructional Staff Services	177,110	177,110	210,941	(33,831)
Administrative Services	1,002,385	1,002,385	644,331	358,054
Pupil Health	203,344	203,344	203,226	118
Business Services	115,849	115,849	111,419	4,430
Operation & Maintenance of Plant Services	986,663	986,663	974,284	12,379
Student Transportation Services	106,744	106,744	97,004	9,740
Central & Other Support Services	347,158	347,158	442,151	(94,993)
<i>Total Support Services</i>	<u>3,125,595</u>	<u>3,125,595</u>	<u>2,854,483</u>	<u>271,112</u>
Food Services	376,399	376,399	-	376,399
Student Activities	119,024	119,024	103,732	15,292
<i>Total Non-Instructional Services</i>	<u>495,423</u>	<u>495,423</u>	<u>103,732</u>	<u>391,691</u>
Facilities Acquisition and Improvement	-	-	273,759	(273,759)
Debt Service	-	-	-	-
	<u>8,026,856</u>	<u>8,026,856</u>	<u>7,340,709</u>	<u>686,147</u>
Total Expenditures				
	<u>48,409</u>	<u>48,409</u>	<u>1,319,949</u>	<u>1,271,540</u>
Excess/(Deficiency) of Revenues Over Expenditures, before transfers				
			-	-
OTHER FINANCING SOURCES/(USES)				
Receipts on Sales of Fixed Assets			(32,565)	(32,565)
Interfund Transfers Out				
			-	-
Total Other Financing Sources/(Uses)				
			(32,565)	(32,565)
Net Change in Fund Balance	48,409	48,409	1,287,384	1,238,975
Fund Balance - Beginning	4,121,458	4,121,458	4,519,266	397,808
Fund Balance - Ending	<u>4,169,867</u>	<u>4,169,867</u>	<u>5,806,650</u>	<u>1,636,783</u>

See accompanying Notes to Required Supplementary Information

SUGAR VALLEY RURAL CHARTER SCHOOL

SCHEDULE B

Schedule of School's Proportionate Share of Net Pension Liability
Commonwealth of Pennsylvania School Employees Retirement System (PSERS)
30-Jun-18

Measurement date*	2018	2017	2016	2015
	30-Jun-17	30-Jun-16	30-Jun-15	30-Jun-14
School's proportion of the net pension liability (asset)	0.0225%	0.0270%	0.0188%	0.0169%
School's proportionate share of the net pension liability (asset)	11,112,000	10,258,000	8,143,000	6,689,000
School's covered-employee payroll	2,996,369	2,675,420	2,422,716	2,197,302
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	370.85%	383.42%	336.11%	304.42%
Plan fiduciary net position as a percentage of the total pension liability	51.84%	50.14%	54.36%	57.23%

* The amounts presented for each fiscal year were determined as of the measurement date, which is June 30 of the preceding year.

SUGAR VALLEY RURAL CHARTER SCHOOL

SCHEDULE C

Schedule of School's Contributions for Pension Benefits
Commonwealth of Pennsylvania School Employees Retirement System - PSERS
30-Jun-18

Measurement date	<u>2018</u> <u>30-Jun-18</u>	<u>2017</u> <u>30-Jun-17</u>	<u>2016</u> <u>30-Jun-16</u>	<u>2015</u> <u>30-Jun-15</u>
Contractually required contribution	1,035,636	890,021	670,423	496,657
Contributions in relation to the contractually required contribution	<u>1,035,636</u>	<u>890,021</u>	<u>670,423</u>	<u>496,657</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
School's covered-employee payroll	3,262,875	2,996,369	2,675,420	2,422,716
Contributions as a percentage of covered-employee payroll	32%	30%	25%	21%

SUGAR VALLEY RURAL CHARTER SCHOOL

SCHEDULE D

Schedule of School's Proportionate Share of Net Premium Assistance OPEB Liability
Commonwealth of Pennsylvania School Employees Retirement System (PSERS)
30-Jun-18

Measurement date*	2018	2017
	30-Jun-17	30-Jun-16
School's proportion of the net Premium Assistance OPEB liability (asset)	0.0225%	0.0270%
School's proportion of the net Premium Assistance OPEB liability (asset)	458,000	446,000
School's covered-employee payroll	2,996,369	2,675,420
School's proportionate share of the net Premium Assistance OPEB liability(asset) as a percentage of its covered-employee payroll	15.29%	16.67%
Plan fiduciary net position as a percentage of the total Premium Assistance OPEB liability	5.73%	5.47%

* The amounts presented for each fiscal year were determined as of the measurement date, which is June 30 of the preceding year.

SUGAR VALLEY RURAL CHARTER SCHOOL

SCHEDULE E

Schedule of School's Contributions for Premium Assistance OPEB Benefits
Commonwealth of Pennsylvania School Employees Retirement System - PSERS
30-Jun-18

Measurement date	<u>2018</u> <u>30-Jun-18</u>	<u>2017</u> <u>30-Jun-17</u>
Contractually required contribution	27,082	25,000
Contributions in relation to the contractually required contribution	<u>27,082</u>	<u>25,000</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>
School's covered-employee payroll	3,262,875	2,996,369
Contributions as a percentage of covered-employee payroll	0.83%	0.83%

SUGAR VALLEY RURAL CHARTER SCHOOL

SCHEDULE F

Schedule of Changes in Net Liability and Covered Payroll for the SVRCS Plan - OPEB
30-Jun-18

Measurement date	2018 <u>30-Jun-17</u>
OPEB Liability at 6/30/2016	453,251
Service Costs	64,626
Interest	12,722
Changes in Benefit Terms	-
Differences Between Expected and Actual Experience	(32,247)
Changes in Assumptions	74,366
Benefit Payments	(12,826)
Other Changes	-
Total Change	<u>106,641</u>
OPEB Liability at 6/30/2017	<u><u>559,892</u></u>
Covered Payroll	3,061,024
OPEB Liability as a Percent of Covered Payroll	18%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

NOTE 1
ACTUAL-

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES, BUDGET AND
Schedule A

An operating 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.

Legal budgetary control is maintained at the sub-function/major object level. The Board of Directors may make transfers of funds appropriated to any particular item of expenditure by legislative action in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without Board approval. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments. The budget was not amended during the year ended June 30, 2018.

In order to preserve a portion of an appropriation for which an expenditure has been committed by a purchase order, contract or other form of commitment, an encumbrance is recorded. Budgeted appropriations lapse at year end, and no reserves are created for encumbrances outstanding at year end.

Included in the General Fund budget, are program budgets as prescribed by the federal and state agencies funding the program. These budgets are approved on a program by program basis by the federal and state funding agencies.

NOTE 2

SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY- Schedule B

and

SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS FOR PENSION BENEFITS – Schedule C

There were no significant changes in the benefit terms, changes in size or composition of the population covered by the benefit terms, or use of different assumptions, that would significantly affect trends in the amounts reported in the Schedule of the School's Proportionate Share of the Net Pension Liability or the Schedule of the School's Contributions.

NOTE 3

SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET PREMIUM ASSISTANCE OPEB
LIABILITY – Schedule D

and

SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS FOR PREMIUM ASSISTANCE OPEB BENEFITS –
Schedule E

There were no significant changes in the benefit terms, changes in size or composition of the population covered by the benefit terms, or changes in assumptions that would significantly affect trends in the amounts reported in the Schedule of the School's Proportionate Share of the Net Premium Assistance OPEB Liability or the Schedule of the School's Contributions.

NOTE 4

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND COVERED EMPLOYEE PAYROLL L OF THE SVRCS
PLAN - OPEB – Schedule F

No assets are accumulated in a trust to fund benefits.

There were changes in assumptions between 6/30/2016 and 2017 as follows: The discount rate changed from 2.49% at June 30, 2016 to 3.13% at June 30, 2017. The trend assumptions for salaries, mortality, withdrawal and retirement were updated at June 30, 2017 based on new PSERS assumptions.



MARGARET MCCLUSKEY CPA LLC

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

Board of Trustees
SUGAR VALLEY RURAL CHARTER SCHOOL
Loganton, PA

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Sugar Valley Rural Charter School, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 20, 2018.

Internal Control over Financial Reporting

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

Mifflinburg, PA

December 20, 2018

50