

WARWICK SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2018

WARWICK SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2018

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

Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School 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, 2018 and, where applicable, the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 17 to the financial statements, effective July 1, 2017, the District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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 financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 30, 2018 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 Steidan & Fritz

Lancaster, Pennsylvania
November 30, 2018

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2018
(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, 2018. 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 2018 are as follows:

- The District adopted new standards for recognizing pension expense in the year ended June 30, 2015. 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 \$106,432,000 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, 2018, generating a net deficit of \$(58,573,616). In total, net position increased \$5,597,836.
- General revenues accounted for \$60,198,146 in revenue or 80.2% of all revenues. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$14,819,072 or 19.8% of all revenues of \$75,017,218.
- The School District had \$69,419,382 in expenses; only \$14,819,072 of these expenses were offset by program specific charges for services, grants or contributions.
- Among major funds, the General Fund had \$72,981,880 in revenues and \$58,694,530 in expenditures. In addition, the District transferred \$8,978,333 from the General Fund to the Debt Service Fund and \$3,842,864 from the General Fund to the Capital Reserve Fund.
- As of June 30, 2018, the District's fund balance for the General Fund was \$17,755,971. This is an increase of \$1,465,277 from the beginning of the year General Fund fund balance of \$16,290,694.

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2018
(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 (deficit) 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 2017-2018 school year?" The statement of net position (deficit) 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 (deficit) 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 mancatonal programs and other factors.

In the statement of net position (deficit) 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, 2018
(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 (deficit) 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.

The School District as a Whole

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

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2018
(Unaudited)

Table 1 provides a summary of the School District's net position at June 30, 2018 and 2017:

	Table 1 2018		
	Governmental activities	Business-type activities	Total
Assets:			
Current assets	\$ 30,598,089	\$ 1,863,966	\$ 32,462,055
Capital assets	89,998,639	334,483	90,333,122
Total assets	120,596,728	2,198,449	122,795,177
Deferred outflows of resources	18,369,300		18,369,300
Total assets and deferred outflows	\$ 138,966,028	\$ 2,198,449	\$ 141,164,477
Liabilities:			
Current liabilities	\$ 17,855,505	\$ 827,611	\$ 18,683,116
Long-term liabilities	178,981,581		178,981,581
Total liabilities	196,837,086	827,611	197,664,697
Deferred inflows of resources	2,073,396		2,073,396
Net position (deficit):			
Net investment in capital assets	16,905,626	123,595	17,029,221
Restricted for permanent endowments	26,088		26,088
Unrestricted	(76,876,168)	1,247,243	(75,628,925)
Total net position (deficit)	(59,944,454)	1,370,838	(58,573,616)
Total liabilities deferred inflows and net position (deficit)	\$ 138,966,028	\$ 2,198,449	\$ 141,164,477

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2018
(Unaudited)

	Table 1 2017		
	Governmental activities (restated)	Business- type activities	Total (restated)
Assets:			
Current assets and other assets	\$ 24,324,143	\$ 1,611,439	\$ 25,935,582
Capital assets	<u>93,412,612</u>	<u>355,762</u>	<u>93,768,374</u>
Total assets	117,736,755	1,967,201	119,703,956
Deferred outflows of resources	<u>21,970,368</u>		<u>21,970,368</u>
Total assets and deferred outflows	<u>\$ 139,707,123</u>	<u>\$ 1,967,201</u>	<u>\$ 141,674,324</u>
Liabilities:			
Current liabilities	\$ 15,738,516	\$ 488,139	\$ 16,226,655
Long-term liabilities	<u>188,712,121</u>		<u>188,712,121</u>
Total liabilities	<u>204,450,637</u>	<u>488,139</u>	<u>204,938,776</u>
Deferred inflows of resources	<u>907,000</u>		<u>907,000</u>
Net position (deficit):			
Net investment in capital assets	21,346,299	129,799	21,476,098
Restricted for permanent endowments	26,253		26,253
Unrestricted	<u>(87,023,066)</u>	<u>1,349,263</u>	<u>(85,673,803)</u>
Total net position (deficit)	<u>(65,650,514)</u>	<u>1,479,062</u>	<u>(64,171,452)</u>
Total liabilities, deferred inflows and net position (deficit)	<u>\$ 139,707,123</u>	<u>\$ 1,967,201</u>	<u>\$ 141,674,324</u>

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2018
(Unaudited)

Table 2 shows the change in net position for the fiscal years ended June 30, 2018 and 2017:

	Table 2 2018		
	Governmental activities	Business- type activities	Total
Revenues:			
Program revenues:			
Charges for services	\$ 317,407	\$ 1,157,769	\$ 1,475,176
Operating grants and contributions	12,392,321	951,575	13,343,896
General revenues:			
Property and earned income taxes	48,956,635		48,956,635
Grants and entitlements	10,812,719		10,812,719
Other	419,145	9,647	428,792
Total revenues	<u>72,898,227</u>	<u>2,118,991</u>	<u>75,017,218</u>
Program expenses:			
Instruction	44,551,122		44,551,122
Support services	18,849,611		18,849,611
Operation of noninstructional services, extracurricular activities	1,750,952		1,750,952
Community services	79,445		79,445
Interest and fiscal charges	1,959,619		1,959,619
Miscellaneous	1,418		1,418
Food services		1,838,922	1,838,922
Intellectual property		388,293	388,293
Total expenses	<u>67,192,167</u>	<u>2,227,215</u>	<u>69,419,382</u>
Increase in net position	<u>\$ 5,706,060</u>	<u>\$ (108,224)</u>	<u>\$ 5,597,836</u>

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2018
(Unaudited)

	Table 2 2017		
	Governmental activities	Business- type	Total
Revenues:			
Program revenues:			
Charges for services	\$ 188,067	\$ 1,186,273	\$ 1,374,340
Operating grants and contributions	12,077,869	945,867	13,023,736
General revenues:			
Property and earned income taxes	46,479,546		46,479,546
Grants and entitlements	10,645,029		10,645,029
Other	249,041	4,048	253,089
Total revenues	69,639,552	2,136,188	71,775,740
Program expenses:			
Instruction	43,476,066		43,476,066
Support services	18,957,296		18,957,296
Operation of noninstructional services, extracurricular activities	1,664,488		1,664,488
Community services	110,346		110,346
Interest and fiscal charges	3,448,816		3,448,816
Miscellaneous	35,543		35,543
Food services		1,898,862	1,898,862
Intellectual property		154,195	154,195
Total expenses	67,692,555	2,053,057	69,745,612
Increase in net position	\$ 1,946,997	\$ 83,131	\$ 2,030,128

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2018
(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 2018</u>	<u>Net cost of services 2018</u>
Instruction	\$ 44,551,122	\$ 35,682,605
Support services	18,849,611	16,479,146
Operation of noninstructional services, extracurricular activities and other	1,831,815	1,522,402
Interest and fiscal charges	<u>1,959,619</u>	<u>798,286</u>
Total expenses	<u>\$ 67,192,167</u>	<u>\$ 54,482,439</u>

Table 3

	<u>Total cost of services 2017</u>	<u>Net cost of services 2017</u>
Instruction	\$ 43,476,066	\$ 35,172,836
Support services	18,957,296	16,685,624
Operation of noninstructional services, extracurricular activities and other	1,810,377	1,500,517
Interest and fiscal charges	<u>3,448,816</u>	<u>2,067,642</u>
Total expenses	<u>\$ 67,692,555</u>	<u>\$ 55,426,619</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, 2018
(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 80% of instructional activities were supported through taxes and other general revenues for the fiscal years 2018 and 2017. Approximately 92% of the District's support services were supported through taxes and other general revenues for each of the 2018 and 2017 fiscal years. Other noninstructional activities are also supported primarily through taxes and other general revenues for fiscal years 2018 and 2017. The community, as a whole, is the primary support for the Warwick School District.

The School District's Funds

In 2017-18, the results of operations for the General Fund showed an excess of revenue over expenditures and other financing uses of \$1,465,277 with an ending fund balance of \$17,755,971. This fund balance included the following commitments approved by the Board of Directors: \$2,255,979 for a projected operating deficit; \$2,943,982 for pension rate stabilization; \$2,516,136 for construction and improvements and \$1,000,000 for capital expenditures.

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.

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2018
(Unaudited)

Budget to Actual Comparison – Revenues

In 2018, actual General Fund revenues exceeded budgeted revenues by \$2,472,948.

The largest favorable variances were due to higher than anticipated collections of real estate and EIT taxes.

Budget to Actual Comparison – Expenditures

The total General Fund expenditures came in under budget by \$2,672,524, and fund transfers were over budget by \$3,834,564. Notable variances resulted from the following:

- significantly lower medical benefit costs,
- lower wage and benefit expenditures due to attrition,
- lower external special education and cyber charter student placements,
- bond refinancing savings,
- reduced supplies costs and collaborative purchasing and
- not requiring use of budgetary reserve.

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.

Current Year – Prior Year Comparison – General Fund Revenues

Local revenue increased by \$2,893,615 compared to the prior fiscal year.

State revenues increased by \$324,704 compared to the prior fiscal year.

Federal subsidies increased by \$105,970 compared to the prior fiscal year.

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2018
(Unaudited)

Current Year – Prior Year Comparison – General Fund Expenditures

Total 2017-18 General Fund expenditures increased over the prior year by \$4,701,876.

A transfer to the Capital Reserve Fund accounted for \$3,842,864 of the increase. Total wage and salary expenditures increased about \$375,000 as compared to the prior fiscal year. Retirement contribution expenditures accounted for increased expenditures of about \$850,000 due to a PSERS rate increase from 30.03% to 32.57%. Health insurance costs decreased by about \$333,000.

Proprietary Funds

The District's Food Service Fund had another financially sound year reflecting an increase in net position of \$86,014. This basically break-even result occurred despite increased government regulation.

Due to an increase in expense of \$234,098 over the prior fiscal year, the WarwickWARE Fund's change in net position for the 2017-18 school year was a decrease of \$194,238 compared to an increase of \$34,996 for the 2016-17 school year. 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, 2018
(Unaudited)

Capital Assets

At the end of the fiscal years 2018 and 2017, the School District had \$90,333,122 and \$93,768,374, respectively, invested in land, buildings, furniture and equipment and vehicles.

Table 4 shows the fiscal 2018 and 2017 balances:

	<u>Governmental activities</u>	<u>Business- type activities</u>	<u>Total</u>
Land	\$ 2,672,598		\$ 2,672,598
Construction in process	38,295		38,295
Building and improvements	80,384,494		80,384,494
Land improvements	3,152,214		3,152,214
Furniture and equipment	3,678,190	\$ 123,595	3,801,785
Vehicles	72,848		72,848
Intangible asset, intellectual property		210,888	210,888
Totals	<u>\$ 89,998,639</u>	<u>\$ 334,483</u>	<u>\$ 90,333,122</u>

(See Note 6 for further detail)

	<u>Governmental activities</u>	<u>Business- type activities</u>	<u>Total</u>
Land	\$ 2,672,598		\$ 2,672,598
Building and improvements	83,636,065		83,636,065
Land improvements	3,414,185		3,414,185
Furniture and equipment	3,586,940	\$ 129,799	3,716,739
Vehicles	102,824		102,824
Intangible asset, intellectual property		225,963	225,963
Totals	<u>\$ 93,412,612</u>	<u>\$ 355,762</u>	<u>\$ 93,768,374</u>

The decrease in governmental activities capital assets resulted primarily from no significant building improvements to offset this year's depreciation expense, along with the additions and deletions of capital assets.

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2018
(Unaudited)

Debt Administration

The School District had \$61,615,000 and \$68,390,000 of General Obligation Bonds payable as of June 30, 2018 and 2017, respectively. Bond principal payments paid in 2018 and 2017 were \$6,775,000 and \$6,450,000, respectively. As of June 30, 2018, the current portion due for fiscal year 2019 is \$7,880,000.

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 Commonwealth 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.

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.

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2018
(Unaudited)

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 athletic 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.

WARWICK SCHOOL DISTRICT

STATEMENT OF NET POSITION (DEFICIT)

JUNE 30, 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
Current assets:			
Cash and investments	\$ 25,459,648	\$ 1,768,678	\$ 27,228,326
Taxes receivable	1,805,834		1,805,834
Due from other governments	2,475,935		2,475,935
Other receivables	856,672	18,316	874,988
Inventory		76,972	76,972
	<u>30,598,089</u>	<u>1,863,966</u>	<u>32,462,055</u>
Total current assets			
Noncurrent assets:			
Land	2,672,598		2,672,598
Land improvements (net of accumulated depreciation)	3,152,214		3,152,214
Building and building improvements (net of accumulated depreciation)	80,384,494		80,384,494
Equipment, furniture and fixtures (net of accumulated depreciation)	3,678,190	123,595	3,801,785
Vehicles (net of accumulated depreciation)	72,848		72,848
Construction in progress	38,295		38,295
Intangible asset, intellectual property (net of accumulated amortization)		210,888	210,888
	<u>89,998,639</u>	<u>334,483</u>	<u>90,333,122</u>
Total noncurrent assets			
Total assets	<u>120,596,728</u>	<u>2,198,449</u>	<u>122,795,177</u>
Deferred outflows of resources:			
Pension	15,707,000		15,707,000
Other postemployment benefits	1,615,285		1,615,285
Other postemployment benefits (HIPAP)	240,000		240,000
Deferred amounts from refunding of debt	807,015		807,015
	<u>18,369,300</u>		<u>18,369,300</u>
Total deferred outflows of resources			
Total assets and deferred outflows of resources	<u>\$ 138,966,028</u>	<u>\$ 2,198,449</u>	<u>\$ 141,164,477</u>

(continued)

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

	Governmental activities	Business-type activities	Total
Current liabilities:			
Internal balances	\$ (742,681)	\$ 742,681	\$ -
Accounts payable	643,534		643,534
Accrued:			
Salaries and benefits	8,286,276		8,286,276
Payroll withholdings	248,307		248,307
Interest	824,081		824,081
Current portion of:			
Bonds payable	7,880,000		7,880,000
Capital lease payable	429,251		429,251
Compensated absences	271,047		271,047
Unearned revenue	15,690	31,847	47,537
Other current liabilities		53,083	53,083
Total current liabilities	17,855,505	827,611	18,683,116
Noncurrent liabilities:			
Bonds payable	57,263,317		57,263,317
Capital lease payable	447,460		447,460
Net pension liability	106,432,000		106,432,000
Compensated absences	170,057		170,057
Other postemployment benefits	10,277,747		10,277,747
Other postemployment benefits (HIPAP)	4,391,000		4,391,000
Total noncurrent liabilities	178,981,581		178,981,581
Total liabilities	196,837,086	827,611	197,664,697
Deferred inflows of resources:			
Pension	1,212,000		1,212,000
Other postemployment benefits	577,396		577,396
Other postemployment benefits (HIPAP)	284,000		284,000
Total deferred inflows of resources	2,073,396		2,073,396
Net position (deficit):			
Net investment in capital assets	16,905,626	123,595	17,029,221
Restricted for permanent endowments	26,088		26,088
Unrestricted	(76,876,168)	1,247,243	(75,628,925)
Total net position (deficit)	(59,944,454)	1,370,838	(58,573,616)
Total liabilities, deferred inflows of resources and net position (deficit)	\$ 138,966,028	\$ 2,198,449	\$ 141,164,477

See notes to financial statements.

WARWICK SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

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	\$ 44,551,122	\$ 285,878	\$ 8,582,639	\$ (35,682,605)		\$ (35,682,605)
Support services	18,849,611	31,529	2,338,936	(16,479,146)		(16,479,146)
Student activities	1,750,952		309,413	(1,441,539)		(1,441,539)
Community services	79,445			(79,445)		(79,445)
Other	1,418			(1,418)		(1,418)
Debt service	1,959,619		1,161,333	(798,286)		(798,286)
Total governmental activities	<u>67,192,167</u>	<u>317,407</u>	<u>12,392,321</u>	<u>(54,482,439)</u>		<u>(54,482,439)</u>
Business-type activities:						
Food service	1,838,922	963,789	951,575		\$ 76,442	76,442
Intellectual property	<u>388,293</u>	<u>193,980</u>			<u>(194,313)</u>	<u>(194,313)</u>
Total business-type activities	<u>2,227,215</u>	<u>1,157,769</u>	<u>951,575</u>		<u>(117,871)</u>	<u>(117,871)</u>
Total primary government	<u>\$ 69,419,382</u>	<u>\$ 1,475,176</u>	<u>\$ 13,343,896</u>	<u>(54,482,439)</u>	<u>(117,871)</u>	<u>(54,600,310)</u>

(continued)

WARWICK SCHOOL DISTRICT

STATEMENT OF ACTIVITIES (CONTINUED)

YEAR ENDED JUNE 30, 2018

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.				\$ 42,317,965		\$ 42,317,965
Other				6,638,670		6,638,670
Grants, subsidies and contributions not restricted				10,812,719		10,812,719
Investment earnings				541,878	\$ 9,647	551,525
Contributions				1,349		1,349
Loss on disposal of assets				(151,772)		(151,772)
Refund of prior years' receipts				(876)		(876)
Miscellaneous income				28,566		28,566
Total general revenues				60,188,499	9,647	60,198,146
Change in net position				5,706,060	(108,224)	5,597,836
Net position (deficit):						
July 1, 2017, restated				(65,650,514)	1,479,062	(64,171,452)
June 30, 2018				\$ (59,944,454)	\$ 1,370,838	\$ (58,573,616)

See notes to financial statements.

WARWICK SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2018

	ASSETS		Nonmajor fund, Scholarship	Total governmental funds
	Major funds			
	General	Capital reserve		
Cash and investments	\$ 21,548,478	\$ 3,865,101	\$ 46,069	\$ 25,459,648
Interfund receivable	772,694			772,694
Taxes receivable, net	1,805,834			1,805,834
Due from other governments	2,475,935			2,475,935
Other receivables	856,672			856,672
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 27,459,613</u>	<u>\$ 3,865,101</u>	<u>\$ 46,069</u>	<u>\$ 31,370,783</u>

(continued)

WARWICK SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS (CONTINUED)

JUNE 30, 2018

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES

	<u>Major funds</u>		Nonmajor	Total
	<u>General</u>	<u>Capital reserve</u>	fund, Scholarship	governmental funds
Liabilities:				
Accounts payable	\$ 643,534			\$ 643,534
Interfund payable	30,013			30,013
Accrued:				
Salaries and benefits	8,286,276			8,286,276
Payroll withholdings	248,307			248,307
Unearned revenue	15,690			15,690
	<u>9,223,820</u>			<u>9,223,820</u>
Total liabilities				
Deferred inflows of resources, deferred real estate taxes	<u>479,822</u>			<u>479,822</u>

(continued)

WARWICK SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS (CONTINUED)

JUNE 30, 2018

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

	Major funds		Nonmajor fund, Scholarship	Total governmental funds
	General	Capital reserve		
Fund balances:				
Nonspendable, permanent fund principal			\$ 26,088	\$ 26,088
Committed for:				
PSERS rate stabilization	\$ 2,943,982			2,943,982
Projected operating deficit	2,255,979			2,255,979
Capital projects funding	3,516,136	\$ 3,865,101		7,381,237
Assigned for payment of scholarships			19,981	19,981
Unassigned	9,039,874			9,039,874
Total fund balances	17,755,971	3,865,101	46,069	21,667,141
Total liabilities, deferred inflows of resources and fund balances	\$ 27,459,613	\$ 3,865,101	\$ 46,069	\$ 31,370,783

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, 2018

Total fund balances, governmental funds	\$ 21,667,141
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$166,743,318, and the accumulated depreciation is \$76,744,679.	89,998,639
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.	479,822
Net pension, net other postemployment benefits and net other postemployment benefits (HIPAP) obligations are not due and payable in the current period and, therefore, are not reported in the funds, net pension liability:	
Net pension liability	(106,432,000)
Net other postemployment benefits liability	(10,277,747)
Net other postemployment benefits (HIPAP) liability	(4,391,000)
Deferred outflows of resources:	
Pensions	15,707,000
Other postemployment benefits	1,615,285
Other postemployment benefits (HIPAP)	240,000
Deferred inflows of resources:	
Pensions	(1,212,000)
Other postemployment benefits	(577,396)
Other postemployment benefits (HIPAP)	(284,000)
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	(61,615,000)
Capital leases payable	(876,711)
Unamortized:	
Bond discount	37,634
Bond premium	(3,565,951)
Deferred amounts from refunding of debt	807,015
Accrued interest on the bonds	(824,081)
Compensated absences	(441,104)
Total net position (deficit), governmental activities	<u>\$ (59,944,454)</u>

See notes to financial statements.

WARWICK SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2018

	Major funds		Nonmajor fund, Scholarship	Total governmental funds
	General	Capital reserve		
Revenues:				
Sources:				
Local	\$ 50,822,822	\$ 22,237	\$ 1,868	\$ 50,846,927
State	21,569,030			21,569,030
Federal	590,028			590,028
Total revenues	<u>72,981,880</u>	<u>22,237</u>	<u>1,868</u>	<u>73,005,985</u>
Expenditures:				
Instruction	39,836,175			39,836,175
Support services	17,161,210			17,161,210
Student activities	1,492,788		3,450	1,496,238
Community services	79,445			79,445
Facility acquisition and improvements	1,418			1,418
Debt service:				
Principal			\$ 6,775,000	6,775,000
Interest	122,832		2,203,333	2,326,165
Miscellaneous	662			662
Total expenditures	<u>58,694,530</u>		<u>3,450</u>	<u>67,676,313</u>
Excess (deficiency) of revenues over (under) expenditures	<u>14,287,350</u>	<u>22,237</u>	<u>(1,582)</u>	<u>5,329,672</u>
Other financing sources (uses):				
Interfund transfer, general fund to debt service fund	(8,978,333)		8,978,333	-
Interfund transfer, general fund to capital reserve fund	(3,842,864)	3,842,864		-
Refund of prior year revenues	(876)			(876)
Total other financing sources (uses)	<u>(12,822,073)</u>	<u>3,842,864</u>	<u>8,978,333</u>	<u>(876)</u>
Net change in fund balances	1,465,277	3,865,101	(1,582)	5,328,796
Fund balances:				
July 1, 2017	16,290,694	-	47,651	16,338,345
June 30, 2018	<u>\$ 17,755,971</u>	<u>\$ 3,865,101</u>	<u>\$ 46,069</u>	<u>\$ 21,667,141</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, 2018

Total net change in fund balances, governmental funds \$ 5,328,796

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	\$ 208,436	
Loss on disposal	(151,772)	
Depreciation expense	<u>(4,365,643)</u>	
		(4,308,979)

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. 44,890

Repayment of bond principal is an expenditure in the governmental funds,
but the repayment reduces long-term liabilities in the statement of
net position (deficit) 6,775,000

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). 580,721

In the governmental funds, certain bond related accounts are reported
as financing sources and uses. However, in the statement of activities
the cost of these items are allocated over the life of the bond as
amortization expense.

Bond discount amortization	(4,343)	
Bond premium amortization	551,649	
Deferred amounts from refunding of debt	<u>(154,722)</u>	
		392,584

(continued)

WARWICK SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2018

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.

Pensions:

District pension contributions	\$ 8,928,000	
Cost of benefits earned	<u>(11,119,000)</u>	\$ (2,191,000)

Other postemployment benefits:

District pension contributions	960,079	
Cost of benefits earned	<u>(1,905,696)</u>	(945,617)

Other postemployment benefits (HIPAP):

District pension contributions	235,000	
Cost of benefits earned	<u>(174,000)</u>	61,000

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		(9,052)
Accrued interest expense		<u>(22,283)</u>

Change in net position (deficit) of governmental activities	<u><u>\$ 5,706,060</u></u>
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See notes to financial statements.

WARWICK SCHOOL DISTRICT

STATEMENT OF NET POSITION – PROPRIETARY FUNDS

JUNE 30, 2018

	<u>Major fund, Food Service</u>	<u>Nonmajor fund, WarwickWARE</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 725,436	\$ 1,043,242	\$ 1,768,678
Interfund receivable	30,013		30,013
Accounts receivable		18,316	18,316
Inventories	76,972		76,972
	<u>832,421</u>	<u>1,061,558</u>	<u>1,893,979</u>
Total current assets			
Noncurrent assets:			
Equipment	621,753		621,753
Accumulated depreciation on equipment	(498,158)		(498,158)
Intellectual property		444,974	444,974
Accumulated amortization on intellectual property		(234,086)	(234,086)
	<u>123,595</u>	<u>210,888</u>	<u>334,483</u>
Total noncurrent assets			
Total assets	<u>\$ 956,016</u>	<u>\$ 1,272,446</u>	<u>\$ 2,228,462</u>
LIABILITIES AND NET POSITION			
Current liabilities:			
Interfund payable		\$ 772,694	\$ 772,694
Unearned revenue	\$ 31,847		31,847
Other current liabilities	53,083		53,083
	<u>84,930</u>	<u>772,694</u>	<u>857,624</u>
Total current liabilities			
Net position:			
Net investment in capital assets	123,595		123,595
Unrestricted	747,491	499,752	1,247,243
	<u>871,086</u>	<u>499,752</u>	<u>1,370,838</u>
Total net position			
Total liabilities and net position	<u>\$ 956,016</u>	<u>\$ 1,272,446</u>	<u>\$ 2,228,462</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, 2018

	<u>Major fund, Food Service</u>	<u>Nonmajor fund, WarwickWARE</u>	<u>Total</u>
Operating revenues:			
Sales:			
Pupils	\$ 671,513		\$ 671,513
Adults	6,673		6,673
A la carte	238,467		238,467
Banquets and miscellaneous	47,136		47,136
Software		\$ 193,980	193,980
	<u>963,789</u>	<u>193,980</u>	<u>1,157,769</u>
Total operating revenues			
Operating expenses:			
Food	590,750		590,750
Milk	90,153		90,153
Donated commodities	142,976		142,976
Nonfood supplies	34,778		34,778
Payroll	541,666	174,227	715,893
Payroll benefits	164,239	25,453	189,692
Professional services	10,382		10,382
Retirement	173,255	28,373	201,628
Maintenance contracts	24,175		24,175
Disposal services	20,018		20,018
Equipment repairs and maintenance	3,437		3,437
Technical Services		31,295	31,295
Travel	1,008		1,008
Conferences	2,011	(344)	1,667
Depreciation/amortization	18,974	129,289	148,263
Uniforms	1,445		1,445
Utilities	16,700		16,700
Equipment rental	1,300		1,300
Replacement equipment	1,655		1,655
	<u>1,838,922</u>	<u>388,293</u>	<u>2,227,215</u>
Total operating expenses			
Net income (loss) from operations	<u>(875,133)</u>	<u>(194,313)</u>	<u>(1,069,446)</u>

(continued)

WARWICK SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2018

	<u>Major fund, Food Service</u>	<u>Nonmajor fund, WarwickWARE</u>	<u>Total</u>
Nonoperating revenue:			
Reimbursements:			
State	\$ 157,955		\$ 157,955
Federal	649,777		649,777
Value of donated commodities	142,976		142,976
Donated funds	867		867
Interest	9,572	\$ 75	9,647
	<u>961,147</u>	<u>75</u>	<u>961,222</u>
Total nonoperating revenue			
	86,014	(194,238)	(108,224)
Change in net position			
	785,072	693,990	1,479,062
Total net position:			
July 1, 2017	<u>785,072</u>	<u>693,990</u>	<u>1,479,062</u>
June 30, 2018	<u>\$ 871,086</u>	<u>\$ 499,752</u>	<u>\$ 1,370,838</u>

See notes to financial statements.

WARWICK SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2018

	<u>Major fund, Food Service</u>	<u>Nonmajor fund, WarwickWARE</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from users	\$ 964,457	\$ 198,123	\$ 1,162,580
Cash payments to:			
Employees for services	(877,938)		(877,938)
Suppliers for goods and services	(716,501)	(15,247)	(731,748)
Other operating expenses	<u>(82,131)</u>		<u>(82,131)</u>
Net cash provided by (used in) operating activities	<u>(712,113)</u>	<u>182,876</u>	<u>(529,237)</u>
Cash flows from noncapital financing activities:			
Sources:			
State	157,501		157,501
Federal	<u>639,689</u>		<u>639,689</u>
Net cash provided by noncapital financing activities	<u>797,190</u>		<u>797,190</u>
Cash flows used in capital and related financing activities, facilities acquisition/construction/improvement, net	<u>(12,770)</u>		<u>(12,770)</u>
Cash flows from nonoperating activities:			
Interest and investment earnings	9,572	75	9,647
Donations	<u>868</u>		<u>868</u>
Net cash provided by nonoperating activities	<u>10,440</u>	<u>75</u>	<u>10,515</u>
Net increase in cash and cash equivalents	82,747	182,951	265,698
Cash and cash equivalents:			
Beginning of year	<u>642,689</u>	<u>860,291</u>	<u>1,502,980</u>
End of year	<u>\$ 725,436</u>	<u>\$ 1,043,242</u>	<u>\$ 1,768,678</u>

(continued)

WARWICK SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)

YEAR ENDED JUNE 30, 2018

	<u>Major fund, Food Service</u>	<u>Nonmajor fund, WarwickWARE</u>	<u>Total</u>
Reconciliation of net income (loss) from operations to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ (875,133)	\$ (194,313)	\$ (1,069,446)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:			
Depreciation/amortization	18,974	129,289	148,263
Donated commodities	142,976		142,976
Changes in operating assets and liabilities:			
Inventory	9,028		9,028
Accounts receivable and due from other funds		4,143	4,143
Accounts payable and due to other funds	136	243,757	243,893
Accrued wages and benefits	1,222		1,222
Other liabilities and unearned revenue	(9,316)		(9,316)
Net cash provided by (used in) operating activities	<u>\$ (712,113)</u>	<u>\$ 182,876</u>	<u>\$ (529,237)</u>
Noncash investing and financing activities:			
Capital asset additions offset by amounts due to other funds		<u>\$ 114,214</u>	

See notes to financial statements.

WARWICK SCHOOL DISTRICT

STATEMENT OF ASSETS AND LIABILITIES – AGENCY FUNDS

JUNE 30, 2018

	<u>Student activities</u>
ASSETS	
Current assets, cash and investments	<u>\$ 134,079</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 1,130
Due to student groups	<u>132,949</u>
Total liabilities	<u>\$ 134,079</u>

See notes to financial statements.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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 2017-18 enrollment in grades kindergarten through 12 of approximately 4,150 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, 2018

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, deferred inflows and outflows of resources, 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.

Capital reserve fund – Used to account for the accumulation resources for future capital expenditures.

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:

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, 2018

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 (deficit) 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, 2018

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 goods 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, 2018

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 (deficit). 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, 2018

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, pensions, other postemployment benefits 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:

Investments are stated at fair value. Fair value of the investments is equal to cost/principal amounts because those are the values at which those investments could be readily redeemed.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

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.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

1. Summary of significant accounting policies (continued):

Deferred outflows and inflows of resources:

The statement of net position (deficit) reports separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources are a separate financial statement element and represent consumption of net position or fund balance that applies to future periods, and thus, will not be recognized as an outflow of resources (expense) until then. Deferred inflows of resources are a separate financial statement element and represent the acquisition of net position or fund balance that applies to future periods and will not be recognized as an inflow of resources (revenue) until a future period. The School District has three items that qualify for reporting as a deferred outflow of resources and a deferred inflow of resources. One item relates to the net pension liability, and these deferrals are only reported in the government-wide statement of net position (deficit). Deferred outflows and deferred inflows of resources result from changes in the School's proportionate share of the total pension liability and the pension plan's fiduciary net position; for contributions made to the plan between the measurement date of the net pension liability and the end of the School's fiscal year; for differences between projected and actual experience; and for actual pension plan investment earnings in excess of or less than the expected amount included in determining pension expense. The deferred outflows related to the contribution are included in pension expense in the next year, whereas other deferrals are attributed to pension expense over a total of five years, including the current year. The second item relates to the net other postemployment benefits and net other postemployment benefits (HIPAP), and these deferrals are only reported in the government-wide statement of net position (deficit). Deferred outflows and deferred inflows of resources related to other postemployment benefits result from changes in the District's actuarially determined liability. Deferred outflows and deferred inflows of resources related to other postemployment benefits (HIPAP) result from changes in the School's proportionate share of the total other postemployment benefits (HIPAP) liability and the other postemployment benefit (HIPAP) plan's fiduciary net position; for contributions made to the plan between the measurement date of the net other postemployment benefits (HIPAP) liability and the end of the School's fiscal year; for differences between projected and actual experience; and for actual other postemployment benefits (HIPAP) plan investment earnings in excess of or less than the expected amount included in determining the expense. The deferred outflows related to the contribution are included in other postemployment benefits (HIPAP) expense in the next year, whereas other deferrals are attributed to other postemployment benefits (HIPAP) expense over a total of five to seven years, including the current year.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

1. Summary of significant accounting policies (continued):

Deferred outflows and inflows of resources (continued):

The third 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 year. A 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 new debt or the refunded debt. In the fund financial statements, governmental fund types recognize deferred charge on refunding as an expense during the current period.

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 acquisition 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.

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

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

1. Summary of significant accounting policies (continued):

Capital assets and depreciation (continued):

Government-wide financial statements (continued):

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
Intellectual property	3 years

Proprietary fund equipment purchases are capitalized in the proprietary fund at cost and depreciated on a straight-line basis over lives ranging from 5 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 (deficit). 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, 2018

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:

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

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, 2018, the rate of employer contribution was 32.57%. The 32.57% rate is composed of a contribution rate of 31.74% for pension benefits and 0.83% 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, 2018 and has recognized them as expenditures or expenses.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

1. Summary of significant accounting policies (continued):

Other postemployment benefits:

In the government-wide statements, the District recognizes the costs and liabilities associated with postemployment benefits other than pension compensation. The District provides access to retiree healthcare benefits to eligible retired employees and qualified spouses/beneficiaries. The District has estimated the cost of providing these benefits through an actuarial valuation.

Compensated absences:

Employees are allowed to accrue ten days of 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.

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.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

1. Summary of significant accounting policies (continued):

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.

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). The District had no amounts restricted for debt service as of June 30, 2018.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

1. Summary of significant accounting policies (continued):

Equity classifications (continued):

Fund financial statements (continued):

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, 2018 included \$2,255,979 for a projected operating deficit; \$2,943,982 for pension rate stabilization and \$3,516,136 for capital projects funding.

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.

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.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

1. Summary of significant accounting policies (continued):

Use of fund balance (continued):

- 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.

Use of estimates:

The preparation of financial statements in accordance 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.

Adoption of GASB Statements:

During the 2018 fiscal year end, the District adopted GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; Statement No. 81, *Irrevocable Split-Interest Agreements*; Statement No. 82, *Pension Issues - an Amendment of GASB Statements No. 67, No. 68 and No. 73*; GASB Statement No. 85, *Omnibus 2017* and GASB Statement No. 86, *Certain Debt Extinguishment Issues*.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

1. Summary of significant accounting policies (continued):

Pending GASB statements:

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting for legally enforceable liabilities associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The provisions of GASB Statement No. 83 are effective for the District's June 30, 2019 financial statements.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The provisions of GASB Statement No. 84 are effective for the District's June 30, 2020 financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*. This Statement changes accounting and financial reporting for leases by governments. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions of GASB Statement No. 87 are effective for the District's December 31, 2021 financial statements.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions of GASB Statement No. 88 are effective for the District's June 30, 2019 financial statements.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

1. Summary of significant accounting policies (continued):

Pending GASB statements (continued):

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This Statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. The provisions of GASB Statement No. 89 are effective for the District's June 30, 2021 financial statements.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. This Statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The provisions of GASB Statement No. 90 are effective for the District's June 30, 2020 financial statements.

The effect of implementation of these statements has not yet been determined.

Subsequent events:

The District has evaluated subsequent events through November 30, 2018, the date which the financial statements 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.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

2. Deposits and investments (continued):

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.

Custodial credit risk, deposits and investments:

Custodial credit risk is the risk that in the event of a counterparty failure, the School District's deposits may not be returned to it. As of June 30, 2018, the District does not have a policy for custodial credit risk. The School District's book balance was \$27,362,405 and the bank balance of \$27,539,129, consisted of \$500,000 insured by FDIC and \$13,882,556 collateralized and held by the pledging bank's trust department in accordance with Act 72. The remaining balance consisted of \$8,099,050 on deposit with the Pennsylvania School District Liquid Asset Fund (PSDLAF) and \$5,057,523 on deposit with the Pennsylvania Local Government Investment Trust (PLGIT).

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. As of June 30, 2018, the District's investment in PSDLAF was rated AAAM by Standards & Poor's.

The Pennsylvania Local Government Investment Trust (PLGIT). PLGIT separately issues audited financial statements which are available to the public at <https://www.plgit.com>. The fair value of the District's position in the external investment pool is equivalent to the value of the pool shares. The Commonwealth is the formal external regulatory oversight for the pool. As of June 30, 2018, PLGIT was rated AAAM by Standard & Poor's.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

2. Deposits and investments (continued):

Custodial credit risk, deposits and investments (continued):

Financial statement amounts, cash and investments:

Governmental activities		\$ 25,459,648
Business-type activities		1,768,678
Fiduciary funds, agency		<u>134,079</u>
 Total		 <u><u>\$ 27,362,405</u></u>
<u>Investment</u>	<u>Maturities</u>	<u>Fair value</u>
PA School District MAX (PSDLAF)	Less than one year	\$ 8,099,050
PLGIT	Less than one year	<u>5,057,523</u>
 Total		 <u><u>\$ 13,156,573</u></u>

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 School District's investment policy requires that its investment companies be registered under the Investment Company Act of 1940 with shares registered under the Securities Act of 1933. In addition, the investment companies used by the School District must be rated in the highest category by a nationally recognized rating agency.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

2. Deposits and investments (continued):

Custodial credit risk, deposits and investments (continued):

Credit risk (continued):

The District uses external investment pools to ensure safety and maximize efficiency, liquidity and yield for District funds. The external investment pools are valued at amortized cost, which approximates fair value. The amortized cost method involves valuing a security at its cost on the date of purchase and recording a constant amortization or accretion to maturity of any discount or premium. The fair value of securities, held by the external investment pool, are evaluated on at least a weekly basis using prices supplied from an independent pricing service. These values are compared to the amortized cost.

The District has investments with PSDLAF (the Funds). PSDLAF was established as a common law trust, organized under laws of the Commonwealth of Pennsylvania. Shares of PSDLAF are offered to certain Pennsylvania school districts, intermediate units, area vocational-technical schools and municipalities. The purpose of the Funds is to enable such governmental units to pool their available funds for investments authorized by Section 440.1 of the Pennsylvania Public School Code of 1949 as amended. The Funds are governed by elected boards of trustees who are responsible for the overall management of the Funds. The trustees are elected from the several classes of local governments participating in the Funds. Each fund is audited annually by independent auditors. The Funds operate in a manner consistent with the Securities and Exchange Commission's Rule 2(a)7 of the Investment Company Act of 1940. The Funds use amortized cost to report net position to compute share prices. The Funds maintain net asset value of \$1 per share. Accordingly, the fair value of the position in the Funds is the same as the value of the Funds' shares.

The District is invested in PSDLAF Max Series which uses a principal investment strategy of investing in short-term money market instruments and maintaining a constant net asset value (NAV) of \$1.00 per share. Investments (other than direct deposits of state aid payments) are to be deposited for a minimum of 14 days. At June 30, 2018, PSDLAF carried an AAAM rating.

The District is invested in PLGIT - Class shares, which require no minimum balance, no minimum initial investment and have a one-day minimum investment period. At June 30, 2018, PLGIT carried an AAAM rating and had an average maturity of less than one year.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

2. Deposits and investments (continued):

Custodial credit risk, deposits and investments (continued):

Credit risk (continued):

The District is invested in PLGIT - Term, which is a fixed investment portfolio of the Trust with maturity of up to one year. This option requires a minimum investment of \$100,000, a minimum investment period of 60 days and has a premature withdrawal penalty.

3. Taxes receivable and related accounts:

The balances at June 30, 2018 are as follows:

	Net estimated to be collected	Tax revenue recognized	Deferred taxes
	<u> </u>	<u> </u>	<u> </u>
Real estate taxes:			
Current	\$ 503,529	\$ 77,203	\$ 426,326
Interim	104,870	51,374	53,496
Transfer taxes	118,260	118,260	-
Earned income taxes	1,079,175	1,079,175	-
	<u>\$ 1,805,834</u>	<u>\$ 1,326,012</u>	<u>\$ 479,822</u>

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

3. Taxes receivable and related accounts (continued):

The unearned revenue balances as of June 30, 2018 are as follows:

	<u>General fund</u>	<u>Food Service fund</u>
Unearned revenue, special projects	\$ 13,599	
Due to student groups	2,091	
Unused donated commodities		<u>\$ 31,847</u>
Total unearned revenue	<u>\$ 15,690</u>	<u>\$ 31,847</u>

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

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, 2018 are as follows:

	<u>Interfund receivable</u>	<u>Interfund payable</u>
General fund	\$ 772,694	\$ 30,013
WarwickWARE fund		772,694
Food Service fund	<u>30,013</u>	<u> </u>
 Total	 <u><u>\$ 802,707</u></u>	 <u><u>\$ 802,707</u></u>

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.

Interfund transfers during the fiscal year June 30, 2018 were for debt service as follows:

	<u>Transfers to other funds</u>	<u>Transfers from other funds</u>
General fund	\$ 12,821,197	
Capital reserve fund		\$ 3,842,864
Debt Service fund	<u> </u>	<u>8,978,333</u>
 Total	 <u><u>\$ 12,821,197</u></u>	 <u><u>\$ 12,821,197</u></u>

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

5. Due from other governments:

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2018, the following amounts were due from other governmental units:

	<u>General fund</u>
Federal programs	\$ 211,854
State programs/grants, school lunch/school breakfast	8,735
State subsidies:	
Social Security	424,526
Retirement	1,723,351
Transportation	<u>107,469</u>
Total	<u><u>\$ 2,475,935</u></u>

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

6. Capital assets:

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

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,672,598			\$ 2,672,598
Construction in progress		\$ 38,295		38,295
Total capital assets not being depreciated	<u>2,672,598</u>	<u>38,295</u>		<u>2,710,893</u>
Capital assets being depreciated:				
Buildings and improvements	144,337,294	50,091		144,387,385
Land improvements	7,371,426			7,371,426
Equipment, furniture and fixtures	11,908,568	1,015,056	\$ 1,001,441	11,922,183
Vehicles	351,431			351,431
Total capital assets being depreciated	<u>163,968,719</u>	<u>1,065,147</u>	<u>1,001,441</u>	<u>164,032,425</u>
Less accumulated depreciation for:				
Buildings and improvements	60,701,229	3,301,662		64,002,891
Land improvements	3,957,241	261,971		4,219,212
Equipment, furniture and fixtures	8,321,628	772,034	849,669	8,243,993
Vehicles	248,607	29,976		278,583
Total accumulated depreciation	<u>73,228,705</u>	<u>4,365,643</u>	<u>849,669</u>	<u>76,744,679</u>
Total capital assets being depreciated, net	<u>90,740,014</u>	<u>(3,300,496)</u>	<u>151,772</u>	<u>87,287,746</u>
Governmental activities, capital assets, net	<u>\$ 93,412,612</u>	<u>\$ (3,262,201)</u>	<u>\$ 151,772</u>	<u>\$ 89,998,639</u>

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

6. Capital assets (continued):

	Beginning balance	Increases	Decreases	Ending balance
Business-type activities, capital assets being depreciated:				
Equipment, furniture and fixtures	\$ 608,983	\$ 12,770		\$ 621,753
Intellectual property	330,760	114,214		444,974
Total capital assets being depreciated	939,743	126,984		1,066,727
Less accumulated depreciation and amortization for:				
Equipment, furniture and fixtures	(479,184)	(18,974)		(498,158)
Intellectual property	(104,797)	(129,289)		(234,086)
Total accumulated depreciation and amortization	(583,981)	(148,263)		(732,244)
Business-type activities, capital assets, net	\$ 355,762	\$ (21,279)		\$ 334,483

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

6. Capital assets (continued):

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

Government activities:

Instructional:

Regular	\$ 2,245,751
Special	196,723

Support services:

Pupil personnel	164,361
Instructional staff	648,098
Administration	285,788
Pupil health	40,738
Business	66,807
Operation and maintenance of plant services	536,404
Noninstructional services, student activities	<u>180,973</u>

Total depreciation expense, governmental activities \$ 4,365,643

Business-type activities:

Food Service	\$ 18,974
WarwickWARE	<u>129,289</u>

Total depreciation expense, business-type activities \$ 148,263

7. Accrued salary and benefits:

Accrued salary and benefits consist of the following items at June 30, 2018:

Salaries	\$ 4,066,466
Social Security tax	288,533
Retirement	3,438,054
Medical	<u>495,664</u>
Total	<u>\$ 8,288,717</u>

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

8. Compensated absences:

Activity for compensated absences for the year ended June 30, 2018 is summarized below:

	<u>Beginning balance</u>	<u>Increase (decrease)</u>	<u>Ending balance</u>
Vacation	\$ 258,203	\$ 12,844	\$ 271,047
Personal	<u>173,849</u>	<u>(3,792)</u>	<u>170,057</u>
	<u>\$ 432,052</u>	<u>\$ 9,052</u>	<u>\$ 441,104</u>

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

9. Bonds payable:

In April 2017, the District issued the General Obligation Bonds, Series of 2017, in the amount of \$14,875,000 to currently refund the remaining outstanding General Obligation Bonds, Series of 2009 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 2.0% to 5.0%. The principal balance outstanding at June 30, 2018 was \$14,875,000.

In August 2016, the District issued the General Obligation Bonds, Series of 2016, in the amount of \$9,375,000 to currently refund a portion of the outstanding General Obligation Bonds, Series of 2009 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 0.8% to 2.0%. The principal balance outstanding at June 30, 2018 was \$9,340,000.

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 5.0%. The net present value savings of the refunding totaled \$2,162,717. The principal balance outstanding at June 30, 2018 was \$18,330,000.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

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 1.5 % 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, 2018 was \$3,755,000.

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 1.40 % to 3.25%. The net present value savings of the current refunding was \$586,000. The principal balance outstanding at June 30, 2018 was \$6,550,000.

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 1.25 % 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, 2018 was \$8,765,000.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

9. Bonds payable (continued):

Long-term debt balances and activity for the year ended June 30, 2018 were as follows:

	<u>Bonds payable</u>	<u>Bond discount</u>	<u>Bond premium</u>	<u>Total bonds payable</u>
Beginning of year	\$ 68,390,000	\$ (41,977)	\$ 4,117,600	\$ 72,465,623
Principal retirement	(6,775,000)			(6,775,000)
Amortization		4,343	(551,649)	(547,306)
	<u>\$ 61,615,000</u>	<u>\$ (37,634)</u>	<u>\$ 3,565,951</u>	65,143,317
Less current portion				<u>(7,880,000)</u>
				<u>\$ 57,263,317</u>

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

<u>Year ended June 30,</u>	<u>Series of 2017</u>	<u>Series of 2016</u>	<u>Series of 2015</u>	<u>Series of 2014A</u>	<u>Series of 2014</u>	<u>Series of 2013</u>	<u>Total principal</u>	<u>Total interest</u>	<u>Total long-term debt service</u>
2019	\$ 945,000	\$ 165,000	\$ 4,185,000	\$ 875,000	\$ 1,015,000	\$ 695,000	\$ 7,880,000	\$ 2,124,564	\$ 10,004,564
2020	1,065,000	165,000	4,355,000	700,000	1,055,000	925,000	8,265,000	1,844,464	10,109,464
2021	1,085,000	170,000	4,530,000	705,000	1,075,000	940,000	8,505,000	1,577,850	10,082,850
2022	4,755,000	175,000	995,000	725,000	1,100,000	960,000	8,710,000	1,247,015	9,957,015
2023	5,925,000	175,000	5,000	750,000	1,135,000	985,000	8,975,000	933,928	9,908,928
2024-2027	1,100,000	8,490,000	4,260,000		1,170,000	4,260,000	19,280,000	992,104	20,272,104
	<u>\$ 14,875,000</u>	<u>\$ 9,340,000</u>	<u>\$ 18,330,000</u>	<u>\$ 3,755,000</u>	<u>\$ 6,550,000</u>	<u>\$ 8,765,000</u>	<u>\$ 61,615,000</u>	<u>\$ 8,719,925</u>	<u>\$ 70,334,925</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, 2018, debt service payments included \$6,775,000 for principal and \$2,203,333 for interest.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

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, 2018 totaled \$1,605,388, leaving a current book value of \$1,751,862. The following list provides detail about the capital leases in effect during the year ended June 30, 2018.

- In July 2015, the District entered into a capital lease for computer equipment. The present value cost of the lease is \$436,636. The first payment of \$147,415 was paid in July 2015. The second minimum lease payment of \$147,415, including \$3,731 in interest, was paid in July 2016. The third minimum lease payment of \$147,414, including \$1,877 in interest, was paid in July 2017.
- In July 2016, the District entered into a capital lease for computer equipment. The present value cost of the lease is \$629,384. The first payment of \$212,490 was paid in July 2016. The second minimum lease payment of \$212,490, including \$5,377 in interest, was paid in July 2017. The third minimum lease payment of \$212,490, including \$2,706 in interest, is due July 2018.
- In July 2017, the District entered into a capital lease for computer equipment. The present value cost of the lease is \$895,006. The first payment of \$228,072 was paid in July 2017. The second minimum lease payment of \$228,071, including \$8,603 in interest, is due July 2018. The third minimum lease payment of \$228,071, including \$5,772 in interest, is due July 2019. The fourth minimum lease payment of \$228,072, including \$2,905 in interest, is due July 2020.

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.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

11. Pension plan (continued):

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 of Class T-C and Class T-D are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F).

To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three 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 members, the right to benefits is vested after ten years of service.

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.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

11. Pension plan (continued):

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.

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, 2018 was 31.74% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions for the pension plan from the District were \$8,928,000 for the year ended June 30, 2018.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

11. Pension plan (continued):

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

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

At June 30, 2018, the District reported a liability of \$106,432,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward PSERS's total pension liability as of June 30, 2016 to June 30, 2017. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2017, the District's proportion was .2155%, which was a decrease of .0043% from its proportion measured as of June 30, 2016.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

11. Pension plan (continued):

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

For the year ended June 30, 2018, the District recognized pension expense of \$11,119,000. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Differences between expected and actual experience	\$ 1,110,000	\$ 644,000
Changes of assumptions	2,891,000	
Net difference between projected and actual earnings on pension plan investments	2,466,000	
Net changes in proportion		568,000
Difference between employer contributions and proportionate share of total contributions	312,000	
District contributions subsequent to the measurement date	<u>8,928,000</u>	<u> </u>
	<u>\$ 15,707,000</u>	<u>\$ 1,212,000</u>

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

11. Pension plan (continued):

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

For the year ended June 30, 2018, \$8,928,000 was 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 reported as deferred outflows of resources and deferred inflows of resource related to pensions will be recognized in pension expense as follows:

Year ended <u>June 30,</u>	
2019	\$ 1,501,000
2020	2,771,000
2021	1,716,000
2022	(733,000)

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

11. Pension plan (continued):

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

Actuarial assumptions:

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

Actuarial cost method:	Entry age normal - level % of pay
Investment return:	7.25%, includes inflation of 2.75%
Salary increases:	Effective average of 5.00%, which reflects an allowance for inflation of 2.75%, real wage growth and merit or seniority increases of 2.25%.
Mortality rates:	Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projection using a modified version of the MP-2015 Mortality Improvement Scale.
Assumptions:	PSERS' Board approved new actuarial assumptions effective for the June 30, 2016 actuarial valuation. The new assumptions were used to calculate the net pension liability at June 30, 2016 and are reflected above.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

11. Pension plan (continued):

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

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.

The PSERS' board adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2017.

Asset class	Target allocation	Long-term expected real rate of return
Global public equity	20.0 %	5.1 %
Fixed income	36.0	2.6
Commodities	8.0	3.0
Absolute return	10.0	3.4
Risk parity	10.0	3.8
Master Limited Partnerships/Infrastructure	8.0	4.8
Real estate	10.0	3.6
Alternative investments	15.0	6.2
Cash	3.0	0.6
Financing (LIBOR)	(20.0)	1.1
	100.0 %	

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

11. Pension plan (continued):

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

Discount rate:

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

Sensitivity of the District's proportionate share:

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

	1% Decrease 6.25%	Current discount rate 7.25%	1% Increase 8.25%
District's proportionate share of the net pension liability	\$ 131,009,000	\$ 106,432,000	\$ 85,682,000

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.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

12. Postemployment benefits:

Postemployment benefits other than pension (OPEB):

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position of the OPEB plan and additions to/deductions from the OPEB fiduciary net position have been determined on the same basis as they are reported by the OPEB plan (Plan). Benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

12. Postemployment benefits (continued):

Employees covered by benefit terms:

At July 1, 2016, the following employees were covered by benefit terms:

	<u>Total</u>
Inactive employees or beneficiaries currently receiving benefits	45
Active employees	<u>399</u>
Total	<u><u>444</u></u>

Total OPEB liability and actuarial assumptions:

The District's total OPEB liability of \$10,277,747 was measured as of June 30, 2017 and was determined by rolling forward the July 1, 2016 actuarial valuation to June 30, 2017 using the following actuarial assumptions and other inputs, applies to all periods included in the measurement, unless otherwise specified:

Discount rate:	3.00% based on 20-Year High Grade Rate Index
Salary increases:	An annual rate of 2.50%, previously none was assumed
Healthcare cost trend rates:	7.0% in 2017/18, 6.0% in 2018/19, and 5.0% thereafter
Retirees' share of benefit related costs:	Retiree contributions are assumed to increase at the same rate as the healthcare cost trend rate
Mortality rates:	Pre Retirement - RP-2014 Employee (male and female) as published by the Society of Actuaries. Post-Retirement - RP 2014 Healthy Annuitant (male and female) as published by the Society of Actuaries.

Mortality rates are presumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

12. Postemployment benefits (continued):

Changes in the total OPEB liability:

Balance at June 30, 2016	<u>\$ 8,977,872</u>
Changes for the year:	
Service cost	495,847
Interest	365,296
Differences between expected and actual experience	(623,848)
Changes in assumptions	1,745,236
Benefit payments	<u>(682,656)</u>
Net changes	<u>1,299,875</u>
Balance at June 30, 2017	<u><u>\$ 10,277,747</u></u>

Changes in assumptions reflect a change in the discount rate from 4.00% in 2016 to 3.00% in 2017. The trend assumptions for salary, mortality, withdrawal and retirement were updated based on the new PSERS assumptions.

Sensitivity of total OPEB liability to changes in the discount rate:

The following presents the net OPEB liability of the Plan, as well as what the Plan's total OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

	<u>1% Decrease</u> 2.00%	Current discount rate <u>3.00%</u>	<u>1% Increase</u> 4.00%
District's total OPEB liability	\$ 11,130,165	\$ 10,277,747	\$ 9,486,264

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

12. Postemployment benefits (continued):

Sensitivity of total OPEB liability to changes in the healthcare cost trend rates:

The following presents the total OPEB liability of the Plan, as well as what the Plan's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower or 1% higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Current trend rates</u>	<u>1% Increase</u>
District's total OPEB liability	\$ 9,105,912	\$ 10,277,747	\$ 11,671,082

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB:

For the year ended June 30, 2018, the District recognized OPEB expense of \$1,905,696. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Differences between expected and actual experience		\$ 577,396
Changes in assumption	<u>\$ 1,615,285</u>	
	<u><u>\$ 1,615,285</u></u>	<u><u>\$ 577,396</u></u>

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

12. Postemployment benefits (continued):

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB (continued):

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

<u>Year ended</u> <u>June 30,</u>	
2019	\$ 83,499
2020	83,499
2021	83,499
2022	83,499
2023	83,499
thereafter	620,394

Health insurance premium assistance program (HIPAP):

For purposes of measuring the net HIPAP liability, deferred outflows of resources and deferred inflows of resources related to HIPAP, HIPAP 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 are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

12. Postemployment benefits (continued):

Premium Assistance eligibility criteria:

Retirees of PSERS can participate in the Premium Assistance program if they satisfy the following criteria:

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

Benefits provided:

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

Employer contributions:

The District's contractually required contribution rate for the fiscal year ended June 30, 2018 was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$235,000 for the year ended June 30, 2018.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

12. Postemployment benefits (continued):

HIPAP liabilities, HIPAP expense and deferred outflows of resources and deferred inflows of resources related to HIPAP:

At June 30, 2018, the District reported a liability of \$4,391,000 for its proportionate share of the net HIPAP liability. The net HIPAP liability was measured as of June 30, 2017, and the total HIPAP liability used to calculate the net HIPAP liability was determined by rolling forward the PSERS total HIPAP liability as of June 30, 2016 to June 30, 2017. The District's proportion of the net HIPAP liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2017, the District's proportion was .2155%, which was a decrease of 0.0043% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized HIPAP expense of \$174,000. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to HIPAP from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Change in assumptions		\$ 204,000
Net difference between projected and actual investment earnings	\$ 5,000	
Changes in proportion		80,000
Contributions subsequent to the measurement date	235,000	
	\$ 240,000	\$ 284,000

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

12. Postemployment benefits (continued):

HIPAP liabilities, HIPAP expense and deferred outflows of resources and deferred inflows of resources related to HIPAP (continued):

\$235,000 was reported as deferred outflows of resources related to HIPAP resulting from District contributions subsequent to the measurement date that will be recognized as a reduction of the net HIPAP liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to HIPAP will be recognized in HIPAP expense as follows:

Year ended June 30,	
2019	\$ (46,000)
2020	(46,000)
2021	(46,000)
2022	(46,000)
2023	(47,000)
thereafter	(48,000)

Actuarial assumptions:

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

- Actuarial cost method - Entry age normal - level percentage of pay.
- Investment return - 3.13% - S&P 20-Year Municipal Bond Rate.
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement is capped at \$1,200 per year.
- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in Premium Assistance per year.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

12. Postemployment benefits (continued):

HIPAP liabilities, HIPAP expense and deferred outflows of resources and deferred inflows of resources related to HIPAP (continued):

Actuarial assumptions (continued):

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

The following assumptions were used to determine the contribution rate:

- Cost method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market value.
- Participation rate: Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority.
- Premium assistance: 63% of eligible retirees are assumed to elect Premium Assistance.
- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back three years for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back seven years for males and three years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back three years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

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

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

12. Postemployment benefits (continued):

HIPAP liabilities, HIPAP expense and deferred outflows of resources and deferred inflows of resources related to HIPAP (continued):

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

<u>HIPAP - Asset class</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return</u>
Cash	76.4 %	0.6 %
Fixed income	<u>23.6</u>	1.5
	<u>100.0 %</u>	

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

Discount rate:

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

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

12. Postemployment benefits (continued):

HIPAP liabilities, HIPAP expense and deferred outflows of resources and deferred inflows of resources related to HIPAP (continued):

Sensitivity of the District's proportionate share of the net HIPAP liability to changes in the healthcare cost trend rates:

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

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

	<u>1% Decrease</u>	<u>Current trend rates</u>	<u>1% Increase</u>
District's proportionate share of net HIPAP liability	\$ 4,389,000	\$ 4,391,000	\$ 4,392,000

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

12. Postemployment benefits (continued):

HIPAP liabilities, HIPAP expense and deferred outflows of resources and deferred inflows of resources related to HIPAP (continued):

Sensitivity of the District's proportionate share of the net HIPAP liability to changes in the discount rate:

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

	<u>1% Decrease 2.13%</u>	<u>Current discount rate 3.13%</u>	<u>1% Increase 4.13%</u>
District's proportionate share of the net HIPAP liability	\$ 4,991,000	\$ 4,391,000	\$ 3,892,000

HIPAP Plan fiduciary net position:

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

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, 2018, the District accrued \$151,500 in termination benefits.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

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 Commonwealth 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, 2018, the maximum potential claim liability was \$175,000 per individual and \$9,035,440 in the aggregate. Actual claims and fees for the year ended June 30, 2017 were \$6,219,997. Reductions to this total included retiree contributions of \$315,283 and employee contributions of \$842,350. Claims for medical expenses incurred from July 1, 2017 to June 30, 2018, but were processed after June 30, 2018, totaled \$495,664 and have been reflected in accrued salary and benefits.

Changes in the District's medical and dental claims liability in fiscal years 2018 and 2017 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>
2017-2018	\$ 546,802	\$ 5,688,639	\$ 5,739,777	\$ 495,664
2016-2017	740,320	6,082,999	6,276,517	546,802

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, 2018

15. Joint ventures:

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.

Lancaster County Career and Technology Center (LCCTC):

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 \$13.0 million to LCCTC for capital and operating expenses for the year ended June 30, 2018. The District provided approximately \$1,032,000 as its share of the vocational-technical budget, or 6.7% of total member district contributions.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

15. Joint ventures (continued):

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. On February 1, 2017, the bonds were refunded with Guaranteed Lease Revenue Notes, Series of 2017. 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. On February 1, 2017, the Authority completed issuance of Guaranteed Lease Revenue Notes, Series of 2017, for the purpose of advance refunding the Guaranteed Lease Revenue Bonds, Series of 2013 and to pay the costs of issuing the notes in the amount of \$9,380,000.

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

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%.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

15. Joint ventures (continued):

Lancaster County Career and Technology Center Authority (continued):

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

Fiscal year ending June 30,	Total
2019	\$ 89,693
2020	89,684
2021	89,608
2022	89,489
2023	89,616
2024-2028	448,309
2029-2033	448,007
2034-2037	<u>358,263</u>
Total minimum future rental payments	<u>\$ 1,702,669</u>

During the 2017-18 school year, the District paid \$90,309 to the LCCTC for its bond issue lease agreement obligation.

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.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

17. Adoption of new accounting principle:

Effective July 1, 2017, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The new standard revises and establishes new financial reporting requirements for other postemployment benefits provided for employees. The following is the adjustment to net position for governmental activities:

	<u>Governmental activities</u>
Beginning net position (deficit), as previously reported at June 30, 2017	<u>\$ (56,434,635)</u>
Prior period adjustment, implementation of GASB 75, net other postemployment benefit liability (measurement date)	(5,402,535)
Deferred outflows, net other postemployment benefit liability, District's contribution made during fiscal year 2017	682,656
Prior period adjustment, implementation of GASB 75, net other postemployment benefit liability (HIPAP) (measurement date)	(4,734,000)
Deferred outflows, net other postemployment benefit liability (HIPAP), District's contribution made during fiscal year 2017	<u>238,000</u>
Total prior period adjustment	<u>(9,215,879)</u>
Net position (deficit) as restated, July 1, 2017	<u><u>\$ (65,650,514)</u></u>

WARWICK SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE VALUATION YEARS ENDED JUNE 30,

	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.2155 %	0.2198 %	0.2174 %
District's proportionate share of the net pension liability	\$ 106,432,000	\$ 108,926,000	\$ 94,167,000
District's covered-employee payroll	\$ 28,694,678	\$ 28,465,520	\$ 27,970,596
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	370.91 %	382.66 %	336.66 %
Plan fiduciary net position as a percentage of the total pension liability	51.84 %	50.14 %	54.36 %

WARWICK SCHOOL DISTRICT

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

FOR THE VALUATION YEARS ENDED JUNE 30,

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 8,243,000	\$ 6,993,000	\$ 5,614,000
Contributions in relation to the contractually required contribution	<u>8,248,545</u>	<u>6,981,435</u>	<u>5,596,658</u>
Contribution deficiency (excess)	<u>\$ (5,545)</u>	<u>\$ 11,565</u>	<u>\$ 17,342</u>
District's covered payroll	\$ 28,625,291	\$ 28,259,397	\$ 28,233,484
Contributions as a percentage of covered employee payroll	28.82%	24.70%	19.82%

WARWICK SCHOOL DISTRICT

SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL
OPEB LIABILITY AND RELATED RATIOS
(Required supplementary information)
(unaudited)

FOR THE VALUATION YEAR ENDED JUNE 30

	<u>2017</u>
Total other postemployment benefit (OPEB) liability:	
Service cost	\$ 495,847
Interest	365,296
Differences between expected and actual experience	(623,848)
Changes in assumptions	1,745,236
Benefit payments	<u>(682,656)</u>
Net changes in total OPEB liability	1,299,875
Total OPEB liability, beginning	<u>8,977,872</u>
Total OPEB liability, ending	<u><u>\$ 10,277,747</u></u>
Covered-employee payroll	\$ 25,440,455
Total OPEB liability as a percentage of covered-employee payroll	40.40%

Note to Schedule:

Changes of assumptions:

The discount rate changed from 4.00% to 3.00%. The trend assumption was updated. Assumptions for salary, mortality, withdrawal and retirement were updated based on new PSERS' assumptions.

WARWICK SCHOOL DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET OPEB (HIPAP) LIABILITY**
(Required supplementary information)
(unaudited)

FOR THE VALUATION YEAR ENDED JUNE 30

	<u>2017</u>
District's proportion of the net OPEB (HIPAP) liability	0.2155%
District's proportionate share of the net OPEB (HIPAP) liability	\$ 4,391,000
District's covered-employee payroll	\$ 28,694,678
District's proportionate share of the net OPEB (HIPAP) liability as a percentage of its covered-employee payroll	15.30%
Plan fiduciary net position as a percentage of the total OPEB (HIPAP) liability	5.73%

WARWICK SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S OPEB (HIPAP) CONTRIBUTIONS
(Required supplementary information)
(unaudited)

FOR THE VALUATION YEAR ENDED JUNE 30

	<u>2017</u>
Contractually required contribution	\$ 235,000
Contributions in relation to the contractually required contribution	<u>235,000</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered payroll	\$ 28,694,678
Contributions as a percentage of covered- employee payroll	0.82%

WARWICK SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2018

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance, favorable (unfavorable)</u>
Revenues:				
Sources:				
Local	\$ 48,526,475	\$ 48,526,475	\$ 50,822,822	\$ 2,296,347
State	21,383,481	21,383,481	21,569,030	185,549
Federal	598,976	598,976	590,028	(8,948)
	<u>70,508,932</u>	<u>70,508,932</u>	<u>72,981,880</u>	<u>2,472,948</u>
Total revenues				
Expenditures:				
Instruction	41,086,301	41,080,951	39,836,175	1,244,776
Support services	18,473,173	18,555,113	17,161,210	1,393,903
Student activities	1,527,625	1,550,790	1,492,788	58,002
Community services	90,200	90,200	79,445	10,755
Facility acquisition and improvements			1,418	(1,418)
Debt service	90,000	90,000	122,832	(32,832)
Miscellaneous			662	(662)
	<u>61,267,299</u>	<u>61,367,054</u>	<u>58,694,530</u>	<u>2,672,524</u>
Total expenditures				
Excess of revenues over expenditures	<u>9,241,633</u>	<u>9,141,878</u>	<u>14,287,350</u>	<u>5,145,472</u>
Other financing uses:				
Fund transfers, net	(8,986,633)	(8,986,633)	(12,821,197)	(3,834,564)
Refund of prior year revenues	(5,000)	(5,000)	(876)	4,124
Budgetary reserve	(250,000)	(150,245)		150,245
	<u>(9,241,633)</u>	<u>(9,141,878)</u>	<u>(12,822,073)</u>	<u>(3,680,195)</u>
Total other financing uses				
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	1,465,277	<u>\$ 1,465,277</u>
Fund balance:				
July 1, 2017			<u>16,290,694</u>	
June 30, 2018			<u>\$ 17,755,971</u>	

WARWICK SCHOOL DISTRICT

NOTES TO THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND

YEAR ENDED JUNE 30, 2018

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2018

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, 2017	Revenue recognized	Expenditures	Accrued (unearned) revenue at June 30, 2018	Amounts paid to subrecipients
<u>U.S. Department of Education</u>											
Passed through the Pennsylvania Department of Education:											
Title I Improving Basic Programs											
2016-2017	I	84.010	013-170461	07/01/16-09/30/17	\$ 433,616	\$ 119,236	\$ 48,107	\$ 71,129	\$ 71,129	\$ -	\$ -
Title I Improving Basic Programs											
2017-2018	I	84.010	013-180461	07/01/17-09/30/18	513,509	332,298		395,879	395,879	63,581	-
Title II Improving Teacher Quality											
2016-2017	I	84.367	020-170461	07/01/16-09/30/17	103,877	(631)	(631)		-	-	-
Title II Improving Teacher Quality											
2017-2018	I	84.367	020-180461	07/01/17-09/30/18	124,959	80,698		107,197	107,197	26,499	-
Title IV Student Support and Academics Enrichment											
2017-2018	I	84.367	020-170461	07/01/16-09/30/17	11,613	7,466		11,613	11,613	4,147	-
Total passed through the Pennsylvania Department of Education						<u>539,067</u>	<u>47,476</u>	<u>585,818</u>	<u>585,818</u>	<u>94,227</u>	<u>-</u>
Passed through Lancaster-Lebanon IU13:											
Special Education Cluster:											
IDEA, Part B 2016-2017	I	84.027	062-17-0-013	07/01/16-09/30/17	425,687	-	-	-	-	-	-
IDEA, Part B 2017-2018	I	84.027	062-18-0-013	07/01/17-09/30/18	413,071	413,071	-	413,071	413,071	-	-
IDEA, On-Behalf Services	I	84.027	062-18-0-013	07/01/17-09/30/18	146,143	146,143		146,143	146,143	-	-
Early Intervention IDEA	I	84.173	131-17-0-013	07/01/16-06/30/17	3,171	3,171	3,171	-	-	-	-
Early Intervention IDEA	I	84.173	131-18-0-013	07/01/17-06/30/18	2,610	-	-	2,610	2,610	2,610	-
Total Special Education Cluster, passed through Lancaster-Lebanon IU13						<u>562,385</u>	<u>3,171</u>	<u>561,824</u>	<u>561,824</u>	<u>2,610</u>	<u>-</u>
Total of U.S. Department of Education						<u>1,101,452</u>	<u>50,647</u>	<u>1,147,642</u>	<u>1,147,642</u>	<u>96,837</u>	<u>-</u>
<u>U.S. Department of Health and Human Services</u>											
Passed through the Commonwealth of Pennsylvania:											
ACCESS Medical Assistance	I	93.778	N/A	07/01/17-06/30/18	4,210	1,138	-	4,210	4,210	3,072	-

WARWICK SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2018

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, 2017	Revenue recognized	Expenditures	Accrued (unearned) revenue at June 30, 2017	Amounts paid to subrecipients
<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	07/01/16-06/30/17	N/A	\$ 87,852	\$ 87,852			\$ -	\$ -
School Breakfast Program	I	10.553	N/A	07/01/16-06/30/17	N/A	14,006	14,006			-	-
National School Lunch Program	I	10.555	N/A	07/01/17-06/30/18	N/A	470,110		\$ 565,219	\$ 565,219	95,109	-
School Breakfast Program	I	10.553	N/A	07/01/17-06/30/18	N/A	<u>67,722</u>		<u>84,558</u>	<u>84,558</u>	<u>16,836</u>	<u>-</u>
Total passed through the Pennsylvania Department of Education						639,690	101,858	649,777	649,777	111,945	-
Passed through the Pennsylvania Department of Agriculture:											
National School Lunch Program	I	10.555	N/A	07/01/17-06/30/18	N/A	<u>132,992</u> (a)	<u>(41,831)</u> (b)	<u>142,976</u> (c)	<u>142,976</u> (c)	<u>(31,847)</u> (d)	<u>-</u>
Total of Child Nutrition Cluster and U.S. Department of Agriculture						<u>772,682</u>	<u>60,027</u>	<u>792,753</u>	<u>792,753</u>	<u>80,098</u>	<u>-</u>
Total federal assistance						<u>\$ 1,875,272</u>	<u>\$ 110,674</u>	<u>\$ 1,944,605</u>	<u>\$ 1,944,605</u>	<u>\$ 180,007</u>	<u>\$ -</u>

WARWICK SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2018

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Source codes:

I = Indirect funding

F = Federal share

CFDA = Catalog of Federal Domestic Assistance

84.027 Special Education Grant to States - IDEA, Part B	\$	413,071	
84.027 Special Education Grant to States - IDEA, On-behalf Services		146,143	
84.173 Special Education Grant to States - IDEA, Early Intervention		<u>2,610</u>	
 Total special education cluster		 <u>561,824</u>	
 Total expenditures per above	 \$ 1,944,605 =		 28.89% Cluster program meet the 40% requirement (20% requirement for low-risk auditee)

Note A -

Significant accounting policies:

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

The District has elected not to use the 10% de minimis indirect cost rate allowed under Uniform Guidance.

Note B -

Food distribution:

(a) Total amount of commodities recorded from the Department of Agriculture

(b) Beginning inventory at July 1, 2017

(c) Total amount of commodities used

(d) Ending inventory at June 30, 2018



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, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated November 30, 2018.

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 an opinion 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 School 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 School 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 School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brown Schultz Steidan & Fritz

Lancaster, Pennsylvania
November 30, 2018



Independent Auditors' Report on Compliance for Each
Major Program and on Internal Control
Over Compliance Required by the Uniform Guidance

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 *OMB 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, 2018. 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 federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of 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 the audit standards of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above 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, 2018.

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 Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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. 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Brown Schultz Steidan & Fritz

Lancaster, Pennsylvania
November 30, 2018

WARWICK SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2018

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 2 CFR Section 200.516(a)? yes no

WARWICK SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2018

I. SUMMARY OF AUDITORS' RESULTS (CONTINUED):

Identification of major programs:

CFDA numbers

Name of federal program or cluster

84.027
84.173

Special Education Cluster:
IDEA, Part B and On-behalf Services
Early Intervention

Dollar threshold used to distinguish between type
A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

X yes ___ 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, 2018

There were no prior year audit findings.