

WARWICK SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2015

WARWICK SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2015

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Independent Auditors' Report

Board of School Directors
Warwick School District
Lititz, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the nonmajor proprietary fund and the aggregate remaining fund information of Warwick School District as of and for the year ended June 30, 2015 and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the nonmajor proprietary fund and the aggregate remaining fund information of Warwick School District as of June 30, 2015 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.

Adoption of New Accounting Principles

As discussed in Note 17 to the financial statements, effective July 1, 2014, the District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*; GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinions are 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, schedules of pension information, the information about other postemployment benefits - schedule of funding progress, and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Warwick School District's basic financial statements. The combining supplementary information on nonmajor funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-profit Organizations, and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 1, 2015 on our consideration of Warwick School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Warwick School District's internal control over financial reporting and compliance.

Brown Schultz Steidman & Fritz

Lancaster, Pennsylvania
December 1, 2015

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2015
(Unaudited)

The discussion and analysis of the Warwick School District's (School District or District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

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

Financial Highlights

Key financial highlights for 2015 are as follows:

- The District adopted new standards for recognizing pension expense during the fiscal year. As a result, the District is required to record its share of the Pennsylvania State Employee Retirement System (PSERS) unfunded net pension liability. The District's portion of this liability totals \$86,009,000 and has been reported on its government-wide financial statements. The recognition of this liability causes the District's total liabilities and deferred inflows to exceed its total assets and deferred outflows as of June 30, 2015, generating a net deficit of \$(58,628,569). In total, net position increased \$110,042.
- General revenues accounted for \$53,163,342 in revenue or 81.0% of all revenues. Program specific revenues in the form of charges for services, and operating grants and contributions accounted for \$12,481,415 or 19.0% of all revenues of \$65,644,757.
- The School District had \$65,534,716 in expenses; only \$12,481,415 of these expenses were offset by program specific charges for services, grants or contributions.
- Among major funds, the General Fund had \$63,701,147 in revenues and \$54,456,406 in expenditures. In addition, the District transferred \$9,190,493 from the General Fund to the Debt Service Fund.
- The District issued the General Obligation Bonds, Series of 2015 to currently refund the outstanding General Obligation Bonds, Series of 2005, currently refund the outstanding General Obligation Bonds, Series A of 2009 and finance capital projects. The total net present value savings for this refunding totaled approximately \$2,163,000.
- As of June 30, 2015, the District's fund balance for the General Fund was \$11,846,994. This is essentially flat to the beginning General Fund balance of \$11,792,746.

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2015
(Unaudited)

Using this Generally Accepted Accounting Principles (GAAP) Report

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

The statement of net position and statement of activities provide information about the activities of the whole School District, presenting an aggregate view of the School District's assets, deferred outflows and inflows and liabilities, regardless of whether they are relevant to the flows and balances of current financial resources. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of Warwick School District, the General Fund is by far the most significant fund.

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during the 2014-2015 school year?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows, liabilities and deferred inflows using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net position and changes in net position. The change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Nonfinancial factors include the School District's property tax base, facility condition, required state mandated educational programs and other factors.

In the statement of net position and the statement of activities, the School District reports governmental activities. Governmental activities are the activities where most of the School District's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2015
(Unaudited)

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Debt Service Fund. Nonmajor funds include the Capital Projects Fund, the Special Revenue Funds (Shirley Bell Scholarship Fund, Michael Clouser Scholarship Fund, Christopher Mitchell Scholarship Fund and John R. Bonfield Scholarship Fund) and the Permanent Funds (Eric Zimmerman Memorial Fund and the Berlin Airlift Memorial Scholarship Fund).

Governmental Funds

Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end which are available for spending in the future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds

These are the funds that account for the operations of the School District that are financed and operated in a manner similar to those found in the private sector; or where the reporting is on determining net position, changes in net position and where a significant portion of funding is through user charges. When the District charges customers for services it provides – whether to outside customers or to other units in the District – these services are generally reported in the proprietary funds.

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2015
(Unaudited)

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole.

Table 1 provides a summary of the School District's net position for 2015 and 2014:

	Governmental activities	Table 1 2015 Business- type activities	Total
	<u> </u>	<u> </u>	<u> </u>
Assets:			
Current assets and other assets	\$ 20,024,387	\$ 1,189,186	\$ 21,213,573
Capital assets	<u>99,284,936</u>	<u>438,770</u>	<u>99,723,706</u>
Total assets	119,309,323	1,627,956	120,937,279
Deferred outflows of resources	<u>8,049,242</u>		<u>8,049,242</u>
Total assets and deferred outflows	<u>\$ 127,358,565</u>	<u>\$ 1,627,956</u>	<u>\$ 128,986,521</u>
Liabilities:			
Current liabilities	\$ 13,358,093	\$ 419,097	\$ 13,777,190
Long-term liabilities	<u>167,688,900</u>		<u>167,688,900</u>
Total liabilities	<u>181,046,993</u>	<u>419,097</u>	<u>181,466,090</u>
Deferred inflows of resources	<u>6,149,000</u>		<u>6,149,000</u>
Net position (deficit):			
Net investment in capital assets	16,731,538	168,864	16,900,402
Restricted for debt service	100		100
Restricted for capital projects	792,274		792,274
Restricted for permanent endowments	27,037		27,037
Unrestricted	<u>(77,388,377)</u>	<u>1,039,995</u>	<u>(76,348,382)</u>
Total net position (deficit)	<u>(59,837,428)</u>	<u>1,208,859</u>	<u>(58,628,569)</u>
Total liabilities, deferred inflows and net position (deficit)	<u>\$ 127,358,565</u>	<u>\$ 1,627,956</u>	<u>\$ 128,986,521</u>

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2015
(Unaudited)

Table 1 2014 (continued)

	Governmental activities	Business- type activities	Total
Assets:			
Current assets and other assets	\$ 19,021,070	\$ 1,071,926	\$ 20,092,996
Capital assets	<u>98,616,388</u>	<u>395,018</u>	<u>99,011,406</u>
Total assets	117,637,458	1,466,944	119,104,402
Deferred outflows of resources	<u>1,923,583</u>		<u>1,923,583</u>
Total assets and deferred outflows	<u>\$ 119,561,041</u>	<u>\$ 1,466,944</u>	<u>\$ 121,027,985</u>
Liabilities:			
Current liabilities	\$ 14,288,847	\$ 402,797	\$ 14,691,644
Long-term liabilities	<u>82,004,952</u>		<u>82,004,952</u>
Total liabilities	<u>96,293,799</u>	<u>402,797</u>	<u>96,696,596</u>
Net position:			
Net investment in capital assets	14,779,149	125,112	14,904,261
Restricted for debt service	10,669		10,669
Restricted for programs	75,081		75,081
Restricted for capital projects	100,174		100,174
Restricted for permanent endowments	27,034		27,034
Unrestricted	<u>8,275,135</u>	<u>939,035</u>	<u>9,214,170</u>
Total net position	<u>23,267,242</u>	<u>1,064,147</u>	<u>24,331,389</u>
Total liabilities and net position	<u>\$ 119,561,041</u>	<u>\$ 1,466,944</u>	<u>\$ 121,027,985</u>

While total assets increased slightly, total liabilities increased significantly due to GASB 68 requirements, thus making the total net position appear significantly lower than prior years.

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2015
(Unaudited)

Table 2 shows the change in net position for the fiscal year 2015 and the change in net position for the 2014 fiscal year.

	Governmental activities	Table 2 2015 Business- type activities	Total
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Program revenues:			
Charges for services	\$ 222,337	\$ 1,279,147	\$ 1,501,484
Operating grants and contributions	10,177,875	802,056	10,979,931
General revenues:			
Property and earned income taxes	42,981,224		42,981,224
Grants and entitlements	10,097,559		10,097,559
Other	83,533	1,027	84,560
	<u>63,562,528</u>	<u>2,082,230</u>	<u>65,644,758</u>
 Total revenues			
	<u>63,562,528</u>	<u>2,082,230</u>	<u>65,644,758</u>
 Program expenses:			
Instruction	41,277,363		41,277,363
Support services	17,474,892		17,474,892
Operation of noninstructional services, extracurricular activities	1,556,835		1,556,835
Community service	91,386		91,386
Miscellaneous	3,158		3,158
Interest and fiscal charges	3,193,564		3,193,564
Food services		1,919,879	1,919,879
Intellectual property		17,639	17,639
	<u>63,597,198</u>	<u>1,937,518</u>	<u>65,534,716</u>
 Total expenses			
	<u>63,597,198</u>	<u>1,937,518</u>	<u>65,534,716</u>
 Increase (decrease) in net position	<u>\$ (34,670)</u>	<u>\$ 144,712</u>	<u>\$ 110,042</u>

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2015
(Unaudited)

Table 2 2014 (continued)

	Governmental activities	Business- type activities	Total
Revenues:			
Program revenues:			
Charges for services	\$ 165,410	\$ 1,344,544	\$ 1,509,954
Operating grants and contributions	9,619,694	792,729	10,412,423
General revenues:			
Property and earned income taxes	41,655,493		41,655,493
Grants and entitlements	10,101,395		10,101,395
Other	245,552	1,412	246,964
Total revenues	<u>61,787,544</u>	<u>2,138,685</u>	<u>63,926,229</u>
Program expenses:			
Instruction	37,589,860		37,589,860
Support services	16,675,245		16,675,245
Operation of noninstructional services, extracurricular activities	1,460,970		1,460,970
Architectural and engineering fees	3,521		3,521
Community service	65,139		65,139
Interest and fiscal charges	3,850,543		3,850,543
Miscellaneous	219		219
Food services		1,881,433	1,881,433
Intellectual property		1,413	1,413
Total expenses	<u>59,645,497</u>	<u>1,882,846</u>	<u>61,528,343</u>
Increase in net position	<u>\$ 2,142,047</u>	<u>\$ 255,839</u>	<u>\$ 2,397,886</u>

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2015
(Unaudited)

Governmental Activities

The statement of activities shows the cost of program services and the charges for services, and operating grants and contributions offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted state entitlements.

Table 3

	<u>Total cost of services 2015</u>	<u>Net cost of services 2015</u>
Instruction	\$ 41,277,363	\$ 34,287,827
Support services	17,474,892	15,625,396
Operation of noninstructional services, extracurricular activities and other	1,651,379	1,364,944
Interest and fiscal charges	<u>3,193,564</u>	<u>1,918,819</u>
Total expenses	<u>\$ 63,597,198</u>	<u>\$ 53,196,986</u>
	<u>Total cost of services 2014</u>	<u>Net cost of services 2014</u>
Instruction	\$ 37,589,860	\$ 31,216,201
Support services	16,678,985	14,844,136
Operation of noninstructional services, extracurricular activities and other	1,526,109	1,253,136
Interest and fiscal charges	<u>3,850,543</u>	<u>2,546,920</u>
Total expenses	<u>\$ 59,645,497</u>	<u>\$ 49,860,393</u>

Instruction expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.

Support services expenses are for services that provide administrative, technical, and logistical support to facilitate and enhance instruction.

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2015
(Unaudited)

Operation of noninstructional services include activities pertaining to keeping the school grounds, buildings and equipment in an effective working condition. Extracurricular activities include expenses related to student activities provided by the School District which are designed to provide opportunities for pupils to participate in school events, public events or a combination of these for the purposes of motivation, enjoyment and skill improvement.

Interest and fiscal charges involve the transactions associated with the payment of interest and other charges related to debt of the School District.

The dependence upon tax revenues is apparent. Over 83% of instructional activities were supported through taxes and other general revenues for the fiscal years 2015 and 2014. Approximately 89% of the District's support services were supported through taxes and other general revenues for each of the 2015 and 2014 fiscal years. Other noninstructional activities are also supported primarily through taxes and other general revenues for fiscal years 2015 and 2014. The community, as a whole, is the primary support for the Warwick School District.

The School District's Funds

In 2014-15, the results of operations for the general fund showed an excess of revenue over expenditures and other financing uses of \$54,248 with an ending fund balance of \$11,846,994. This fund balance included the following commitments approved by the Board of Directors: \$3,255,979 for a projected operating deficit, \$2,943,982 for pension rate stabilization and \$600,000 for capital project financing.

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2015

(Unaudited)

General Fund Budgeting Highlights

The School District's budget is prepared according to Pennsylvania law and is based on accounting for certain transactions on a basis of accounting consistent with the modified accrual basis of accounting except that a budgetary reserve is provided. The most significant budgeted fund is the General Fund.

The School District uses a modified site-based budgeting process. The budgeting systems are designed to tightly control total site budgets, but provide flexibility for site management.

Budget to Actual Comparison – Revenues

In 2015, actual General Fund revenues exceeded budgeted revenues by \$852,694.

The largest favorable variances were due to higher than anticipated collections of real estate and EIT taxes. In addition, the District recorded \$416,791 for Pennsylvania Ready to Learn Block grant revenue. This grant revenue was not anticipated at the time the budget was finalized, and therefore, it contributed to the favorable revenue variance.

Budget to Actual Comparison – Expenditures

The total General Fund expenditures came in under budget by \$1,633,224, and fund transfers were under budget by \$615,404. Notable variances resulted from the following:

- Medical benefit utilization higher than anticipated but with lower fixed costs,
- lower wage and benefit expenditures due to attrition,
- lower purchased services from renegotiated contracts with vendors,
- bond refinancing savings and
- reduced supplies costs and collaborative purchasing.

General Fund Budget Revisions

During the fiscal year, the School Board, in accordance with Department of Education regulations authorizes revisions to original budget amounts to accommodate differences from the original budget to the actual expenditures of the District. All adjustments are again confirmed at the time the annual audit is accepted, which is after the end of the fiscal year. Refer to the statement of revenues, expenditures and changes in fund balances – budget and actual – General Fund showing the District's original and final budgeted amounts compared with actual amounts.

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2015
(Unaudited)

Current Year – Prior Year Comparison – General Fund Revenues

Local revenue increased by \$601,047 compared to the prior fiscal year, primarily due to a millage rate change to 19.7094 in 2015 from 19.21 in 2014.

State revenues increased by \$655,553 primarily due to increases in the Ready to Learn block grant of \$214,115 and retirement revenue subsidy of \$622,524. Since the retirement rate increased from 16.93% for the 2013-14 school year to 21.40% for the 2014-15 school year, the District received an increase in funding related to those rate increases. Other state revenue sources were comparable to the prior year.

Federal subsidies were virtually flat to prior year with a slight increase of \$36,523, which is mainly attributed to higher access funding of \$50,863 in comparison with the 2013-14 fiscal year.

Current Year – Prior Year Comparison – General Fund Expenditures

Total 2014-15 General Fund expenditures increased over the prior year by \$2,879,795.

Total wage and salary expenditures decreased slightly as compared to the prior fiscal year, while purchased professional services increased due to the substitute teacher shift to Substitute Teachers Service. Retirement contribution expenditures accounted for increased expenditures of almost \$1.3 million due to a PSERS rate increase from 16.93% to 21.40%. Health insurance costs also increased \$1.1 million.

Proprietary Funds

The District's Food Service Fund had another financially sound year despite reflecting a decrease in net position of \$58,128. This basically break even result occurred despite increased government regulation.

Due to an increase in sales of \$31,643 over the prior fiscal year, the WarwickWARE Fund's net position for the 2014-15 school year increased by \$202,840. This fund provides alternative funding to the District through the marketing of its suite of educational software products to other districts.

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2015
(Unaudited)

Capital Assets

At the end of the fiscal years 2015 and 2014, the School District had \$99,723,706 and \$99,011,406, respectively, invested in land, buildings, furniture and equipment and vehicles.

Table 4 shows the fiscal 2015 and 2014 balances:

	Table 4 Capital assets (net of depreciation) at June 30, 2015		
	Governmental activities	Business- type activities	Total
Land	\$ 2,672,598		\$ 2,672,598
Building and improvements	85,814,759		85,814,759
Land improvements	3,911,141		3,911,141
Furniture and equipment	3,133,805	\$ 168,864	3,302,669
Vehicles	30,591		30,591
Construction in progress	3,722,042		3,722,042
Intangible asset, intellectual property		269,906	269,906
Totals	\$ 99,284,936	\$ 438,770	\$ 99,723,706

(See Note 6 for further detail)

	Capital assets (net of depreciation) at June 30, 2014		
	Governmental activities	Business- type activities	Total
Land	\$ 2,672,598		\$ 2,672,598
Building and improvements	89,041,502		89,041,502
Land improvements	4,038,156		4,038,156
Furniture and equipment	2,857,371	\$ 125,112	2,982,483
Vehicles	6,761		6,761
Intangible asset, intellectual property		269,906	269,906
Totals	\$ 98,616,388	\$ 395,018	\$ 99,011,406

The slight increase in capital assets resulted primarily from the net effect of the John R. Bonfield renovation offset by this year's depreciation expense of \$4,685,547, along with the additions and deletions of capital assets.

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2015
(Unaudited)

Debt Administration

The School District had \$80,095,000 and \$84,300,000 of General Obligation Bonds payable as of June 30, 2015 and 2014, respectively. Bond principal payments paid in 2015 and 2014 were \$6,295,000 and \$5,680,000, respectively. As of June 30, 2015, the current portion due for fiscal year 2016 was \$4,810,000.

	Outstanding debt at June 30,	
	2015	2014
Bonds	<u>\$ 80,095,000</u>	<u>\$ 84,300,000</u>

During the 2014-15 school year, the District completed a bond refinancing for a total savings of approximately \$2,163,000.

On January 7, 2015, the District issued the General Obligation Bonds, Series of 2015, in the amount of \$28,610,000 to currently refund the outstanding General Obligation Bonds, Series of 2005; currently refund the outstanding General Obligation Bonds, Series A of 2009; finance various capital projects and pay for the costs of issuing the bonds. Principal payments will be due in varying amounts through February 2025.

See Note 9 for further detail.

Current Financial Issues and Outlook

The School District operates four standing committees (Education, Student Activities, Finance & Legal and Building & Property) comprised of Board members, Administration and community volunteers. These committees review and recommend numerous items to the Board for approval including, but not limited to, policy, program, curricula, financial and others. The committee system is one-of-a-kind in the Commonwealth of Pennsylvania with recognition for community involvement.

Externally, the state of Pennsylvania was found by the Pennsylvania Supreme Court in March 1997 to be operating an unconstitutional system of school funding, one that was neither adequate nor equitable. Since 1997, the Commonwealth has directed its tax revenue growth toward school districts with little property tax wealth. The legislators and government officials continue to negotiate the plan for improvement of the financing of public schools in the Commonwealth of Pennsylvania.

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2015

(Unaudited)

Historically, state funding has been targeted to communities with higher concentrations of low income residents. Because the District has consistently experienced moderate commercial and residential growth, and the makeup of its community does not compare to other larger urban districts in Pennsylvania, Warwick School District does not anticipate any meaningful increase in future state revenues. The concern is that, to meet the requirements of the court, the Commonwealth may require redistribution of commercial and industrial property tax. With 23% of the School District's wealth coming from business and industry, this could have a significant negative impact on the School District's residential taxpayers.

As the District looks to the future, concerns remain regarding: PSERS contributions, Act 1 restrictions on local taxation, postponed county reassessments, additional cuts to state education allocations, additional state and federal unfunded mandates and the current projected fiscal reality of the economy.

However, the District's outlook presently includes plans for three alternative funding options. The District revised its business plan for marketing its suite of educational software products to other districts. WarwickWARE emerged from the need for tools that would provide school personnel with better access to and ease of use of data management, warehousing and interpretation. Because it was developed by teachers for teachers and other educational professionals, it has been successfully marketed to seven other Pennsylvania school districts. The revised business plan targets future markets and maps out projected revenues with a corresponding expenditure plan. Revenues from this alternative funding source will be used to generate revenues that underwrite the operation of the project and offset general fund operations. A second funding source enables local businesses and organizations to buy banner advertising at the District's tennis courts and athletics fields in a manner similar to professional sports venues. Participating businesses have the option to sign contracts for multi-year packages. A third alternative funding source included implementing student participation fees to offset the costs of extracurricular activities such as sports, music and the arts.

In conclusion, the Warwick School District has committed itself to financial excellence for many years. In addition, the School District's system of financial planning, budget development through the committee review structure and internal financial controls are well regarded. The School District plans to continue its sound fiscal management to meet the challenges of the future.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, contact Nathan Wertsch, Business Manager, at Warwick School District, 301 West Orange Street, Lititz, PA 17543 or via the web at www.warwicksd.org.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)

	Governmental activities	Business-type activities	Total
Current liabilities:			
Internal balances	\$ (360,991)	\$ 360,991	\$ -
Accounts payable	625,557	13,590	639,147
Accrued:			
Salaries and benefits	6,290,026		6,290,026
Payroll withholdings	290,019		290,019
Interest	1,066,425		1,066,425
Current portion of:			
Bonds payable	4,810,000		4,810,000
Capital lease payable	324,255		324,255
Compensated absences	283,633		283,633
Unearned revenue	29,169	18,611	47,780
Other current liabilities		25,905	25,905
Total current liabilities	<u>13,358,093</u>	<u>419,097</u>	<u>13,777,190</u>
Noncurrent liabilities:			
Bonds payable	78,340,514		78,340,514
Capital lease payable	197,011		197,011
Net pension liability	86,009,000		86,009,000
Compensated absences	188,237		188,237
Other postemployment benefits	2,954,138		2,954,138
Total noncurrent liabilities	<u>167,688,900</u>		<u>167,688,900</u>
Total liabilities	<u>181,046,993</u>	<u>419,097</u>	<u>181,466,090</u>
Deferred inflows of resources, pension	<u>6,149,000</u>		<u>6,149,000</u>
Net position (deficit):			
Net investment in capital assets	16,731,538	168,864	16,900,402
Restricted for:			
Debt service	100		100
Capital projects	792,274		792,274
Permanent endowments	27,037		27,037
Unrestricted	<u>(77,388,377)</u>	<u>1,039,995</u>	<u>(76,348,382)</u>
Total net position (deficit)	<u>(59,837,428)</u>	<u>1,208,859</u>	<u>(58,628,569)</u>
Total liabilities, deferred inflows of resources and net position (deficit)	<u>\$ 127,358,565</u>	<u>\$ 1,627,956</u>	<u>\$ 128,986,521</u>

WARWICK SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

Functions/programs	Expenses	Program revenues		Net (expense) revenue and changes in net position		Total
		Charges for services	Operating grants and contributions	Governmental activities	Business-type activities	
Governmental activities:						
Instruction	\$ 41,277,363	\$ 162,060	\$ 6,827,476	\$ (34,287,827)		\$ (34,287,827)
Support services	17,474,892	60,277	1,789,219	(15,625,396)		(15,625,396)
Student activities	1,556,835		286,435	(1,270,400)		(1,270,400)
Community services	91,386			(91,386)		(91,386)
Other	3,158			(3,158)		(3,158)
Debt service	3,193,564		1,274,745	(1,918,819)		(1,918,819)
Total governmental activities	63,597,198	222,337	10,177,875	(53,196,986)		(53,196,986)
Business-type activities, food services	1,919,878	1,058,682	802,055		\$ (59,141)	(59,141)
Business-type activities, intellectual property	17,639	220,465			202,826	202,826
Total business-type activities	1,937,517	1,279,147	802,055		143,685	143,685
Total primary government	\$ 65,534,715	\$ 1,501,484	\$ 10,979,930	(53,196,986)	143,685	(53,053,301)

(continued)

WARWICK SCHOOL DISTRICT

STATEMENT OF ACTIVITIES (CONTINUED)

YEAR ENDED JUNE 30, 2015

Functions/programs	Expenses	Program revenues		Net (expense) revenue and changes in net position		Total
		Charges for services	Operating grants and contributions	Governmental activities	Business-type activities	
General revenues:						
Taxes:						
Property taxes, etc.				\$ 37,143,135		\$ 37,143,135
Other				5,838,089		5,838,089
Grants, subsidies and contributions not restricted				10,097,559		10,097,559
Investment earnings				116,115	\$ 1,027	117,142
Contributions				10,000		10,000
Loss on disposal of assets				(73,836)		(73,836)
Miscellaneous income				31,254		31,254
Total general revenues				<u>53,162,316</u>	<u>1,027</u>	<u>53,163,343</u>
Change in net position (deficit)				(34,670)	144,712	110,042
Net position (deficit):						
July 1, 2014, restated				<u>(59,802,758)</u>	<u>1,064,147</u>	<u>(58,738,611)</u>
June 30, 2015				<u>\$ (59,837,428)</u>	<u>\$ 1,208,859</u>	<u>\$ (58,628,569)</u>

See notes to financial statements.

WARWICK SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2015

ASSETS

	<u>Major funds</u>			<u>Total governmental funds</u>
	<u>General</u>	<u>Debt service</u>	<u>Nonmajor funds</u>	
Cash and investments	\$ 15,090,723	\$ 100	\$ 973,464	\$ 16,064,287
Interfund receivable	494,034			494,034
Taxes receivable, net	1,725,408			1,725,408
Due from other governments	1,934,360			1,934,360
Other receivables	208,446			208,446
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 19,452,971</u>	<u>\$ 100</u>	<u>\$ 973,464</u>	<u>\$ 20,426,535</u>

(continued)

WARWICK SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS (CONTINUED)

JUNE 30, 2015

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES

	Major funds		Nonmajor funds	Total governmental funds
	General	Debt service		
Liabilities:				
Accounts payable	\$ 625,557			\$ 625,557
Interfund payable			\$ 133,043	133,043
Accrued:				
Salaries and benefits	6,290,026			6,290,026
Payroll withholdings	290,019			290,019
Unearned revenue	29,169			29,169
Total liabilities	7,234,771		133,043	7,367,814
Deferred inflows of resources, deferred real estate taxes	371,206			371,206

(continued)

WARWICK SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS (CONTINUED)

JUNE 30, 2015

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (CONTINUED)

	Major funds			
	General	Debt service	Nonmajor funds	Total governmental funds
Fund balances:				
Nonspendable, permanent fund principal			\$ 27,037	\$ 27,037
Restricted		\$ 100		100
Committed for:				
PSERS rate stabilization	\$ 2,943,982			2,943,982
Projected operating deficit	3,255,979			3,255,979
Capital project funding	600,000			600,000
Assigned for:				
Payment of scholarships			21,110	21,110
Capital projects			792,274	792,274
Unassigned	5,047,033			5,047,033
Total fund balances	11,846,994	100	840,421	12,687,515
Total liabilities, deferred inflows of resources and fund balances	\$ 19,452,971	\$ 100	\$ 973,464	\$ 20,426,535

See notes to financial statements.

WARWICK SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2015

Total fund balances, governmental funds	\$ 12,687,515
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$164,343,633, and the accumulated depreciation is \$65,058,697.	99,284,936
Certain property taxes receivable will be collected in the subsequent year, but are not available soon enough to pay for the current period's expenditure and, therefore, are deferred in the funds.	371,206
Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in the funds, net pension liability	(86,009,000)
Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	
Deferred outflows of resources, pensions	6,930,862
Deferred inflows of resources, pensions	(6,149,000)
Long-term liabilities, including bonds and leases payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Bonds payable	(80,095,000)
Capital leases payable	(521,266)
Unamortized:	
Bond insurance	91,886
Bond discount	120,507
Bond premium	(3,176,021)
Deferred amounts from refunding of debt	1,118,380
Accrued interest on the bonds	(1,066,425)
Compensated absences	(471,870)
Other postemployment benefits	(2,954,138)
Total net position (deficit), governmental activities	<u>\$ (59,837,428)</u>

See notes to financial statements.

WARWICK SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2015

	Major funds		Nonmajor funds	Total governmental funds
	General	Debt service		
Revenues:				
Sources:				
Local	\$ 44,307,350	\$ 102	\$ 762	\$ 44,308,214
State	18,811,028			18,811,028
Federal	582,769			582,769
Total revenues	<u>63,701,147</u>	<u>102</u>	<u>762</u>	<u>63,702,011</u>
Expenditures:				
Instruction	36,771,859			36,771,859
Support services	16,218,044			16,218,044
Student activities	1,304,389		3,000	1,307,389
Community services	91,386			91,386
Facility acquisition and improvements			4,059,416	4,059,416
Debt service:				
Principal		6,295,000		6,295,000
Interest	67,108	2,906,164		2,973,272
Debt issuance		302,937		302,937
Miscellaneous	3,620			3,620
Total expenditures	<u>54,456,406</u>	<u>9,504,101</u>	<u>4,062,416</u>	<u>68,022,923</u>
Excess (deficiency) of revenues over (under) expenditures	<u>9,244,741</u>	<u>(9,503,999)</u>	<u>(4,061,654)</u>	<u>\$ (4,320,912)</u>
Other financing sources (uses):				
Interfund transfers, debt service fund to capital projects fund		(4,751,109)	4,751,109	-
Interfund transfer, general fund to debt service fund	(9,190,493)	9,190,493		-
Bond proceeds, refunding bonds		28,610,000		28,610,000
Premium on bonds issued		3,002,711		3,002,711
Paid to escrow agent		(26,558,665)		(26,558,665)
Total other financing sources (uses)	<u>(9,190,493)</u>	<u>9,493,430</u>	<u>4,751,109</u>	<u>5,054,046</u>
Net change in fund balances	54,248	(10,569)	689,455	733,134
Fund balances:				
July 1, 2014	<u>11,792,746</u>	<u>10,669</u>	<u>150,966</u>	<u>11,954,381</u>
June 30, 2015	<u>\$ 11,846,994</u>	<u>\$ 100</u>	<u>\$ 840,421</u>	<u>\$ 12,687,515</u>

See notes to financial statements.

WARWICK SCHOOL DISTRICT

**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2015

Total net change in fund balances, governmental funds \$ 733,134

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

Capital outlays are reported in governmental funds as expenditures.
However, in the statement of activities the cost of those assets is
allocated over their estimated useful lives as depreciation expense.

Net capital outlays	\$ 4,817,326	
Loss on disposal	(73,836)	
Depreciation expense	<u>(4,666,023)</u>	
		77,467

Because some property taxes will not be collected for several months
after the District's fiscal year ends, they are not considered as
"available" revenues for the governmental funds. Unavailable tax revenue
increased by this amount this year. (56,734)

Repayment of bond principal is an expenditure or other financing
use in the governmental funds, but the repayment reduces long-term
liabilities on the statement of net position. 6,295,000

The issuance of long-term debt provides current financial resources
to governmental funds, while the repayment of the principal long-term
debt consumes the current financial resources in the governmental funds.
This amount is the net effect of these differences in the treatment of
long-term debt and related items (5,054,046)

Repayment of a capital lease is an expenditure in the governmental funds,
but the repayment reduces capital leases payable on the statement
of net position (deficit). 466,807

(continued)

WARWICK SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
(CONTINUED)**

YEAR ENDED JUNE 30, 2015

In the governmental funds, certain bond related accounts are reported as financing sources and uses. However, in the statement of activities the costs of these items are allocated over the life of the bond as amortization expense, net. This is the difference between the financing sources and uses and the amortization for the period.

Bond discounts	\$ (11,731)	
Bond premium	230,845	
Bond insurance	(16,538)	
Deferred amounts from refunding of debt	<u>(203,020)</u>	
		\$ (444)

Governmental funds report District pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned is reported as pension expense.

District pension contributions	5,676,862	
Cost of benefits earned	<u>(7,834,000)</u>	
		(2,157,138)

In the statement of activities, certain operating expenses (compensated absences, other postemployment benefits and accrued interest expenses) are measured by the amounts incurred during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This amount represents the differences between the amount incurred versus the amount used for the following items:

Compensated absences	(46,386)	
Postemployment benefits	(357,270)	
Accrued interest expenses	<u>64,940</u>	

Change in net position (deficit) of governmental activities \$ (34,670)

See notes to financial statements.

WARWICK SCHOOL DISTRICT

STATEMENT OF NET POSITION – PROPRIETARY FUNDS

JUNE 30, 2015

	<u>Major fund, Food service</u>	<u>Nonmajor fund, WarwickWARE</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 615,528	\$ 497,734	\$ 1,113,262
Accounts receivable	3,454		3,454
Inventories	72,470		72,470
Total current assets	<u>691,452</u>	<u>497,734</u>	<u>1,189,186</u>
Noncurrent assets:			
Equipment	608,983		608,983
Accumulated depreciation on equipment	(440,119)		(440,119)
Intellectual property		269,906	269,906
Total noncurrent assets	<u>168,864</u>	<u>269,906</u>	<u>438,770</u>
Total assets	<u>\$ 860,316</u>	<u>\$ 767,640</u>	<u>\$ 1,627,956</u>
LIABILITIES AND NET POSITION			
Current liabilities:			
Interfund payable	\$ 72,033	\$ 288,958	\$ 360,991
Accounts payable	13,590		13,590
Unearned revenue	18,611		18,611
Other current liabilities	25,905		25,905
Total current liabilities	<u>130,139</u>	<u>288,958</u>	<u>419,097</u>
Net position:			
Net investment in capital assets	168,864		168,864
Unrestricted	561,313	478,682	1,039,995
Total net position	<u>730,177</u>	<u>478,682</u>	<u>1,208,859</u>
Total liabilities and net position	<u>\$ 860,316</u>	<u>\$ 767,640</u>	<u>\$ 1,627,956</u>

See notes to financial statements.

WARWICK SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION –
PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2015

	<u>Major fund, Food service</u>	<u>Nonmajor fund, WarwickWARE</u>	<u>Total</u>
Operating revenues:			
Sales:			
Pupils	\$ 689,345		\$ 689,345
Adults	25,952		25,952
A la carte	301,449		301,449
Banquets and miscellaneous	41,936		41,936
Software		\$ 220,465	220,465
	<hr/>	<hr/>	<hr/>
Total operating revenues	1,058,682	220,465	1,279,147
	<hr/>	<hr/>	<hr/>
Operating expenses:			
Food	629,113		629,113
Milk	121,446		121,446
Donated commodities	111,261		111,261
Nonfood supplies	37,831		37,831
Payroll	560,509	6,858	567,367
Payroll benefits	241,603	1,490	243,093
Professional services		7,582	7,582
Retirement	118,513	807	119,320
Maintenance contracts	7,592		7,592
Disposal services	12,000		12,000
Equipment repairs and maintenance	8,671		8,671
Travel	866	902	1,768
Conferences	2,045		2,045
Depreciation	19,524		19,524
Uniforms	1,766		1,766
Utilities	28,000		28,000
Equipment rental	1,300		1,300
Replacement equipment	13,496		13,496
Miscellaneous	4,342		4,342
	<hr/>	<hr/>	<hr/>
Total operating expenses	1,919,878	17,639	1,937,517
	<hr/>	<hr/>	<hr/>
Net income (loss) from operations	(861,196)	202,826	(658,370)
	<hr/>	<hr/>	<hr/>

(continued)

WARWICK SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION –
PROPRIETARY FUNDS (CONTINUED)

YEAR ENDED JUNE 30, 2015

	<u>Major fund, Food service</u>	<u>Nonmajor fund, WarwickWARE</u>	<u>Total</u>
Nonoperating revenue:			
Reimbursements:			
State	\$ 132,345		\$ 132,345
Federal	558,449		558,449
Value of donated commodities	111,261		111,261
Interest	<u>1,013</u>	<u>\$ 14</u>	<u>1,027</u>
Total nonoperating revenue	<u>803,068</u>	<u>14</u>	<u>803,082</u>
Change in net position	(58,128)	202,840	144,712
Total net position:			
July 1, 2014	<u>788,305</u>	<u>275,842</u>	<u>1,064,147</u>
June 30, 2015	<u>\$ 730,177</u>	<u>\$ 478,682</u>	<u>\$ 1,208,859</u>

See notes to financial statements.

WARWICK SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2015

	Major fund, Food service	Nonmajor fund, WarwickWARE	Total
Cash flows from operating activities:			
Cash received from users	\$ 1,067,029	\$ 279,064	\$ 1,346,093
Cash payments to:			
Employees for services	(936,601)		(936,601)
Suppliers for goods and services	(747,143)		(747,143)
Other operating expenses	(117,908)		(117,908)
Net cash provided by (used in) operating activities	(734,623)	279,064	(455,559)
Cash flows from noncapital financing activities:			
Sources:			
State	139,480		139,480
Federal	564,357		564,357
Net cash provided by noncapital financing activities	703,837		703,837
Cash flows used in capital and related financing activities, facilities acquisition/construction/improvement, net	(49,684)		(49,684)
Cash flows provided by investing activities, earnings on investments	1,013	14	1,027
Net increase (decrease) in cash and cash equivalents	(79,457)	279,078	199,621
Cash and cash equivalents:			
Beginning of year	694,985	218,656	913,641
End of year	\$ 615,528	\$ 497,734	\$ 1,113,262

(continued)

WARWICK SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)

YEAR ENDED JUNE 30, 2015

	Major fund, Food service	Nonmajor fund, WarwickWARE	Total
Reconciliation of net income (loss) from operations to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ (861,196)	\$ 202,826	\$ (658,370)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:			
Depreciation	19,524		19,524
Donated commodities	111,261		111,261
Changes in operating assets and liabilities:			
Inventory	20,352		20,352
Accounts receivable and due from other funds	3,410	58,599	62,009
Accounts payable and due to other funds	(15,240)	17,440	2,200
Accrued wages and benefits	(15,974)		(15,974)
Other liabilities and unearned revenue	3,240	199	3,439
Net cash provided by (used in) operating activities	\$ (734,623)	\$ 279,064	\$ (455,559)
Supplemental noncash disclosure:			
Liabilities for purchases of equipment in accounts payable at year end totaled	\$ 13,592		

See notes to financial statements.

WARWICK SCHOOL DISTRICT

STATEMENT OF ASSETS AND LIABILITIES – AGENCY FUNDS

JUNE 30, 2015

	<u>Student activities</u>
ASSETS	
Current assets, cash and investments	<u>\$ 142,297</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 1,000
Due to student groups	<u>141,297</u>
Total liabilities	<u>\$ 142,297</u>

See notes to financial statements.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

1. Summary of significant accounting policies:

The Warwick School District (the District or School District) is a public school district composed of Lititz Borough and Warwick and Elizabeth Townships, Lancaster County, Pennsylvania. The District had a 2014-15 enrollment in grades kindergarten through 12 of approximately 4,250 students. The District operates a high school and middle school in Lititz and four elementary schools: Lititz, Kissel Hill, John Beck and John R. Bonfield. The District belongs to Lancaster-Lebanon Intermediate Unit #13, which provides special administrative and educational support.

The District is a School District of the Third Class, organized and existing under the laws of the Commonwealth of Pennsylvania. The governing body of the District is a board of nine school directors who are each elected for a four-year term. The daily operation and management of the District is carried out by an administrative staff, headed by the superintendent of schools who is appointed by the board. The board is required to submit an annual budget to the Pennsylvania Department of Education and is prohibited from spending or obligating funds in excess of the maximum amount approved. The board also has the authority to borrow funds and issue bonded indebtedness. Real estate and other taxes are levied by the board and collected by representatives of the District. The District also receives funds from the federal, state and local governments.

The financial statements of Warwick School District have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles.

Reporting entity:

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 61, *The Financial Reporting Entity*. Based upon the application of this criteria, the District has no component units.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

1. Summary of significant accounting policies (continued):

Fund accounting:

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent. There are three fund types presented in this report as follows:

Governmental funds

Major funds:

General fund – The principal operating fund of the School District used to account for all financial resources except those required to be in another fund.

Debt service fund – Used to account for the accumulation of resources for payment of principal and interest on general long-term debt and related costs.

Nonmajor funds:

Capital projects fund – Used to account for all resources for the acquisition or construction of major capital facilities by the District.

Special revenue funds – Used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. This fund type includes the Shirley Bell Scholarship Fund, Michael Clouser Scholarship Fund, John R. Bonfield Scholarship Fund and Christopher Mitchell Scholarship Fund. All of these special revenue funds are to be used for funding student scholarships.

Permanent funds – Used to account for resources that are legally restricted to the extent that only earnings and not principal may be used for purposes that support the District's programs. This fund type includes the Eric Zimmerman Memorial Fund and the Berlin Airlift Memorial Scholarship Fund. The principal amount for each of these funds is \$10,000. The income portion of the Eric Zimmerman Memorial Fund is to be used for drug and alcohol education. The income portion of the Berlin Airlift Memorial Scholarship Fund is to be used for student transportation costs to Germany.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

1. Summary of significant accounting policies (continued):

Fund accounting (continued):

Proprietary funds – These are the funds that account for the operations of the School District that are financed and operated in a manner similar to those found in the private sector.

Food Service Fund – used to account for all school cafeteria operations within the District.

WarwickWARE Fund – used to account for intellectual property (software) developed and marketed by the District.

Fiduciary funds – These are the funds that account for assets held by the School District as a trustee or agent for individuals, organizations and other government units and are, therefore, not available to support the District's own programs. The funds are not included in the government-wide financial statements. The funds included in this category are:

Agency funds – These funds are custodial in nature (assets equal liabilities) and do not involve revenues and expenditures. The District maintains agency funds for high school activities and middle school activities.

Basis of presentation:

Government-wide financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the government and present information about the District as a whole. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to outside parties for goods and services.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

1. Summary of significant accounting policies (continued):

Basis of presentation (continued):

Government-wide financial statements (continued)

The statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for both the business-type activities of the District and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the good or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund financial statements

Fund financial statements report detailed information about the governmental funds, proprietary funds and fiduciary funds of the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. Fiduciary funds are reported by fund type. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a. Total assets and deferred outflows, liabilities and deferred inflows, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding element total (assets, liabilities and so forth) for all funds of that category or type (that is, total governmental or total enterprise funds) and
- b. The same element that met the 10% criterion in a. is at least 5% of the corresponding element total for all governmental and enterprise funds combined.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

1. Summary of significant accounting policies (continued):

Basis of presentation (continued):

Fund financial statements (continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the School District's proprietary funds are food service charges and the sale of software. Operating expenses for the School District's proprietary funds include food production costs, supplies, software licenses, administrative costs and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

Measurement focus and basis of accounting:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The proprietary fund financial statements and the fiduciary fund financial statements also utilize these methods. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Net position (total assets and deferred outflows less total liabilities and deferred inflows) is used as a practical measure of economic resources, and the operating statement includes all transactions and events that increased or decreased net position. Depreciation is charged as expense against current operations, and cost and accumulated depreciation are reported on the statement of net position. The proprietary fund financial statements record the equivalent cost of donated commodities as revenue and as a cost at the time such commodities are utilized.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

1. Summary of significant accounting policies (continued):

Measurement focus and basis of accounting (continued):

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Revenue from federal, state and other grants designated for payment of specific School District expenditures is recognized when the related expenditures are incurred. Unearned revenues arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed and revenue is recognized. Deferred revenues also arise when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and cash equivalents:

For the purposes of the statement of cash flows, the District considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

Investments:

In accordance with GASB Statement No. 31, the District's general policy is to report money market investments at cost and government sponsored enterprise bonds/notes at fair value. The District also has certificates of deposit reported at cost which approximates fair value.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

1. Summary of significant accounting policies (continued):

Short-term interfund receivables/payables:

During the course of operations, various transactions occur between individual funds. Short-term interfund loans are classified as interfund receivables/payables.

Real estate taxes:

Property taxes are levied and billed as of July 1 on property values assessed as of the same date. The billings are considered due upon receipt by the taxpayer, with a 2% discount allowed for payments made in July and August. After October 31, a 10% penalty tax is added to the original levy for any unpaid balances. On the first Monday of the following January, remaining outstanding taxes are liened and turned over to the Lancaster County Tax Collection Bureau for collection. The Bureau has the authority to charge additional fines and assessments and to pursue appropriate legal remedies.

Inventory:

The food service fund inventory consists of purchased food and paper materials priced at cost calculated on the first-in, first-out (FIFO) basis and donated food priced at its equivalent cost value.

Deferred outflows of resources

Deferred outflows of resources represents a consumption of net position that applies to future periods and thus, will not be recognized as an outflow of resources until then. The District has two items that meet the criteria for reporting in the category. Deferred outflows of resources related to pensions primarily results from changes in the total pension liability and the pension plans' fiduciary net position; and for contributions made to the plan between the measurement date of the net pension liability and the end of the District's fiscal year. The second item, deferred charge on refunding, results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. In the fund financial statements, governmental fund types recognize the deferred charge on refunding as an expense during the current period.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

1. Summary of significant accounting policies (continued):

Deferred inflows of resources:

The District's government wide statement of net position and its governmental fund balance sheet report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. In the statement of net position, deferred inflows of resources related to pensions are reported for actual pension plan investment earnings in excess of the expected amount included in determining pension expense. This deferred inflow of resources is attributed to pension expense over a total of five years, including the current year. In the governmental funds, the deferred inflow of resources is for revenues that are not considered available. The District will not recognize the related revenues until they are available (collected no later than 60 days after the end of the District's fiscal year) under the modified accrual basis of accounting. Accordingly, the item unavailable revenue from property taxes is reported only in the governmental funds' balance sheet.

Capital assets and depreciation:

The accounting treatment over property, plant and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide financial statements

The government-wide financial statements account for fixed assets as capital assets. Capital assets include property, plant, equipment and infrastructure assets and are defined by the School District as assets with an initial individual cost of more than \$4,000 and an estimated useful life in excess of one year. In addition, capital assets purchased with long-term debt may be capitalized regardless of the thresholds established. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable. Donated assets are recorded at fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 2002.

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

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

1. Summary of significant accounting policies (continued):

Capital assets and depreciation (continued):

Government-wide financial statements (continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed.

All reported capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings	50 years
Building improvements	20 - 30 years
Land improvements	15 - 20 years
Equipment, furniture and fixtures	5 - 15 years
Vehicles	5 - 15 years

Proprietary fund equipment purchases are capitalized in the proprietary fund at cost and depreciated on a straight-line basis over lives ranging from five to 15 years.

Fund financial statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide financial statements.

Long-term obligations:

In the government-wide financial statements, all long-term debt and other long-term obligations to be repaid from governmental and business-type resources are reported as liabilities in the applicable statement of net position. Bond premiums and discounts, as well as advanced refunding losses, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

1. Summary of significant accounting policies (continued):

Long-term obligations (continued):

In the fund financial statements, long-term debt for governmental funds is not reported as a liability. The debt proceeds are reported as other financing sources, and payments of principal and interest are reported as expenditures or financing uses. Bond premiums, discounts and issuance costs, are recognized as other financing sources and uses during the current period for the fund financial statements.

Pension plan:

Substantially all full-time and part-time employees of the District participate in a cost-sharing multiple-employer defined benefit pension plan through Public School Employee's Retirement System (PSERS or the System). On the governmental fund financial statements, the District recognizes annual pension expenditures or expenses equal to its contractually required contributions. For the fiscal year ended June 30, 2015, the rate of employer contribution was 21.40%. The 21.40% rate is composed of a contribution rate of 20.50% for pension benefits and 0.90% for healthcare insurance premium assistance. The District is required to pay the entire employer contribution rate and is reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income aid ratio (as defined in Act 29 of 1994), which is at least one half of the total employer rate. Such payments are recorded in the general fund and proprietary funds as state source revenues. In the government-wide financial statements payments are allocated based on function. The District made all required contributions for the year ended June 30, 2015 and has recognized them as expenditures or expenses.

Compensated absences:

Employees are allowed to accrue ten days sick leave each year, without limit. The District's sick leave policy is such that sick days do not vest, and accordingly, employees can be paid sick leave only when sick. Since the employees' accumulating rights to receive compensation for future absences are contingent upon the absences being caused by future illnesses, and outside the control of the District and the employee, a liability for unused sick leave is not recorded in the financial statements.

Teachers do not receive paid vacations, but are paid only for the number of days they are required to work.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

1. Summary of significant accounting policies (continued):

Compensated absences (continued):

Non-instructional employees are granted vacation leave in varying amounts. Vacation leave is earned ratably and required to be used in the following fiscal year. The District's policy is to pay unused vacation leave upon termination or retirement.

Additionally, all employees are permitted two personal days per fiscal year. A maximum of three personal days may be carried over to subsequent years. The compensated absences calculation includes the dollar amount assigned to days carried over.

Equity classifications:

Government-wide financial statements

Equity is classified as net position and displayed in three components:

Net investment in capital assets - consists of capital assets, including cash and investments restricted for capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvements of these assets.

Restricted - consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Constraints are placed on the use of the assets either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislation.

Unrestricted – the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

1. Summary of significant accounting policies (continued):

Equity classifications (continued):

Fund financial statements

The District follows GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a district's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance – amounts that must be maintained intact legally or contractually (corpus or principal of a permanent fund).

Restricted fund balance – amounts limited by external parties or legislation (e.g., debt covenants and grants). As of June 30, 2015, the District had \$100 restricted for debt service.

Committed fund balance – amounts limited by Board policy or Board action (e.g., future anticipated costs). Action must be taken by the Board to commit fund balance for the designated purpose prior to the end of the fiscal year. Fund balance commitments for the general fund as of June 30, 2015 included \$3,255,979 for a projected operating deficit, \$2,943,982 for pension retirement rate stabilization and \$600,000 for capital projects.

Assigned fund balance – amounts that are intended for a particular purpose. Generally balances in special revenue funds or capital project funds will be designated as assigned. The District's policy also permits the Superintendent and the Business Manager to assign amounts as they deem appropriate.

Unassigned fund balance – amounts available for consumption or not restricted in any manner.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

1. Summary of significant accounting policies (continued):

Use of fund balance:

The District's policy states that the restricted fund balance is to be reduced to the extent that the underlying reason for the restriction has been eliminated.

If the District experiences an excess of expenditures over revenues for a given fiscal year, the fund balance is to be consumed in the following order:

- Restricted fund balance to the extent that expenditures related to the restriction contributed to the excess of expenditures over revenues.
- Committed fund balance to the extent that expenditures related to the commitment contributed to the excess of expenditures over revenues. If a plan for periodic use of committed fund balance is reviewed and approved by the Board, the committed fund balance will not be reduced by more than the amount designated in the plan.
- Assigned fund balance to the extent that expenditures related to the assignment contributed to the excess of expenditures and revenues.
- Unassigned fund balance for any remaining excess of expenditures over revenues.

Minimum fund balance:

The District's goal is to strive to maintain an unassigned general fund balance of not less than 3% and not more than 8% of the budgeted expenditures for the fiscal year. If the unassigned portion of the fund balance falls below the threshold of 3% of budgeted expenditures, the Board will pursue options for increasing revenues and decreasing expenditures, or a combination of both until 3% is attained. If the unassigned portion of the fund balance exceeds 8% of budgeted expenditures, the Board may utilize a portion of the fund balance by appropriating excess funds for expenditures. The goal shall be to use any excess fund balance for nonrecurring expenditures and not for normal operating costs.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

1. Summary of significant accounting policies (continued):

Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and deferrals and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. A significant assumption in these financial statements is the PSERS pension liability. Actual results could differ from those estimates.

Subsequent events:

The District has evaluated subsequent events through December 1, 2015, the date which the financial statement were available to be issued.

2. Deposits and investments:

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

1. Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
2. Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation (FDIC) to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral as provided by law is pledged by the depository.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

2. Deposits and investments (continued):

Custodial credit risk, deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District does not have a policy for custodial credit risk. As of June 30, 2015, \$15,586,622 of the District's bank balance of \$16,336,522 was exposed to custodial risk but was collateralized by the pledging bank's trust department in accordance with Act 72.

Investments:

As of June 30, 2015, the District had the following investments:

Investment	Maturities	Fair value
PSDLAF MAX and FLEX Accounts, rated AAAM	Demand	\$ 1,047,322
PSDLAF Certificates of Deposit, covered by FDIC, One West - .72% annual percentage yield	7/28/2015	245,000
Total		\$ 1,292,322
Reconciliation to government-wide statement of net position:		
Cash		\$ 16,027,524
Investments		1,292,322
Less agency fund deposits and investments		(142,297)
		\$ 17,177,549
Current assets, cash and investments		\$ 16,252,232
Noncurrent assets, cash and investments held for long-term purposes		925,317
		\$ 17,177,549

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

2. Deposits and investments (continued):

Investments (continued):

Interest rate risk

The District does not have a formal investment policy that limits the investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates for its nonmoney market type of investments.

Credit risk

The District has no investment policy that would limit its investment choices to certain credit ratings.

Custodial credit risk, investments:

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral security that is in the possession of an outside party. The District's policy does not limit custodial risk concentrations.

Additionally, the District had deposits of \$1,050,322 at the Pennsylvania School District Liquid Asset Fund (PSDLAF). PSDLAF is not registered with the Securities and Exchange Commission; however, it follows investment procedures similar to the investment procedures followed by SEC registered money market funds. Securities purchased under agreements to resell and entered into with broker-dealers are secured by U.S. government agency obligations. At June 30, 2015, PSDLAF carried a AAAM rating.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

3. Taxes receivable and related accounts, governmental funds:

The balances at June 30, 2015 are as follows:

	Net estimated to be collected	Tax revenue recognized	Deferred taxes
	<u> </u>	<u> </u>	<u> </u>
Real estate taxes:			
Current	\$ 489,200	\$ 134,950	\$ 354,250
Interim	42,054	25,098	16,956
Transfer taxes	146,014	146,014	-
Earned income taxes	<u>1,048,140</u>	<u>1,048,140</u>	<u>-</u>
	<u>\$ 1,725,408</u>	<u>\$ 1,354,202</u>	<u>\$ 371,206</u>

The unearned revenue and deferred inflows of resources balances as of June 30, 2015 are as follows:

	General fund	Food service fund
	<u> </u>	<u> </u>
Unearned revenue, special projects	\$ 27,464	
Due to student groups	1,705	
Unused donated commodities		<u>\$ 18,612</u>
Total unearned revenue	<u>\$ 29,169</u>	<u>\$ 18,612</u>
Deferred real estate taxes	<u>\$ 371,206</u>	
Total deferred inflows of resources	<u>\$ 371,206</u>	

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

4. Interfund activity:

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and as nonoperating revenues/expenses in proprietary funds.

Interfund receivable and payable balances as of June 30, 2015 are as follows:

	Interfund receivable	Interfund payable
General Fund	\$ 494,034	
Capital projects Fund		\$ 133,043
WarwickWARE Fund		288,958
Food service Fund		72,033
 Total	 \$ 494,034	 \$ 494,034

These balances resulted from the time lag between the dates that (1) interfund goods and services were provided or reimbursable expenditures occurred, (2) transactions were recorded in the accounting system and (3) payments between funds were made.

5. Due from other governments:

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2015, the following amounts were due from other governmental units:

	General fund
Federal	\$ 648,330
State	1,286,030
 Total	 \$ 1,934,360

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

6. Capital assets:

Capital asset activity for the year ended June 30, 2015 was as follows:

	Beginning balance	Increases	Decreases	Ending balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,672,598			\$ 2,672,598
Construction in progress		<u>\$ 3,722,042</u>		<u>3,722,042</u>
Total capital assets not being depreciated	<u>2,672,598</u>	<u>3,722,042</u>		<u>6,394,640</u>
Capital assets being depreciated:				
Buildings and improvements	139,262,888	448,485		139,711,373
Land improvements	7,212,804	131,554		7,344,358
Equipment, furniture and fixtures	10,015,103	1,075,752	\$ 429,719	10,661,136
Vehicles	<u>201,552</u>	<u>30,574</u>		<u>232,126</u>
Total capital assets being depreciated	<u>156,692,347</u>	<u>1,686,365</u>	<u>429,719</u>	<u>157,948,993</u>
Less accumulated depreciation for:				
Buildings and improvements	50,221,386	3,675,228		53,896,614
Land improvements	3,174,648	258,569		3,433,217
Equipment, furniture and fixtures	7,157,732	725,482	355,883	7,527,331
Vehicles	<u>194,791</u>	<u>6,744</u>		<u>201,535</u>
Total accumulated depreciation	<u>60,748,557</u>	<u>4,666,023</u>	<u>355,883</u>	<u>65,058,697</u>
Total capital assets being depreciated, net	<u>95,943,790</u>	<u>(2,979,658)</u>	<u>73,836</u>	<u>92,890,296</u>
Governmental activities, capital assets, net	<u><u>\$ 98,616,388</u></u>	<u><u>\$ 742,384</u></u>	<u><u>\$ 73,836</u></u>	<u><u>\$ 99,284,936</u></u>

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

6. Capital assets (continued):

	Beginning balance	Increases	Decreases	Ending balance
Business-type activities, capital assets not being depreciated, intellectual property	\$ 269,906			\$ 269,906
Business-type activities, capital assets being depreciated:				
Equipment, furniture and fixtures	545,707	\$ 63,276		608,983
Accumulated depreciation	(420,595)	(19,524)		(440,119)
Total capital assets being depreciated, net	125,112	43,752		168,864
Business-type activities, capital assets, net	\$ 395,018	\$ 43,752		\$ 438,770

Depreciation expense was charged to functions/programs of the governmental and business-type activities as follows:

Government activities:		
Instructional:		
Regular		\$ 2,496,413
Special		237,997
Support services:		
Pupil personnel		181,573
Instructional staff		650,569
Administration		331,864
Pupil health		48,121
Business		75,081
Operation and maintenance of plant services		460,728
Noninstructional services, student activities		183,677
Total depreciation expense, governmental activities		\$ 4,666,023
Business-type activities, food service		\$ 19,524

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

7. Accrued salary and benefits:

Accrued salary and benefits consist of the following items at June 30, 2015:

Salaries	\$ 3,204,598
Social Security tax	223,851
Retirement	2,299,524
Medical	<u>562,053</u>
Total	<u>\$ 6,290,026</u>

8. Compensated absences:

Activity for compensated absences for the year ended June 30, 2015 is summarized below:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Ending balance</u>
Vacation	\$ 250,216	\$ 33,417	\$ 283,633
Personal	<u>175,268</u>	<u>12,969</u>	<u>188,237</u>
	<u>\$ 425,484</u>	<u>\$ 46,386</u>	<u>\$ 471,870</u>

The liability for compensated absences is recorded as current and long-term in the government-wide statements.

9. Bonds payable:

In January 2015, the District issued the General Obligation Bonds, Series of 2015, in the amount of \$28,610,000 to currently refund the remaining outstanding General Obligation Bonds, Series of 2005; currently refund the outstanding General Obligation Bonds, Series A of 2009; finance various capital projects and pay for the costs of issuing the bonds. Principal payments will be due in varying amounts through February 2025, and interest rates range from 0.77 % to 4.0%. The net present value savings of the refunding totaled \$2,162,717. The principal balance outstanding at June 30, 2015 was \$28,610,000.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

9. Bonds payable (continued):

On March 19, 2014, the District issued the General Obligation Bonds, Series of 2014A, in the amount of \$8,905,000 to advance refund the remaining outstanding General Obligation Bonds, Series of 2006; advance refund the outstanding General Obligation Bonds, Series B of 2009 and pay for the costs of issuing the bonds. Principal payments will be due in varying amounts through March 2023, and future interest rates range from 1.0 % to 4.0%. The net present value savings of the advance refunding was \$460,000. The difference between the cash flows required to service the old debt and those required to service the new debt was \$419,201. The principal balance outstanding at June 30, 2015 was \$7,890,000.

On January 9, 2014, the District issued the General Obligation Bonds, Series of 2014, in the amount of \$9,340,000 to currently refund the outstanding General Obligation Bonds, Series of 2007 and pay for the costs of issuing the bonds. Principal payments will be due in varying amounts through March 2024, and future interest rates range from .55 % to 3.25%. The net present value savings of the current refunding was \$586,000. The principal balance outstanding at June 30, 2015 was \$9,135,000.

On October 17, 2013, the District issued the General Obligation Bonds, Series of 2013, in the amount of \$9,270,000 to advance refund a portion of the General Obligation Bonds, Series of 2006 and pay for the costs of issuing the bonds. Principal payments will be due in varying amounts through March 2027, and future interest rates range from .6 % to 3.5%. The net present value savings of the advance refunding was \$706,000. The difference between the cash flows required to service the old debt and those required to service the new debt was \$678,961. The principal balance outstanding at June 30, 2015 was \$9,145,000.

On July 2, 2009, the District issued General Obligation Bonds, Series of 2009A, in the amount of \$9,225,000. The proceeds were used to refund the District's General Obligation Note (Emmaus) and pay for the costs of issuing the bonds. In January 2015, the balance was currently refunded by the General Obligation Bonds, Series of 2015.

On July 2, 2009, the District issued General Obligation Bonds, Series of 2009B, in the amount of \$8,455,000. The proceeds were used to refund the District's Obligation Bonds, Series of 2003. In March 2014, the outstanding balance was advance refunded by the General Obligation Bonds, Series A of 2014. The outstanding balance of the series of 2009B was paid in full by the escrow agent in February 2015.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

9. Bonds payable (continued):

On March 17, 2009, the District issued General Obligation Bonds, Series of 2009, in the amount of \$28,000,000. The proceeds were used to finance various capital projects of the District and pay for the costs of issuing the bonds. Principal payments are due in varying amounts through February 2025. Future interest rates range from 3% to 5%. The principal balance outstanding at June 30, 2015 was \$25,315,000.

On July 15, 2006, the District issued General Obligation Bonds, Series of 2006, in the amount of \$15,000,000. The proceeds were used to finance various capital projects of the District and pay for the costs of issuing the bonds. In October 2013, a portion of the remaining balance outstanding was advance refunded by the issuance of General Obligation Bonds, Series of 2013. The last remaining balance was advance refunded by the issuance of General Obligation Bonds, Series of 2014A. The outstanding balance of the Series of 2006 was paid in full by the escrow agent in August 2014.

On March 22, 2005, the District issued General Obligation Bonds, Series of 2005, in the amount of \$42,525,000. The proceeds were used to advance refund the entire balance of the District's Obligation Bonds, Series of 2001; advance refund a portion of the District's General Obligation Bonds, Series of 1998; finance completion of the existing construction projects and pay for the costs of issuing the bonds. In January 2015, the balance was currently refunded by the General Obligation Bonds, Series of 2015.

On May 15, 2004, the District issued General Obligation Bonds, Series of 2004, in the amount of \$15,000,000. The proceeds from these bonds were used for the demolition and construction of Lititz Elementary School, furniture and equipment and the costs of issuing the bonds. A portion of these bonds was refunded upon the issuance of the District's General Obligation Bonds, Series of 2007. On July 15, 2014, the District made the final payment on the bonds instead of waiting until the call date of March 2015. This early payment resulted in a savings of approximately \$18,000.

Advance refundings:

In 2013 and 2014, the District defeased certain general obligation bonds by placing the proceeds of new debt in irrevocable trust accounts with an escrow agent to provide for all future debt service payments on the old debt. The remaining balances of \$11,095,000 and \$5,805,000 of the General Obligation Bonds, Series of 2006 and the General Obligation Bonds, Series of 2009B, were paid in full in August 2014 and February 2015, respectively.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

9. Bonds payable (continued):

Long-term debt balances and activity for the year ended June 30, 2015 were as follows:

	Bonds payable	Bond discount	Bond premium	Total bonds payable
Beginning of year	\$ 84,300,000	\$ (132,712)	\$ 1,105,667	\$ 85,272,955
Bonds refunded	(26,520,000)	474	(701,512)	(27,221,038)
Principal retirement	(6,295,000)			(6,295,000)
Additions	28,610,000		3,002,711	31,612,711
Amortization		11,731	(230,845)	(219,114)
End of year	<u>\$ 80,095,000</u>	<u>\$ (120,507)</u>	<u>\$ 3,176,021</u>	<u>\$ 83,150,514</u>

The annual requirements of the District's bonds payable are as follows.

Year ended June 30,	Series of 2015	Series of 2014A	Series of 2014	Series of 2013	Series of 2009	Total principal	Total interest	Total long-term debt service
2016	\$ 1,940,000	\$ 1,340,000	\$ 785,000	\$ 125,000	\$ 620,000	\$ 4,810,000	\$ 2,857,355	\$ 7,667,355
2017	4,155,000	1,375,000	795,000	125,000	645,000	7,095,000	2,705,884	9,800,884
2018	4,185,000	1,420,000	1,005,000	130,000	740,000	7,480,000	2,522,274	10,002,274
2019	4,185,000	875,000	1,015,000	695,000	1,045,000	7,815,000	2,293,244	10,108,244
2020	4,355,000	700,000	1,055,000	925,000	1,065,000	8,100,000	2,011,225	10,111,225
2021-2025	9,790,000	2,180,000	4,480,000	4,945,000	21,200,000	42,595,000	5,307,336	47,902,336
2026-2027				2,200,000		2,200,000	114,850	2,314,850
	<u>\$ 28,610,000</u>	<u>\$ 7,890,000</u>	<u>\$ 9,135,000</u>	<u>\$ 9,145,000</u>	<u>\$ 25,315,000</u>	<u>\$ 80,095,000</u>	<u>\$ 17,812,168</u>	<u>\$ 97,907,168</u>

The payments of long-term debt are to be funded by the General Fund and the Debt Service Fund. During the year ended June 30, 2015, debt service payments included \$6,295,000 for principal and \$2,906,164 for interest.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

10. Capital leases:

The District has entered into capital lease agreements for computer and other equipment. Capital leases transfer the benefits and risks of ownership to the lessee, and are accounted for in the governmental activities' capital assets. The related liabilities are recorded in the governmental activities' current and long-term obligations. Accumulated depreciation for the District's capital leases as of June 30, 2015 totaled \$1,019,131, leaving a current book value of \$1,128,827. The following list provides detail about the capital leases in effect during the year ended June 30, 2015.

- July 2012 lease – Present value cost of \$372,380
The first payment of \$127,692 was paid by the District in July 2012. The second payment of \$127,692, including \$7,096 in interest, was paid in July 2013. The final future minimum lease payment of \$127,692, including \$3,599 in interest, was paid in July 2014.
- August 2012 lease – Present value cost of \$43,511
The first payment of \$15,130 was paid by the District in July 2012. The second payment of \$15,130, including \$1,245 in interest, was paid in July 2013. The final future minimum lease payment of \$15,131, including \$636 in interest, was paid in July 2014.
- June 2013 lease – Present value cost of \$389,252
The first payment of \$131,443 was paid in July 2013. The second minimum lease payment of \$131,443, including \$3,377 in interest, was paid in July 2014. The third minimum lease payment of \$131,443, including \$1,700 in interest, is due July 2015.
- In June 2014, the District entered into an additional capital lease for computer equipment. The present value cost of the lease is \$591,081. The first payment of \$199,558 was paid in July 2014. The second minimum lease payment of \$199,558, including \$5,051 in interest, is due July 2015. The third minimum lease payment of \$199,558, including \$2,542 in interest, is due July 2016.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

11. Pension plan:

Plan description:

PSERS is a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania.

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

Benefits provided:

Benefits are provided by PSERS by statute; therefore, financial statement amounts are affected by PSERS activity. The District's reported amounts will vary over time depending on the pension results of PSERS.

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 services 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 Retirement Code (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 members' right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F member, the right to benefits is vested after ten years of service.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

11. Pension plan (continued):

Benefits provided (continued):

Participants are eligible for disability retirement benefits after completing 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.

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 members' 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 July 1, 2002.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

11. Pension plan (continued):

Member contributions (continued):

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 District's contractually required contribution rate for fiscal year ended June 30, 2015 was 20.50% 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 for the pension plan from the District were \$5,676,862 for the year ended June 30, 2015.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions:

For purposes of measuring the District's net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of 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.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

11. Pension plan (continued):

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions (continued):

At June 30, 2015, the District reported a liability of \$86,009,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, 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, 2013 to June 30, 2014. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2014, the District's proportion was .2137 percent, which was a decrease of .007% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of \$7,834,000. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Net difference between projected and actual earnings on pension plan investment		\$ 6,149,000
Changes in proportion	\$ 1,254,000	
District contributions subsequent to the measurement date	5,676,862	
	\$ 6,930,862	\$ 6,149,000

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

11. Pension plan (continued):

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions (continued):

For the year ended June 30, 2015, \$5,676,862 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability. Other amounts reports as deferred outflows of resources and deferred inflows of resource related to pensions will be recognized in pension expense as follows:

<u>Year ended</u> <u>June 30,</u>	
2016	\$ (1,235,000)
2017	(1,235,000)
2018	(1,235,000)
2019	(1,235,000)
2020	45,000

Actuarial assumptions:

The total pension liability as of June 30, 2014 was determined by rolling forward the System's total pension liability as of the June 30, 2013 actuarial valuation to June 30, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method:	Entry age normal - level % of pay
Investment return:	7.5% includes inflation of 3.00%
Salary increases:	Effective average of 5.5% which reflects an allowance for inflation of 3.00%, real wage growth of 1% and merit or seniority increases of 1.50%
Mortality rates:	RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back seven years for males and three years for females

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

11. Pension plan (continued):

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions (continued):

Actuarial assumptions (continued):

The actuarial assumptions used in the June 30, 2013 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the PSERS board at its March 11, 2011 board meeting and were effective beginning with the June 30, 2011 actuarial valuation.

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

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

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

11. Pension plan (continued):

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions (continued):

The PSERS board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2014.

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return</u>
Public market global equity	19 %	5.0 %
Private markets (equity)	21	6.5
Private real estate	13	4.7
Global fixed income	8	2.0
U.S. treasuries	3	1.4
Treasury inflation protected securities	12	1.2
High yield bonds	6	1.7
Cash	3	0.9
Absolute return	10	4.8
Risk parity	5	3.9
Master Limited Partnerships/Infrastructure	3	5.3
Commodities	6	3.3
Financing (LIBOR)	(9)	1.1
	<u>100 %</u>	

Discount rate:

The discount rate used to measure the total pension liability was 7.50%. 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 plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

11. Pension plan (continued):

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions (continued):

Sensitivity of the District's proportionate share:

The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would if it were calculated using a discount rate that is one-percentage point lower (6.50%) or one percentage-point higher (8.50%) than the current rate:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
District's proportionate share of the net pension liability	\$ 107,284,000	\$ 86,009,000	\$ 67,846,000

Pension plan fiduciary net position:

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

12. Postemployment benefits:

The cost of postemployment benefits (OPEB) other than pensions is recognized in the government-wide statements when the employee-related services are received by the employer rather than when the benefits are paid. The additional required financial note disclosures detailed below include information about actuarial accrued liabilities for these promised benefits associated with past employee services, and whether and to what extent those benefits have been funded.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

12. Postemployment benefits (continued):

Plan description:

The District permits employees who participate in the medical and/or dental benefit plan at the time of their retirement and who meet one of the following criteria to continue their group medical and/or dental coverage to age 65 by remitting the monthly premiums to the School District.

- Full-time employee for ten or more years of service with the District and who is at least 55 years of age or older, or
- Employee has been granted a disability retirement benefit by the Public School Employees' Retirement System, or
- Employee has retired with at least 30 years of credited service, or
- Employee has retired under superannuation status (age 62, or age 60 with 30 years of service or 35 years of service regardless of age).

The retirees' cost of group insurance is calculated by the plan administrator.

Administrators may continue their medical and/or dental coverage upon retirement until they are eligible for Medicare. The administrator's coverage is paid by the District, and the District contributes \$1,000 toward any dependent's medical coverage. The District also provides life insurance benefits for retired administrators until they reach 70 years of age.

The plan does not issue a publicly available financial report. As of July 1, 2014, there were 422 active participants and 36 retired participants.

Funding policy:

The District has elected to fund postemployment benefits on a pay-as-you-go basis. Expenditures for postemployment group insurance are recognized when claims are filed with the plan administrator. The District is responsible for all claims in excess of the premiums received by the qualified retirees up to a stop loss limit. Currently there are 76 retirees and dependents receiving benefits.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

12. Postemployment benefits (continued):

Annual OPEB cost and net OPEB obligation:

The District's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's OPEB cost for the year, the amount contributed to the plan and changes in the District's OPEB obligation to the plan.

Normal cost as of July 1, 2014	\$ 413,969
Interest on net OPEB obligation	103,875
ARC adjustment	<u>(183,734)</u>
Total normal cost	334,110
20-year amortization of unfunded actuarial accrued liability	<u>508,490</u>
Annual OPEB cost	842,600
Contributions made	<u>(485,340)</u>
Increase in OPEB obligation	357,260
Net OPEB obligation:	
Beginning of year	<u>2,596,878</u>
End of year	<u><u>\$ 2,954,138</u></u>

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

12. Postemployment benefits (continued):

Annual OPEB cost and net OPEB obligation (continued):

The District's annual OPEB costs, the percentage of annual OPEB cost contributions to the plan and the net OPEB obligation for the current and two preceding years are as follows:

<u>Year ended June 30,</u>	<u>Annual OPEB cost (AOC)</u>	<u>Percentage of AOC contributed</u>	<u>Net OPEB obligation</u>
2015	\$ 842,600	57.6%	\$ 2,954,138
2014	837,206	47.2%	2,596,878
2013	858,372	43.3%	2,154,471

Funding status and funding progress:

According to the District's most recent valuation, as of July 1, 2014, the funded status of the plan was as follows:

Unfunded actuarial accrued liability	\$ 7,186,953
Funded ratio	0.00%
Covered payroll	\$ 24,593,781
Unfunded actuarial accrued liability as a percentage of covered payroll	29.22%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

12. Postemployment benefits (continued):

Actuarial methods and assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of the valuation.

In the July 1, 2014 actuarial valuation, the initial liability was amortized under the level dollar method over a weighted average of the average future service of active employees for similar plans, which is estimated to be 20 years. An annual discount rate of 4.00% is used and 100% of the District's employees are assumed to retire at the earlier of (1) age 60 with 30 years of service at the District, (2) at least 35 years of service at the District or (3) age 62 with at least one year of service. Eighty percent of the employees are assumed to be married, and spouses are assumed to be the same age as the retiree. Healthcare cost trend rate assumptions (10% for 2014-2015 with 1% decreases until 2019) used in the July 1, 2014 valuation recognize increases due to healthcare inflation, utilization and intensity, technology and quality of care changes and regulatory requirements.

13. Termination benefits:

According to the District's negotiated agreements with its employees, the District will make 403(b) tax deferred contributions for any eligible employee in a maximum of four annual installments no later than September 30 of the fiscal year after the employee becomes eligible. To become eligible, an employee must have 15 years of consecutive full-time service at the District and 30 years of recognized service with the Public School Employees' Retirement System. The maximum total payment equals \$27,500 per person. Because an employee can retire at any time prior to receiving their final payment, amounts are accrued when the employees agree to continue employment at the District. For the year ended June 30, 2015, the District accrued \$158,000 in termination benefits.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

14. Risk management:

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. In 1995, the District joined together with other school districts in the state to form Lancaster-Lebanon Public School Insurance Pool (LLPSIP), a public entity risk pool currently operating as a risk-sharing and risk-purchasing pool for member school districts. The District pays an annual premium to LLPSIP for its workers' compensation and property/liability insurance coverage. The agreement of the LLPSIP provides that LLPSIP will be self-sustaining through member premiums and dividends and will reinsure through commercial companies for claims in excess of a certain dollar amount for each insured entity.

The District maintains a self-insured medical and dental benefit plan. The schedule of benefits provides for varying amounts of reasonable and customary healthcare benefits. The District is protected from unlimited liability by stop-loss insurance protection covering both individual and aggregate claims. For the year ended June 30, 2015, the maximum potential claim liability was \$150,000 per individual and \$6,455,610 in the aggregate. Actual claims and fees for the year ended June 30, 2015 were \$6,178,510. Reductions to this total included retiree contributions of \$354,324 and employee contributions of \$725,638. Claims for medical expenses incurred from July 1, 2014 to June 30, 2015, which were processed after June 30, 2015, totaled \$562,053 and have been reflected in accrued salary and benefits.

Changes in the District's medical and dental claims liability in fiscal years 2015 and 2014 were:

	<u>Beginning of fiscal year liability</u>	<u>Current year claims and changes in estimates</u>	<u>Claims payments</u>	<u>End of fiscal year liability</u>
2014-2015	\$ 434,827	\$ 5,098,548	\$ 4,971,322	\$ 562,053
2013-2014	251,751	4,500,416	4,317,340	434,827

The District continues to carry commercial insurance for other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

15. Joint ventures:

Lancaster County Academy (Academy):

The Academy is an alternative public school organized by ten public school districts in Lancaster County to provide services in the County. Each of the public school districts appoints one member to serve on the joint operating committee. As a member district, Warwick School District has an ongoing financial responsibility to fund the operations of the Academy. The amount paid to the Academy in the year ended June 30, 2015 was \$35,450. Complete financial information for the Academy can be obtained from the Administrative Office at 1202 Park City Center, Lancaster, PA 17601.

Lancaster-Lebanon Intermediate Unit (LLIU):

The LLIU Board of Directors consists of 22 members from the LLIU's constituent school districts. The LLIU Board members are school district board members who are elected by the public and are appointed to the LLIU Board by the member school districts' Board of Directors. The LLIU Board has decision-making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. Warwick School District contracts with the LLIU for special education services for School District students. Warwick School District participates in joint purchasing arrangements with the LLIU and other districts in the areas of supplies and equipment, healthcare initiatives, workers' compensation, property casualty and consulting services. Complete financial information for LLIU can be obtained from the Administrative Office at 1020 New Holland Avenue, Lancaster, PA 17601.

Lancaster County Tax Collection Bureau (Bureau):

The School District participates with 16 other school districts for the collection of earned income taxes. Each public school district appoints one member to serve on the joint operating committee. The Bureau's operating expenditures are deducted from the distributions, which are made quarterly. Financial information for the Bureau can be obtained from the Administrative Office at 1845 William Penn Way, Lancaster, PA 17601.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

15. Joint ventures (continued):

Lancaster County Area Vocational-Technical School:

Warwick School District, together with the 16 other Lancaster County school districts, is party to the 1971 Lancaster County Area Vocational-Technical School Agreement, providing for the establishment of area vocational-technical schools and for the establishment of the area vocational-technical board. Each participating school district has one seat on the board. These member districts provided total funding of approximately \$12.7 million to the Lancaster County Career and Technology Center (LCCTC) for capital and operating expenses for the year ended June 30, 2015. The District provided approximately \$773,000 as its share of the vocational-technical budget, or 6.4% of total member district contributions.

Lancaster County Career and Technology Center Authority:

Lancaster County Career and Technology Center Authority (the Authority) was created and is empowered to acquire, hold, construct, improve, maintain, operate and lease public school buildings and other school projects for public school purposes. In October 2011, the District, together with the 15 other member districts, approved a project for improvements, renovations and equipment for the LCCTC. The project is being financed by lease revenue bonds of the Authority totaling \$23,890,000. On June 29, 2012, the Authority completed issuance of the Guaranteed Lease Revenue Bonds, Series of 2012 in the aggregate principal amount of \$9,995,000. On September 20, 2013, the Authority completed issuance of the Guaranteed Lease Revenue Bonds, Series of 2013 in the aggregate principal amount of \$9,995,000. In July 2014, the Guaranteed Lease Revenue Bonds, Series of 2014 were issued in the aggregate principal amount of \$3,900,000 in order to complete the project.

The lease revenue indebtedness is secured by lease rentals to be received by the Authority.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

15. Joint ventures (continued):

Lancaster County Career and Technical Center Authority (continued):

In connection with these bond issues of the Authority, Warwick School District, along with the other member school districts party to the 1971 Lancaster County Area Vocational-Technical School Agreement (collectively, the lessees), entered into operating lease agreements with the Authority (the lessor). Each district will pay its proportionate share of the lease rentals in order to fund the debt. The District's lease payments are scheduled to be made in varying principal amounts beginning February 2013 until February 2037. Interest is payable semi-annually at an annual rate of 6.5%.

Minimum future rental payments under the operating lease for the District are as follows:

Fiscal year ending June 30,	Total
2016	\$ 84,510
2017	84,434
2018	93,821
2019	93,714
2020	93,689
2021-2025	468,941
2026-2030	468,694
2031-2035	468,901
2036-2037	187,301
Total minimum future rental payments	<u>\$ 2,044,005</u>

During the 2014-15 school year, the District paid \$84,470 to the LCCTC for its bond issue lease agreement obligation.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

16. Contingent liabilities:

The School District participates in federally assisted grant programs. These grant programs are subject to program compliance audits by the grantors or their representatives. The School District is potentially liable for any expenditure which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

17. Adoption of new accounting principles:

Effective July 1, 2014, the District adopted GASB Statement No. 67, *Financial Reporting for Pension Plans*; GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The new standards revise and establish new financial reporting requirements for pension benefits provided for employees. The following is the adjustment to net position for governmental activities:

	<u>Governmental activities</u>
Beginning net position as previously reported at June 30, 2014	<u>\$ 23,267,242</u>
Prior period adjustment, implementation GASB 68 net pension liability (measurement date)	\$ (87,399,000)
Deferred outflows, District's contributions made during fiscal year 2014	<u>4,329,000</u>
Total prior period adjustment	<u>(83,070,000)</u>
Net position (deficit) as restated, July 1, 2014	<u><u>\$ (59,802,758)</u></u>

WARWICK SCHOOL DISTRICT

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE PENSION LIABILITY
(Required Supplementary Information)
(unaudited)

YEAR ENDED JUNE 30, 2015

District's proportion of the net pension liability	0.2137 %
District's proportionate share of the net pension liability	\$ 86,009,000
District's covered-employee payroll	\$ 27,730,936
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	310.16 %
Plan fiduciary net position as a percentage of the total pension liability	57.24 %

WARWICK SCHOOL DISTRICT

SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS
(Required Supplementary Information)
(unaudited)

YEAR ENDED JUNE 30, 2015

Contractually required contribution	\$ 5,591,661
Contributions in relation to the contractually required contribution	<u>5,591,661</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered payroll	\$ 27,870,580
Contributions as a percentage of covered employee payroll	20.06%

WARWICK SCHOOL DISTRICT

OTHER POSTEMPLOYMENT BENEFITS
(Required supplementary information)
(unaudited)

SCHEDULE OF FUNDING PROGRESS

YEAR ENDED JUNE 30, 2015

<u>Actuarial valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liability (AAL) entry age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (c)</u>	<u>UAAL as a percentage of covered payroll ((b-a)/c)</u>
7/1/2010	\$ -	\$ 5,826,493	\$ 5,826,493	0.00%	\$ 22,051,820	26.42%
7/1/2012	\$ -	\$ 6,723,787	\$ 6,723,787	0.00%	\$ 24,174,340	27.81%
7/1/2014	\$ -	\$ 7,186,953	\$ 7,186,953	0.00%	\$ 24,593,781	29.22%

WARWICK SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL – GENERAL FUND
 (Required supplementary information)
 (unaudited)

YEAR ENDED JUNE 30, 2015

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	Variance, favorable (unfavorable)
Revenues:				
Sources:				
Local	\$ 43,179,997	\$ 43,224,997	\$ 44,307,350	\$ 1,082,353
State	19,027,543	19,027,543	18,811,028	(216,515)
Federal	<u>595,913</u>	<u>595,913</u>	<u>582,769</u>	<u>(13,144)</u>
Total revenues	<u>62,803,453</u>	<u>62,848,453</u>	<u>63,701,147</u>	<u>852,694</u>
Expenditures:				
Instruction	37,344,606	37,355,067	36,771,859	583,208
Support services	16,982,919	16,982,488	16,218,044	764,444
Student activities	1,531,575	1,537,640	1,304,389	233,251
Community services	104,930	104,930	91,386	13,544
Debt service	98,400	98,400	67,108	31,292
Miscellaneous	<u>11,105</u>	<u>11,105</u>	<u>3,620</u>	<u>7,485</u>
Total expenditures	<u>56,073,535</u>	<u>56,089,630</u>	<u>54,456,406</u>	<u>1,633,224</u>
Excess of revenues over expenditures	<u>6,729,918</u>	<u>6,758,823</u>	<u>9,244,741</u>	<u>2,485,918</u>
Other financing uses:				
Fund transfers, net	(9,805,897)	(9,805,897)	(9,190,493)	615,404
Budgetary reserve	<u>(225,000)</u>	<u>(208,905)</u>		<u>208,905</u>
Total other financing uses	<u>(10,030,897)</u>	<u>(10,014,802)</u>	<u>(9,190,493)</u>	<u>824,309</u>
Net change in fund balances	<u>\$ (3,300,979)</u>	<u>\$ (3,255,979)</u>	54,248	<u>\$ 3,310,227</u>
Fund balances:				
July 1, 2014			<u>11,792,746</u>	
June 30, 2015			<u>\$ 11,846,994</u>	

WARWICK SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2015

Budgets and budgetary accounting:

An operating budget is adopted prior to the beginning of each fiscal year for the general fund on a basis consistent with the modified accrual basis of accounting except that a budgetary reserve is provided. The General Fund is the only fund for which a budget is required.

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

The School District, before levying annual school taxes, is required to prepare an operating budget for the succeeding fiscal year.

The School District is required to publish notice by advertisement, at least once in two newspapers of general circulation in the municipality in which it is located, and within 15 days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative office of the School District.

Notice that public hearings will be held on the proposed operating budget must be included in the advertisement and such hearings are required to be scheduled at least ten days prior to when the School Board adoption is taken.

Legal budgetary control is maintained at the sub-function/major object level. The School Board 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 related information in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments. The School Board made several supplemental budgetary appropriations throughout the year which resulted in no increase in the General Fund budget. The entire supplemental budgetary appropriation was a result of program budgets prescribed by federal and state agencies.

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

WARWICK SCHOOL DISTRICT

COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2015

	<u>Capital projects</u>	<u>Scholarship funds</u>	<u>Totals</u>
ASSETS			
Current assets, cash and investments	<u>\$ 925,317</u>	<u>\$ 48,147</u>	<u>\$ 973,464</u>
LIABILITIES AND FUND BALANCES			
Current liabilities, interfund payable	<u>\$ 133,043</u>		<u>\$ 133,043</u>
Fund balances:			
Nonspendable, permanent fund principal		\$ 27,037	27,037
Assigned for capital projects	792,274		792,274
Assigned to payment of scholarships		21,110	21,110
Total fund balances	<u>792,274</u>	<u>48,147</u>	<u>840,421</u>
Total liabilities and fund balances	<u>\$ 925,317</u>	<u>\$ 48,147</u>	<u>\$ 973,464</u>

WARWICK SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – NON MAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2015

	<u>Capital projects</u>	<u>Scholarship funds</u>	<u>Totals</u>
Revenues, local sources	<u>\$ 407</u>	<u>\$ 355</u>	<u>\$ 762</u>
Expenditures, student activities		3,000	3,000
Expenditures, construction	<u>4,059,416</u>	<u></u>	<u>4,059,416</u>
Total expenditures	<u>4,059,416</u>	<u>3,000</u>	<u>4,062,416</u>
Deficiency of revenues over expenses	(4,059,009)	(2,645)	(4,061,654)
Other financing sources, fund transfers	<u>4,751,109</u>	<u></u>	<u>4,751,109</u>
Net change in fund balances	692,100	(2,645)	689,455
Fund balances:			
July 1, 2014	<u>100,174</u>	<u>50,792</u>	<u>150,966</u>
June 30, 2015	<u>\$ 792,274</u>	<u>\$ 48,147</u>	<u>\$ 840,421</u>

WARWICK SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2015

Federal grantor/ pass-through grantor/program title	Source code	Federal CFDA number	Pass-through grantor's number	Grant period beginning/ ending date	Program or award amount	Total received for the year	Accrued (unearned) revenue at July 1, 2014	Revenue recognized	Expenditures	Accrued (unearned) revenue at June 30, 2015
<u>U.S. Department of Education</u>										
Passed through the Pennsylvania Department of Education:										
Title I Cluster:										
Title I Improving Basic Programs 2013-2014	I	84.010	013-140461	07/01/13-09/30/14	\$ 395,995	\$ 55,309	\$ 55,309			
Title I Improving Basic Programs 2014-2015	I	84.010	013-150461	07/01/14-09/30/15	407,894	236,522		\$ 407,894	\$ 407,894	\$ 171,372
Title II Cluster:										
Title II Improving Teacher Quality 2013-2014	I	84.367	020-140461	07/01/13-09/30/14	107,075	7,510	7,510			
Title II Improving Teacher Quality 2014-2015	I	84.367	020-150461	07/01/14-09/30/15	106,735	61,051		106,735	106,735	45,684
Passed through Lancaster-Lebanon IU13:										
Special Education Cluster:										
IDEA, Part B 2013-2014	I	84.027	062-14-0-013	07/01/13-09/30/14	602,032	466,267	466,267			
IDEA, Part B 2014-2015	I	84.027	062-15-0-013	07/01/14-09/30/15	554,817	126,589		554,817	554,817	428,228
Early Intervention IDEA	I	84.173	131-13-0-013	07/01/13-06/30/14	2,859	2,859	2,859			
Early Intervention IDEA	I	84.173	131-14-0-013	07/01/14-06/30/15	2,473			2,473	2,473	2,473
Total of U.S. Department of Education					956,107	531,945	531,945	1,071,919	1,071,919	647,757
<u>U.S. Department of Health and Human Services</u>										
Passed through the Commonwealth of Pennsylvania:										
ACCESS Medical Assistance	I	93.778	N/A	07/01/13-06/30/14	8,828	2,000	2,000			
ACCESS Medical Assistance	I	93.778	N/A	07/01/14-06/30/15	3,132	2,559		3,132	3,132	573
Total of U.S. Department of Health and Human Services					4,559	2,000	2,000	3,132	3,132	573

(continued)

WARWICK SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2015

Federal grantor/ pass-through grantor/program title	Source code	Federal CFDA number	Pass-through grantor's number	Grant period beginning/ ending date	Program or award amount	Total received for the year	Accrued (deferred) revenue at July 1, 2014	Revenue recognized	Expenditures	Accrued (deferred) revenue at June 30, 2015
<u>U.S. Department of Agriculture</u>										
Passed through the Pennsylvania Department of Education:										
Child Nutrition Cluster:										
National School Lunch Program	I	10.555	N/A	07/01/13-06/30/14	N/A	\$ 23,965	\$ 23,965			
School Breakfast Program	I	10.553	N/A	07/01/13-06/30/14	N/A	3,451	3,451			
National School Lunch Program	I	10.555	N/A	07/01/14-06/30/15	N/A	475,807		\$ 494,605	\$ 494,605	\$ 18,798
School Breakfast Program	I	10.553	N/A	07/01/14-06/30/15	N/A	61,135		63,846	63,846	2,711
Passed through the Pennsylvania Department of Agriculture:										
Value of USDA donated commodities	I	10.555	N/A	07/01/14-06/30/15	N/A	<u>109,566</u> (a)	<u>(20,307)</u> (b)	<u>111,261</u> (c)	<u>111,261</u> (c)	<u>(18,612)</u> (d)
Total of U.S. Department of Agriculture						<u>673,924</u>	<u>7,109</u>	<u>669,712</u>	<u>669,712</u>	<u>2,897</u>
Total federal assistance						<u>\$ 1,634,590</u>	<u>\$ 541,054</u>	<u>\$ 1,744,763</u>	<u>\$ 1,744,763</u>	<u>\$ 651,227</u>
Source Codes: I = Indirect funding D = Direct funding										
Calculation of 50% rule (25% for low risk auditee):										
Total expenditures per above						<u>\$ 1,744,763</u>				
84.027 IDEA						\$ 554,817				
84.173 IDEA						<u>2,473</u>				
						<u>\$ 557,290</u>				
						<u>\$ 557,290</u>	= 31.9%	Programs meet the 25%		
						<u>\$ 1,744,763</u>		requirement		

(continued)

WARWICK SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2015

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A - Significant accounting policies:
The schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

Note B - Food distribution:
(a) Total amount of commodities recorded from the Department of Agriculture
(b) Beginning inventory at July 1, 2014
(c) Total amount of commodities used
(d) Ending inventory at June 30, 2015



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 School Directors
Warwick School District
Lititz, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, the nonmajor proprietary fund and the aggregate remaining fund information of Warwick School District as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 1, 2015.

Internal Control Over Financial Reporting

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

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

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

Purpose of this Report

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

Brown Schultz Steindam's Fritz

Lancaster, Pennsylvania
December 1, 2015



Independent Auditors' Report on Compliance for Each Major Federal Program
and Report on Internal Control Over Compliance Required by
OMB Circular A-133

Board of School Directors
Warwick School District
Lititz, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Warwick School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Warwick School District's major federal programs for the year ended June 30, 2015. Warwick School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Warwick School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments and Non-profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Warwick School District's compliance with those requirements and performing such other procedures as we considered necessary in circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Warwick School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of Warwick School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Warwick School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each of its major federal programs and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Warwick School District's internal control over compliance.

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

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Brown Schultz Steidman & Fritz

Lancaster, Pennsylvania
December 1, 2015

WARWICK SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2015

I. SUMMARY OF AUDITORS' RESULTS:

Financial statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Noncompliance material to financial statements noted? yes no

Federal awards

Internal control over major programs:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes no

(continued)

WARWICK SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2015

I. SUMMARY OF AUDITORS' RESULTS (continued):

Identification of major programs:

<u>CFDA numbers</u>	<u>Name of federal program or cluster</u>
84.027	IDEA Cluster:
84.173	IDEA program
	Early intervention IDEA program
Dollar threshold used to distinguish between type A and type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u> X </u> yes <u> </u> no

II. FINANCIAL STATEMENT FINDINGS:

None

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:

None

WARWICK SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2015

There were no prior year OMB Circular A-133 audit findings.