

WARWICK SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2019

WARWICK SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2019

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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, 2019, 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, 2019 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.

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 October 31, 2019 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 Steindler & Fritz

Lancaster, Pennsylvania
October 31, 2019

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2019
(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, 2019. 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 2019 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 \$101,146,000 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, 2019, generating a net deficit of \$(47,240,647). In total, net position increased \$11,332,969.
- General revenues accounted for \$62,967,538 in revenue or 80.0% of all revenues. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$15,781,194 or 20.0% of all revenues of \$78,748,732.
- The School District had \$67,415,763 in expenses; only \$15,781,194 of these expenses were offset by program specific charges for services, grants or contributions.
- Among major funds, the General Fund had \$76,714,202 in revenues and \$60,747,792 in expenditures. In addition, the District transferred \$10,004,564 from the General Fund to the Debt Service Fund and \$5,378,655 from the General Fund to the Capital Reserve Fund.
- As of June 30, 2019, the District's fund balance for the General Fund was \$18,339,162. This is an increase of \$583,191 from the beginning of the year General Fund fund balance of \$17,755,971.

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2019
(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 2018-2019 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 mandated educational 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, 2019
(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, Capital Reserve 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, John R. Bonfield Scholarship Fund, National Art Honor Society Scholarship Fund and Meghan Keeney 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, 2019
(Unaudited)

Table 1 provides a summary of the School District's net position at June 30, 2019 and 2018:

| | Table 1 2019 | | |
|--|-------------------------|--------------------------|-----------------------|
| | Governmental activities | Business-type activities | Total |
| Assets: | | | |
| Current assets | \$ 36,616,790 | \$ 2,258,507 | \$ 38,875,297 |
| Capital assets | 87,402,141 | 319,527 | 87,721,668 |
| Total assets | 124,018,931 | 2,578,034 | 126,596,965 |
| Deferred outflows of resources | 14,946,465 | | 14,946,465 |
| Total assets and deferred outflows | \$ 138,965,396 | \$ 2,578,034 | \$ 141,543,430 |
| Liabilities: | | | |
| Current liabilities | \$ 17,625,374 | \$ 1,329,066 | \$ 18,954,440 |
| Long-term liabilities | 165,907,693 | | 165,907,693 |
| Total liabilities | 183,533,067 | 1,329,066 | 184,862,133 |
| Deferred inflows of resources | 3,921,944 | | 3,921,944 |
| Net position (deficit): | | | |
| Net investment in capital assets | 30,235,048 | 105,629 | 30,340,677 |
| Restricted | 22,148,721 | | 22,148,721 |
| Unrestricted | (100,873,384) | 1,143,339 | (99,730,045) |
| Total net position (deficit) | (48,489,615) | 1,248,968 | (47,240,647) |
| Total liabilities deferred inflows and net position (deficit) | \$ 138,965,396 | \$ 2,578,034 | \$ 141,543,430 |

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2019
(Unaudited)

| | 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 | <u>\$ 138,966,028</u> | <u>\$ 2,198,449</u> | <u>\$ 141,164,477</u> |
| 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) | <u>(59,944,454)</u> | <u>1,370,838</u> | <u>(58,573,616)</u> |
| Total liabilities deferred inflows and net position (deficit) | <u>\$ 138,966,028</u> | <u>\$ 2,198,449</u> | <u>\$ 141,164,477</u> |

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2019
(Unaudited)

Table 2 shows the change in net position for the fiscal years ended June 30, 2019 and 2018:

| | Table 2 2019 | | |
|---|----------------------------|---------------------------------|----------------------|
| | Governmental activities | Business- type activities | Total |
| Revenues: | | | |
| Program revenues: | | | |
| Charges for services | \$ 30,814 | \$ 1,172,031 | \$ 1,202,845 |
| Operating grants and contributions | 13,620,865 | 957,484 | 14,578,349 |
| General revenues: | | | |
| Property and earned income taxes | 50,954,588 | | 50,954,588 |
| Grants and entitlements | 10,948,610 | | 10,948,610 |
| Other | 1,022,561 | 41,779 | 1,064,340 |
| Total revenues | <u>76,577,438</u> | <u>2,171,294</u> | <u>78,748,732</u> |
| Program expenses: | | | |
| Instruction | 42,984,518 | | 42,984,518 |
| Support services | 18,772,768 | | 18,772,768 |
| Operation of noninstructional services, extracurricular activities | 1,657,951 | | 1,657,951 |
| Community services | 65,086 | | 65,086 |
| Interest and fiscal charges | 1,583,539 | | 1,583,539 |
| Miscellaneous | 58,737 | | 58,737 |
| Food services | | 1,879,699 | 1,879,699 |
| Intellectual property | | 413,465 | 413,465 |
| Total expenses | <u>65,122,599</u> | <u>2,293,164</u> | <u>67,415,763</u> |
| Increase (decrease) in net position | <u>\$ 11,454,839</u> | <u>\$ (121,870)</u> | <u>\$ 11,332,969</u> |

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2019
(Unaudited)

| | Table 2 2018 | | |
|---|------------------------------------|---------------------------|-------------------------|
| | <u>Governmental activities</u> | <u>Business- type</u> | <u>Total</u> |
| 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 (decrease) 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, 2019
(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 2019</u> | <u>Net cost of services 2019</u> |
|---|------------------------------------|----------------------------------|
| Instruction | \$ 42,984,518 | \$ 33,317,293 |
| Support services | 18,772,768 | 16,286,958 |
| Operation of noninstructional services, extracurricular activities and other | 1,781,774 | 1,465,797 |
| Interest and fiscal charges | <u>1,583,539</u> | <u>400,872</u> |
| Total expenses | <u>\$ 65,122,599</u> | <u>\$ 51,470,920</u> |

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> |

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, 2019
(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 2019 and 2018. Approximately 87% of the District's support services were supported through taxes and other general revenues for each of the 2019 and 2018 fiscal years. Other noninstructional activities are also supported primarily through taxes and other general revenues for fiscal years 2019 and 2018. The community, as a whole, is the primary support for the Warwick School District.

The School District's Funds

In 2018-19, the results of operations for the General Fund showed an excess of revenues over expenditures and other financing uses of \$583,191 with an ending fund balance of \$18,339,162. This fund balance included the following commitments approved by the Board of Directors: \$4,000,000 for PSERS/healthcare stabilization; \$2,250,000 for future projected operating deficits; \$4,000,000 for construction and improvements and \$2,500,000 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, 2019
(Unaudited)

Budget to Actual Comparison – Revenues

In 2019, actual General Fund revenues exceeded budgeted revenues by \$2,750,200.

The largest favorable variances were due to higher than anticipated collections of EIT taxes, interest earnings, and real estate transfer and delinquent taxes.

Budget to Actual Comparison – Expenditures

The total General Fund expenditures came in under budget by \$2,327,991, and fund transfers were over budget by \$4,750,000. 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 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 \$2,676,992 compared to the prior fiscal year.

State revenues increased by \$671,017 compared to the prior fiscal year.

Federal subsidies increased by \$384,313 compared to the prior fiscal year.

WARWICK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2019
(Unaudited)

Current Year – Prior Year Comparison – General Fund Expenditures

Total 2018-19 General Fund expenditures and other financing uses increased over the prior year by \$4,614,408.

Transfers to the Capital Reserve Fund and the Debt Service Fund accounted for \$2,562,022 of the increase. Total wage and salary expenditures increased about \$1,275,000 as compared to the prior fiscal year. Retirement contributions accounted for increased expenditures of about \$690,000 due to a PSERS rate increase from 32.57% to 33.43%. Equipment costs increased by about \$850,000 as the District ramped up 1:1 initiative and looks to end its capital lease. Health insurance costs decreased by about \$600,000.

Proprietary Funds

The District's Food Service Fund had another financially sound year reflecting an increase in net position of \$58,797. This basically break-even result occurred despite increased government regulation.

The WarwickWARE Fund's change in net position for the 2018-19 school year was a decrease of \$180,667 compared to a decrease of \$194,238 for the 2017-18 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, 2019
(Unaudited)

Capital Assets

At the end of the fiscal years 2019 and 2018, the School District had \$87,721,668 and \$90,333,122, respectively, invested in land, buildings, furniture and equipment and vehicles.

Table 4 shows the fiscal year 2019 and 2018 balances:

| | Table 4 Capital assets (net of depreciation) at June 30, 2019 | | |
|---|--|---------------------------------|----------------------|
| | Governmental activities | Business- type activities | Total |
| Land | \$ 2,672,598 | | \$ 2,672,598 |
| Building and improvements | 77,150,763 | | 77,150,763 |
| Land improvements | 2,891,039 | | 2,891,039 |
| Furniture and equipment | 4,600,479 | \$ 105,629 | 4,706,108 |
| Vehicles | 87,262 | | 87,262 |
| Intangible asset, intellectual property | | 213,898 | 213,898 |
| Totals | \$ 87,402,141 | \$ 319,527 | \$ 87,721,668 |

(See Note 6 for further detail)

| | Capital assets (net of depreciation) at June 30, 2018 | | |
|---|---|---------------------------------|----------------------|
| | Governmental activities | Business- type activities | Total |
| Land | \$ 2,672,598 | | \$ 2,672,598 |
| Building and improvements | 80,422,789 | | 80,422,789 |
| 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 | \$ 89,998,639 | \$ 334,483 | \$ 90,333,122 |

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, 2019
(Unaudited)

Debt Administration

The School District had \$53,155,000 and \$61,615,000 of General Obligation Bonds payable as of June 30, 2019 and 2018, respectively. Bond principal payments paid in 2019 and 2018 were \$7,880,000 and \$6,775,000, respectively. During 2019, the School District issued a new series of bonds which refunded two previously issued series of bonds. As of June 30, 2019, the current portion due for fiscal year 2020 is \$7,845,000.

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. An additional concern lies with the potential for property tax elimination, which would relinquish local control and come with a variety of potential negative impacts on the School District and 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, 2019
(Unaudited)

However, the District's outlook presently includes significant residential and commercial expansion. Additionally, the District has 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 advertising at the District's athletic fields and courts 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, Chief Financial Officer, 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, 2019

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

| | Governmental activities | Business-type activities | Total |
|--|----------------------------|-----------------------------|-----------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| Current assets: | | | |
| Cash and investments | \$ 31,055,445 | \$ 2,189,631 | \$ 33,245,076 |
| Taxes receivable | 1,764,897 | | 1,764,897 |
| Due from other governments | 2,905,196 | | 2,905,196 |
| Other receivables | 891,252 | | 891,252 |
| Inventory | | 68,876 | 68,876 |
| | | | |
| | | | |
| | | | |
| Total current assets | <u>36,616,790</u> | <u>2,258,507</u> | <u>38,875,297</u> |
| Noncurrent assets: | | | |
| Land | 2,672,598 | | 2,672,598 |
| Land improvements (net of accumulated depreciation) | 2,891,039 | | 2,891,039 |
| Building and building improvements (net of accumulated depreciation) | 77,150,763 | | 77,150,763 |
| Equipment, furniture and fixtures (net of accumulated depreciation) | 4,600,479 | 105,629 | 4,706,108 |
| Vehicles (net of accumulated depreciation) | 87,262 | | 87,262 |
| Intangible asset, intellectual property (net of accumulated amortization) | | 213,898 | 213,898 |
| | | | |
| Total noncurrent assets | <u>87,402,141</u> | <u>319,527</u> | <u>87,721,668</u> |
| Total assets | <u>124,018,931</u> | <u>2,578,034</u> | <u>126,596,965</u> |
| | | | |
| Deferred outflows of resources: | | | |
| Pension | 12,490,000 | | 12,490,000 |
| Other postemployment benefits | 1,485,334 | | 1,485,334 |
| Other postemployment benefits (HIPAP) | 287,000 | | 287,000 |
| Deferred amounts from refunding of debt | 684,131 | | 684,131 |
| | | | |
| Total deferred outflows of resources | <u>14,946,465</u> | | <u>14,946,465</u> |
| | | | |
| Total assets and deferred outflows of resources | <u>\$ 138,965,396</u> | <u>\$ 2,578,034</u> | <u>\$ 141,543,430</u> |

See notes to financial statements.

WARWICK SCHOOL DISTRICT

STATEMENT OF NET POSITION (DEFICIT)

JUNE 30, 2019

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

| | <u>Governmental activities</u> | <u>Business-type activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|-----------------------|
| Current liabilities: | | | |
| Internal balances | \$ (1,252,058) | \$ 1,252,058 | \$ - |
| Accounts payable | 474,807 | 10,337 | 485,144 |
| Accrued: | | | |
| Salaries and benefits | 8,965,470 | | 8,965,470 |
| Payroll withholdings | 287,211 | | 287,211 |
| Interest | 592,316 | | 592,316 |
| Current portion of: | | | |
| Bonds payable | 7,845,000 | | 7,845,000 |
| Capital lease payable | 418,210 | | 418,210 |
| Compensated absences | 280,701 | | 280,701 |
| Unearned revenue | 13,717 | 25,460 | 39,177 |
| Other current liabilities | | 41,211 | 41,211 |
| Total current liabilities | <u>17,625,374</u> | <u>1,329,066</u> | <u>18,954,440</u> |
| Noncurrent liabilities: | | | |
| Bonds payable | 48,963,418 | | 48,963,418 |
| Capital lease payable | 624,596 | | 624,596 |
| Net pension liability | 101,146,000 | | 101,146,000 |
| Compensated absences | 175,406 | | 175,406 |
| Other postemployment benefits | 10,605,273 | | 10,605,273 |
| Other postemployment benefits (HIPAP) | 4,393,000 | | 4,393,000 |
| Total noncurrent liabilities | <u>165,907,693</u> | | <u>165,907,693</u> |
| Total liabilities | <u>183,533,067</u> | <u>1,329,066</u> | <u>184,862,133</u> |
| Deferred inflows of resources: | | | |
| Pension | 3,140,000 | | 3,140,000 |
| Other postemployment benefits | 530,944 | | 530,944 |
| Other postemployment benefits (HIPAP) | 251,000 | | 251,000 |
| Total deferred inflows of resources | <u>3,921,944</u> | | <u>3,921,944</u> |
| Net position (deficit): | | | |
| Net investment in capital assets | 30,235,048 | 105,629 | 30,340,677 |
| Restricted | 22,148,721 | | 22,148,721 |
| Unrestricted | (100,873,384) | 1,143,339 | (99,730,045) |
| Total net position (deficit) | <u>(48,489,615)</u> | <u>1,248,968</u> | <u>(47,240,647)</u> |
| Total liabilities, deferred inflows of resources and net position (deficit) | <u>\$ 138,965,396</u> | <u>\$ 2,578,034</u> | <u>\$ 141,543,430</u> |

See notes to financial statements.

WARWICK SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

| 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 | \$ 42,984,518 | \$ 2,146 | \$ 9,665,079 | \$ (33,317,293) | | \$ (33,317,293) |
| Support services | 18,772,768 | 28,668 | 2,457,142 | (16,286,958) | | (16,286,958) |
| Student activities | 1,657,951 | | 315,977 | (1,341,974) | | (1,341,974) |
| Community services | 65,086 | | | (65,086) | | (65,086) |
| Other | 58,737 | | | (58,737) | | (58,737) |
| Debt service | 1,583,539 | | 1,182,667 | (400,872) | | (400,872) |
| Total governmental activities | <u>65,122,599</u> | <u>30,814</u> | <u>13,620,865</u> | <u>(51,470,920)</u> | | <u>(51,470,920)</u> |
| Business-type activities: | | | | | | |
| Food service | 1,879,699 | 963,582 | 957,484 | | \$ 41,367 | 41,367 |
| Intellectual property | 413,465 | 208,449 | | | (205,016) | (205,016) |
| Total business-type activities | <u>2,293,164</u> | <u>1,172,031</u> | <u>957,484</u> | | <u>(163,649)</u> | <u>(163,649)</u> |
| Total primary government | <u>\$ 67,415,763</u> | <u>\$ 1,202,845</u> | <u>\$ 14,578,349</u> | <u>(51,470,920)</u> | <u>(163,649)</u> | <u>(51,634,569)</u> |

(continued)

WARWICK SCHOOL DISTRICT

STATEMENT OF ACTIVITIES (CONTINUED)

YEAR ENDED JUNE 30, 2019

| 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. | | | | \$ 43,924,150 | | \$ 43,924,150 |
| Other | | | | 7,030,438 | | 7,030,438 |
| Grants, subsidies and contributions not restricted | | | | 10,948,610 | | 10,948,610 |
| Investment earnings | | | | 959,243 | \$ 41,779 | 1,001,022 |
| Contributions | | | | 30,000 | | 30,000 |
| Loss on disposal of assets | | | | (55,171) | | (55,171) |
| Miscellaneous income | | | | 88,489 | | 88,489 |
| Total general revenues | | | | <u>62,925,759</u> | <u>41,779</u> | <u>62,967,538</u> |
| Change in net position | | | | 11,454,839 | (121,870) | 11,332,969 |
| Net position (deficit): | | | | | | |
| July 1, 2018 | | | | <u>(59,944,454)</u> | <u>1,370,838</u> | <u>(58,573,616)</u> |
| June 30, 2019 | | | | <u><u>\$ (48,489,615)</u></u> | <u><u>\$ 1,248,968</u></u> | <u><u>\$ (47,240,647)</u></u> |

See notes to financial statements.

WARWICK SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2019

ASSETS

| | <u>Major funds</u> | | <u>Nonmajor</u> | <u>Total</u> |
|----------------------------|-----------------------------|-----------------------------|------------------------------|-------------------------------|
| | <u>General</u> | <u>Capital reserve</u> | <u>fund, Scholarship</u> | <u>governmental funds</u> |
| Cash and investments | \$ 23,656,724 | \$ 7,357,072 | \$ 41,649 | \$ 31,055,445 |
| Interfund receivable | 1,252,058 | 2,000,000 | | 3,252,058 |
| Taxes receivable, net | 1,764,897 | | | 1,764,897 |
| Due from other governments | 2,905,196 | | | 2,905,196 |
| Other receivables | 891,252 | | | 891,252 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total assets | <u>\$ 30,470,127</u> | <u>\$ 9,357,072</u> | <u>\$ 41,649</u> | <u>\$ 39,868,848</u> |

See notes to financial statements.

WARWICK SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2019

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES

| | <u>Major funds</u> | | Nonmajor fund, Scholarship | <u>Total governmental funds</u> |
|--|--------------------|----------------------------|----------------------------------|---|
| | <u>General</u> | <u>Capital reserve</u> | | |
| Liabilities: | | | | |
| Accounts payable | \$ 474,807 | | | \$ 474,807 |
| Interfund payable | 2,000,000 | | | 2,000,000 |
| Accrued: | | | | |
| Salaries and benefits | 8,965,470 | | | 8,965,470 |
| Payroll withholdings | 287,211 | | | 287,211 |
| Unearned revenue | <u>13,717</u> | | | <u>13,717</u> |
| Total liabilities | <u>11,741,205</u> | | | <u>11,741,205</u> |
| Deferred inflows of resources, deferred real estate taxes | <u>389,760</u> | | | <u>389,760</u> |
| Total deferred inflows of resources | <u>389,760</u> | | | <u>389,760</u> |

(continued)

WARWICK SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2019

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

| | <u>Major funds</u> | | Nonmajor fund, Scholarship | Total governmental funds |
|---|-----------------------------|----------------------------|----------------------------------|--------------------------------|
| | <u>General</u> | <u>Capital reserve</u> | | |
| Fund balances: | | | | |
| Nonspendable, permanent fund principal | | | \$ 20,000 | \$ 20,000 |
| Committed for: | | | | |
| PSERS rate stabilization | \$ 4,000,000 | | | 4,000,000 |
| Future operating deficits | 2,250,000 | | | 2,250,000 |
| Construction and improvements | 4,000,000 | | | 4,000,000 |
| Capital expenditures | 2,500,000 | \$ 9,357,072 | | 11,857,072 |
| Assigned for payment of scholarships | | | 21,649 | 21,649 |
| Unassigned | <u>5,589,162</u> | | | <u>5,589,162</u> |
| Total fund balances | <u>18,339,162</u> | <u>9,357,072</u> | <u>41,649</u> | <u>27,737,883</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u><u>\$ 30,470,127</u></u> | <u><u>\$ 9,357,072</u></u> | <u><u>\$ 41,649</u></u> | <u><u>\$ 39,868,848</u></u> |

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, 2019

| | |
|---|------------------------|
| Total fund balances, governmental funds | \$ 27,737,883 |
| 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 \$167,856,600, and the accumulated depreciation is \$80,454,459. | 87,402,141 |
| 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. | 389,760 |
| 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 | (101,146,000) |
| Net other postemployment benefits liability | (10,605,273) |
| Net other postemployment benefits (HIPAP) liability | (4,393,000) |
| Deferred outflows and inflows of resources related to pensions, other postemployment benefits and other postemployment benefits (HIPAP) are applicable to future periods and, therefore, are not reported in the funds: | |
| Deferred outflows of resources: | |
| Pensions | 12,490,000 |
| Other postemployment benefits | 1,485,334 |
| Other postemployment benefits (HIPAP) | 287,000 |
| Deferred inflows of resources: | |
| Pensions | (3,140,000) |
| Other postemployment benefits | (530,944) |
| Other postemployment benefits (HIPAP) | (251,000) |
| 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 | (53,155,000) |
| Capital leases payable | (1,042,806) |
| Unamortized: | |
| Bond discount | 110,954 |
| Bond premium | (3,764,372) |
| Deferred amounts from refunding of debt | 684,131 |
| Accrued interest on the bonds | (592,316) |
| Compensated absences | (456,107) |
| Total net position (deficit), governmental activities | <u>\$ (48,489,615)</u> |

See notes to financial statements.

WARWICK SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2019

| | Major funds | | | Nonmajor fund, Scholarship | Total governmental funds |
|--|----------------------|---------------------|---------------------|----------------------------------|--------------------------------|
| | General | Capital reserve | Debt service | | |
| Revenues: | | | | | |
| Sources: | | | | | |
| Local | \$ 53,499,814 | \$ 113,316 | | \$ 5,630 | \$ 53,618,760 |
| State | 22,240,047 | | | | 22,240,047 |
| Federal | 974,341 | | | | 974,341 |
| Total revenues | <u>76,714,202</u> | <u>113,316</u> | | <u>5,630</u> | <u>76,833,148</u> |
| Expenditures: | | | | | |
| Instruction | 40,434,947 | | | | 40,434,947 |
| Support services | 18,606,998 | | | | 18,606,998 |
| Student activities | 1,460,101 | | | 10,050 | 1,470,151 |
| Community services | 65,086 | | | | 65,086 |
| Facility acquisition and improvements | 15,098 | | | | 15,098 |
| Architectural and engineering services | 43,639 | | | | 43,639 |
| Debt service: | | | | | |
| Principal | | | \$ 7,880,000 | | 7,880,000 |
| Interest | 121,923 | | 2,124,564 | | 2,246,487 |
| Total expenditures | <u>60,747,792</u> | | <u>10,004,564</u> | <u>10,050</u> | <u>70,762,406</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>15,966,410</u> | <u>113,316</u> | <u>(10,004,564)</u> | <u>(4,420)</u> | <u>6,070,742</u> |
| Other financing sources (uses): | | | | | |
| Bond proceeds, net | | | 13,715,480 | | 13,715,480 |
| Debt service, payment to refunded bond escrow agent | | | (13,654,200) | | (13,654,200) |
| Bond issuance costs | | | (61,280) | | (61,280) |
| Interfund transfer, general fund to debt service fund | (10,004,564) | | 10,004,564 | | - |
| Interfund transfer, general fund to capital reserve fund | (5,378,655) | 5,378,655 | | | - |
| Total other financing sources (uses) | <u>(15,383,219)</u> | <u>5,378,655</u> | <u>10,004,564</u> | | <u>-</u> |
| Net change in fund balances | 583,191 | 5,491,971 | - | (4,420) | 6,070,742 |
| Fund balances: | | | | | |
| July 1, 2018 | <u>17,755,971</u> | <u>3,865,101</u> | | <u>46,069</u> | <u>21,667,141</u> |
| June 30, 2019 | <u>\$ 18,339,162</u> | <u>\$ 9,357,072</u> | <u>\$ -</u> | <u>\$ 41,649</u> | <u>\$ 27,737,883</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, 2019

Total net change in fund balances, governmental funds \$ 6,070,742

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 | \$ 1,164,953 | |
| Loss on disposal | (55,171) | |
| Depreciation expense | <u>(4,505,217)</u> | |
| | | (3,395,435) |

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
decreased by this amount this year. (90,062)

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). 632,842

(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, 2019

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 | \$ 9,815,000 | |
| Cost of benefits earned | <u>(9,674,000)</u> | \$ 141,000 |

Other postemployment benefits:

| | | |
|--------------------------------|------------------|-----------|
| District pension contributions | 545,079 | |
| Cost of benefits earned | <u>(956,104)</u> | (411,025) |

Other postemployment benefits (HIPAP):

| | | |
|--------------------------------|------------------|--------|
| District pension contributions | 254,000 | |
| Cost of benefits earned | <u>(176,000)</u> | 78,000 |

Issuance of long-term debt provides current financial resources to governmental
funds. The repayment of the principal of long-term debt consumes the current
financial resources of governmental funds. However, this transaction has no
effect on net position. Also, governmental funds report the effect of insurance
costs, premiums, discounts and similar items when debt is first issued,
whereas these amounts are deferred and amortized in the statement of activities.
The effect of these transactions in the statement of activities is shown below:

| | | |
|---|------------------|-----------|
| Bond proceeds | (13,025,000) | |
| Debt service, principal payment to refunded bond escrow agent | 13,605,000 | |
| Bond premium, net of discount | (690,480) | |
| Repayment of bond principal | 7,880,000 | |
| Amortization of: | | |
| Bond premium, net of discount | 565,379 | |
| Deferred gain on refunding | <u>(122,884)</u> | 8,212,015 |

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 | | (15,003) |
| Accrued interest expense | | <u>231,765</u> |

| | | |
|---|--|-----------------------------|
| Change in net position (deficit) of governmental activities | | <u><u>\$ 11,454,839</u></u> |
|---|--|-----------------------------|

See notes to financial statements.

WARWICK SCHOOL DISTRICT

STATEMENT OF NET POSITION – PROPRIETARY FUNDS

JUNE 30, 2019

| | Major fund, Food Service | Nonmajor fund, WarwickWARE | Total |
|---|-----------------------------|-------------------------------|---------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 895,275 | \$ 1,294,356 | \$ 2,189,631 |
| Inventories | 68,876 | | 68,876 |
| Total current assets | <u>964,151</u> | <u>1,294,356</u> | <u>2,258,507</u> |
| Noncurrent assets: | | | |
| Equipment | 609,925 | | 609,925 |
| Accumulated depreciation on equipment | (504,296) | | (504,296) |
| Intellectual property | | 626,576 | 626,576 |
| Accumulated amortization on intellectual property | | (412,678) | (412,678) |
| Total noncurrent assets | <u>105,629</u> | <u>213,898</u> | <u>319,527</u> |
| Total assets | <u>\$ 1,069,780</u> | <u>\$ 1,508,254</u> | <u>\$ 2,578,034</u> |
| LIABILITIES AND NET POSITION | | | |
| Current liabilities: | | | |
| Interfund payable | \$ 62,889 | \$ 1,189,169 | \$ 1,252,058 |
| Accounts payable | 10,337 | | 10,337 |
| Unearned revenue | 25,460 | | 25,460 |
| Other current liabilities | 41,211 | | 41,211 |
| Total current liabilities | <u>139,897</u> | <u>1,189,169</u> | <u>1,329,066</u> |
| Net position: | | | |
| Net investment in capital assets | 105,629 | | 105,629 |
| Unrestricted | 824,254 | 319,085 | 1,143,339 |
| Total net position | <u>929,883</u> | <u>319,085</u> | <u>1,248,968</u> |
| Total liabilities and net position | <u>\$ 1,069,780</u> | <u>\$ 1,508,254</u> | <u>\$ 2,578,034</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, 2019

| | <u>Major fund, Food Service</u> | <u>Nonmajor fund, WarwickWARE</u> | <u>Total</u> |
|-----------------------------------|-------------------------------------|---------------------------------------|--------------------|
| Operating revenues: | | | |
| Sales: | | | |
| Pupils | \$ 653,040 | | \$ 653,040 |
| Adults | 17,588 | | 17,588 |
| A la carte | 226,608 | | 226,608 |
| Banquets and miscellaneous | 66,346 | | 66,346 |
| Software | | \$ 208,449 | 208,449 |
| | <u>963,582</u> | <u>208,449</u> | <u>1,172,031</u> |
| Total operating revenues | | | |
| Operating expenses: | | | |
| Food | 586,840 | | 586,840 |
| Milk | 93,795 | | 93,795 |
| Donated commodities | 137,959 | | 137,959 |
| Nonfood supplies | 37,189 | | 37,189 |
| Payroll | 556,674 | 146,927 | 703,601 |
| Payroll benefits | 174,946 | 39,186 | 214,132 |
| Professional services | 4,844 | | 4,844 |
| Retirement | 181,791 | 24,559 | 206,350 |
| Maintenance contracts | 28,243 | | 28,243 |
| Disposal services | 20,050 | | 20,050 |
| Technical services | | 24,135 | 24,135 |
| Travel | 625 | | 625 |
| Conferences | 1,674 | 66 | 1,740 |
| Depreciation/amortization | 17,966 | 178,592 | 196,558 |
| Uniforms | 1,423 | | 1,423 |
| Utilities | 17,400 | | 17,400 |
| Equipment rental | 1,300 | | 1,300 |
| Replacement equipment | 16,980 | | 16,980 |
| | <u>1,879,699</u> | <u>413,465</u> | <u>2,293,164</u> |
| Total operating expenses | | | |
| Net income (loss) from operations | <u>(916,117)</u> | <u>(205,016)</u> | <u>(1,121,133)</u> |

(continued)

WARWICK SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2019

| | <u>Major fund, Food Service</u> | <u>Nonmajor fund, WarwickWARE</u> | <u>Total</u> |
|------------------------------|-------------------------------------|---------------------------------------|---------------------|
| Nonoperating revenue: | | | |
| Reimbursements: | | | |
| State | \$ 162,477 | | \$ 162,477 |
| Federal | 654,295 | | 654,295 |
| Value of donated commodities | 137,959 | | 137,959 |
| Donated funds | 2,753 | | 2,753 |
| Interest | 17,430 | \$ 24,349 | 41,779 |
| | <u>974,914</u> | <u>24,349</u> | <u>999,263</u> |
| Total nonoperating revenue | | | |
| | 58,797 | (180,667) | (121,870) |
| Change in net position | | | |
| Total net position: | | | |
| July 1, 2018 | <u>871,086</u> | <u>499,752</u> | <u>1,370,838</u> |
| June 30, 2019 | <u>\$ 929,883</u> | <u>\$ 319,085</u> | <u>\$ 1,248,968</u> |

See notes to financial statements.

WARWICK SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2019

| | Major fund, Food Service | Nonmajor fund, WarwickWARE | Total |
|--|-----------------------------|-------------------------------|--------------|
| Cash flows from operating activities: | | | |
| Cash received from users | \$ 969,775 | \$ 226,765 | \$ 1,196,540 |
| Cash payments to: | | | |
| Employees for services | (850,523) | | (850,523) |
| Suppliers for goods and services | (693,829) | | (693,829) |
| Other operating expenses | (92,539) | | (92,539) |
| | (667,116) | 226,765 | (440,351) |
| Net cash provided by (used in) operating activities | | | |
| Cash flows from noncapital financing activities: | | | |
| Sources: | | | |
| State | 162,477 | | 162,477 |
| Federal | 654,295 | | 654,295 |
| | 816,772 | | 816,772 |
| Net cash provided by noncapital financing activities | | | |
| Cash flows from nonoperating activities: | | | |
| Interest and investment earnings | 17,430 | 24,349 | 41,779 |
| Donations | 2,753 | | 2,753 |
| | 20,183 | 24,349 | 44,532 |
| Net cash provided by nonoperating activities | | | |
| Net increase in cash and cash equivalents | 169,839 | 251,114 | 420,953 |
| Cash and cash equivalents: | | | |
| Beginning of year | 725,436 | 1,043,242 | 1,768,678 |
| End of year | \$ 895,275 | \$ 1,294,356 | \$ 2,189,631 |

(continued)

WARWICK SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)

YEAR ENDED JUNE 30, 2019

| | <u>Major fund, Food Service</u> | <u>Nonmajor fund, WarwickWARE</u> | <u>Total</u> |
|--|-------------------------------------|---------------------------------------|---------------------|
| Reconciliation of net loss from operations to net cash provided by (used in) operating activities: | | | |
| Operating loss | \$ (916,117) | \$ (205,016) | \$ (1,121,133) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | | |
| Depreciation/amortization | 17,966 | 178,592 | 196,558 |
| Donated commodities | 137,959 | | 137,959 |
| Changes in operating assets and liabilities: | | | |
| Inventory | 8,096 | | 8,096 |
| Accounts receivable and due from other funds | 30,013 | 18,316 | 48,329 |
| Accounts payable and due to other funds | 55,162 | 234,873 | 290,035 |
| Unearned revenue | (6,387) | | (6,387) |
| Other liabilities and unearned revenue | 6,192 | | 6,192 |
| Net cash provided by (used in) operating activities | <u>\$ (667,116)</u> | <u>\$ 226,765</u> | <u>\$ (440,351)</u> |
| Noncash investing and financing activities: | | | |
| Capital asset additions offset by amounts due to other funds | | <u>\$ 181,602</u> | |

See notes to financial statements.

WARWICK SCHOOL DISTRICT

STATEMENT OF ASSETS AND LIABILITIES – AGENCY FUNDS

JUNE 30, 2019

| | <u>Student activities</u> |
|--------------------------------------|-------------------------------|
| ASSETS | |
| Current assets, cash and investments | <u>\$ 143,083</u> |
| LIABILITIES | |
| Current liabilities: | |
| Accounts payable | \$ 7,717 |
| Due to student groups | <u>135,366</u> |
| Total liabilities | <u>\$ 143,083</u> |

See notes to financial statements.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

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 2018-19 enrollment in grades kindergarten through 12 of approximately 4,100 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 is a member of the 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

YEAR ENDED JUNE 30, 2019

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

YEAR ENDED JUNE 30, 2019

1. Summary of significant accounting policies (continued):

Fund accounting:

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

YEAR ENDED JUNE 30, 2019

1. Summary of significant accounting policies (continued):

Basis of presentation:

Government-wide financial statements:

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

YEAR ENDED JUNE 30, 2019

1. Summary of significant accounting policies (continued):

Basis of presentation:

Fund financial statements

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

YEAR ENDED JUNE 30, 2019

1. Summary of significant accounting policies (continued):

Measurement focus and basis of accounting:

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.

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.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

1. Summary of significant accounting policies (continued):

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

YEAR ENDED JUNE 30, 2019

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

YEAR ENDED JUNE 30, 2019

1. Summary of significant accounting policies (continued):

Deferred outflows and inflows of resources:

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

YEAR ENDED JUNE 30, 2019

1. Summary of significant accounting policies (continued):

Capital assets and depreciation:

Government-wide financial statements:

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

YEAR ENDED JUNE 30, 2019

1. Summary of significant accounting policies (continued):

Long-term obligations:

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 or the System) 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 PSERS. 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, 2019, the rate of employer contribution was 33.43%. The 33.43% rate is composed of a contribution rate of 32.60% 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, 2019 and has recognized them as expenditures or expenses.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

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.

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.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

1. Summary of significant accounting policies (continued):

Equity classifications:

Government-wide financial statements:

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, 2019.

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, 2019 included \$2,250,000 for future operating deficits, \$4,000,000 for pension rate stabilization and \$6,500,000 for capital expenditures funding.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

1. Summary of significant accounting policies (continued):

Equity classifications:

Fund financial statements:

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.
- 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.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

1. Summary of significant accounting policies (continued):

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.

Pending GASB 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.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

1. Summary of significant accounting policies (continued):

Pending GASB 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 June 30, 2021 financial statements.

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.

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

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

YEAR ENDED JUNE 30, 2019

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, 2019, the District does not have a policy for custodial credit risk. The School District's book balance was \$33,388,159, and the bank balance of \$33,634,700, consisted of \$750,000 insured by FDIC and \$32,790,833 collateralized and held by the pledging bank's trust department in accordance with Act 72. The remaining balance consisted of \$93,857 on deposit with the Pennsylvania School District Liquid Asset Fund (PSDLAF) and \$10 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, 2019, the District's investment in PSDLAF was rated AAAM by Standards & Poor's.

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, 2019, PLGIT was rated AAAM by Standard & Poor's.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

2. Deposits and investments (continued):

Custodial credit risk, deposits and investments:

Financial statement amounts, cash and investments:

| | |
|--------------------------|-----------------------------|
| Governmental activities | \$ 31,055,445 |
| Business-type activities | 2,189,631 |
| Fiduciary funds, agency | <u>143,083</u> |
| Total | <u><u>\$ 33,388,159</u></u> |

| <u>Investment</u> | <u>Maturities</u> | <u>Fair value</u> |
|---------------------------------|--------------------|-------------------------|
| PA School District MAX (PSDLAF) | Less than one year | \$ 93,857 |
| PLGIT | Less than one year | <u>10</u> |
| Total | | <u><u>\$ 93,867</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

YEAR ENDED JUNE 30, 2019

2. Deposits and investments (continued):

Custodial credit risk, deposits and investments:

Credit risk:

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, 2019, 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, 2019, PLGIT carried an AAAM rating and had an average maturity of less than one year.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

3. Taxes receivable and related accounts:

The balances at June 30, 2019 are as follows:

| | Net estimated to be collected | Tax revenue recognized | Deferred taxes |
|---------------------|--|------------------------------|--------------------------|
| Real estate taxes: | | | |
| Current | \$ 441,111 | \$ 84,802 | \$ 356,309 |
| Interim | 60,929 | 27,478 | 33,451 |
| Transfer taxes | 82,677 | 82,677 | - |
| Earned income taxes | <u>1,180,180</u> | <u>1,180,180</u> | <u>-</u> |
| | <u><u>\$ 1,764,897</u></u> | <u><u>\$ 1,375,137</u></u> | <u><u>\$ 389,760</u></u> |

The unearned revenue balances as of June 30, 2019 are as follows:

| | General fund | Food Service fund |
|------------------------------------|-------------------------|-------------------------|
| Unearned revenue, special projects | \$ 13,717 | |
| Unused donated commodities | | \$ 25,460 |
| Total unearned revenue | <u><u>\$ 13,717</u></u> | <u><u>\$ 25,460</u></u> |

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

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, 2019 are as follows:

| | <u>Interfund receivable</u> | <u>Interfund payable</u> |
|----------------------|---------------------------------|------------------------------|
| General fund | \$ 1,252,058 | \$ 2,000,000 |
| Capital reserve fund | 2,000,000 | |
| WarwickWARE fund | | 1,189,169 |
| Food service fund | | <u>62,889</u> |
| Total | <u>\$ 3,252,058</u> | <u>\$ 3,252,058</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, 2019 were for debt service and future capital expenditures as follows:

| | <u>Transfers to other funds</u> | <u>Transfers from other funds</u> |
|----------------------|-------------------------------------|---------------------------------------|
| General fund | \$ 15,383,219 | |
| Capital reserve fund | | \$ 5,378,655 |
| Debt service fund | | <u>10,004,564</u> |
| Total | <u>\$ 15,383,219</u> | <u>\$ 15,383,219</u> |

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

5. Due from other governments:

Amounts due from other governments represent receivables for revenues earned by the School District. At June 30, 2019, the following amounts were due from other governmental units:

| | <u>General fund</u> |
|------------------|----------------------------|
| Federal programs | \$ 160,190 |
| State subsidies: | |
| Social Security | 481,136 |
| Retirement | 1,925,463 |
| Safe school | 30,000 |
| School health | 87,804 |
| Transportation | <u>220,603</u> |
| Total | <u><u>\$ 2,905,196</u></u> |

WARWICK SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

6. Capital assets:

Capital asset activity for the year ended June 30, 2019 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 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 144,425,680 | | | 144,425,680 |
| Land improvements | 7,371,426 | | | 7,371,426 |
| Equipment, furniture and fixtures | 11,922,183 | \$ 1,914,568 | \$ 850,608 | 12,986,143 |
| Vehicles | 351,431 | 49,322 | | 400,753 |
| Total capital assets being depreciated | <u>164,070,720</u> | <u>1,963,890</u> | <u>850,608</u> | <u>165,184,002</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 64,002,891 | 3,272,026 | | 67,274,917 |
| Land improvements | 4,219,212 | 261,175 | | 4,480,387 |
| Equipment, furniture and fixtures | 8,243,993 | 937,108 | 795,437 | 8,385,664 |
| Vehicles | 278,583 | 34,908 | | 313,491 |
| Total accumulated depreciation | <u>76,744,679</u> | <u>4,505,217</u> | <u>795,437</u> | <u>80,454,459</u> |
| Total capital assets being depreciated, net | <u>87,326,041</u> | <u>(2,541,327)</u> | <u>55,171</u> | <u>84,729,543</u> |
| Governmental activities, capital assets, net | <u>\$ 89,998,639</u> | <u>\$ (2,541,327)</u> | <u>\$ 55,171</u> | <u>\$ 87,402,141</u> |

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

6. Capital assets (continued):

| | <u>Beginning balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending balance</u> |
|--|------------------------------|--------------------|------------------|---------------------------|
| Business-type activities, capital assets being depreciated: | | | | |
| Equipment, furniture and fixtures | \$ 621,753 | | \$ 11,828 | \$ 609,925 |
| Intellectual property | <u>444,974</u> | <u>\$ 181,602</u> | | <u>626,576</u> |
| Total capital assets being depreciated | <u>1,066,727</u> | <u>181,602</u> | <u>11,828</u> | <u>1,236,501</u> |
| Less accumulated depreciation and amortization for: | | | | |
| Equipment, furniture and fixtures | 498,158 | 17,966 | 11,828 | 504,296 |
| Intellectual property | <u>234,086</u> | <u>178,592</u> | | <u>412,678</u> |
| Total accumulated depreciation and amortization | <u>732,244</u> | <u>196,558</u> | <u>11,828</u> | <u>916,974</u> |
| Business-type activities, capital assets, net | <u>\$ 334,483</u> | <u>\$ (14,956)</u> | <u>\$ -</u> | <u>\$ 319,527</u> |

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

6. Capital assets (continued):

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

Government activities:

Instructional:

| | |
|---------|--------------|
| Regular | \$ 2,223,466 |
| Special | 192,982 |

Support services:

| | |
|---|----------------|
| Pupil personnel | 162,823 |
| Instructional staff | 808,369 |
| Administration | 282,768 |
| Pupil health | 40,284 |
| Business | 65,915 |
| Operation and maintenance of plant services | 547,154 |
| Noninstructional services, student activities | <u>181,456</u> |

Total depreciation expense, governmental activities \$ 4,505,217

Business-type activities:

| | |
|--------------|----------------|
| Food Service | \$ 17,966 |
| WarwickWARE | <u>178,592</u> |

Total depreciation expense, business-type activities \$ 196,558

7. Accrued salaries and benefits:

Accrued salaries and benefits consist of the following items at June 30, 2019:

| | |
|---------------------|---------------------|
| Salaries | \$ 4,379,532 |
| Social Security tax | 312,065 |
| Retirement | 3,851,410 |
| Medical | <u>422,463</u> |
| Total | <u>\$ 8,965,470</u> |

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

8. Compensated absences:

Activity for compensated absences for the year ended June 30, 2019 is summarized below:

| | <u>Beginning balance</u> | <u>Increase (decrease)</u> | <u>Ending balance</u> |
|----------|------------------------------|--------------------------------|---------------------------|
| Vacation | \$ 271,047 | \$ 9,654 | \$ 280,701 |
| Personal | <u>170,057</u> | <u>5,349</u> | <u>175,406</u> |
| | <u>\$ 441,104</u> | <u>\$ 15,003</u> | <u>\$ 456,107</u> |

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

9. Bonds payable:

In April 2019, the District issued the General Obligation Bonds, Series of 2019, in the amount of \$13,025,000 to currently refund the remaining outstanding General Obligation Bonds, Series of 2013, to currently refund the remaining outstanding General Obligation Bonds, Series of 2014, and pay for the costs of issuing the bonds. Principal payments will be due in varying amounts through March 2027, and interest rates range from 2.0% to 4.0%. The principal balance outstanding at June 30, 2019 was \$13,025,000.

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 2024, and interest rates range from 2.0% to 5.0%. The principal balance outstanding at June 30, 2019 was \$13,930,000.

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, 2019 was \$9,175,000.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

9. Bonds payable (continued):

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, 2019 was \$14,145,000.

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, 2019 was \$2,880,000.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

9. Bonds payable (continued):

Long-term debt balances and activity for the year ended June 30, 2019 were as follows:

| | Bonds payable | Bond discount | Bond premium | Total bonds payable |
|----------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Beginning of year | \$ 61,615,000 | \$ (37,634) | \$ 3,565,951 | \$ 65,143,317 |
| Principal retirement | (7,880,000) | | | (7,880,000) |
| Proceeds | 13,025,000 | (113,969) | 804,449 | 13,715,480 |
| Refunding | (13,605,000) | 37,634 | (40,190) | (13,607,556) |
| Amortization | | 3,015 | (565,838) | (562,823) |
| | <u>\$ 53,155,000</u> | <u>\$ (110,954)</u> | <u>\$ 3,764,372</u> | 56,808,418 |
| Less current portion | | | | <u>(7,845,000)</u> |
| | | | | <u>\$ 48,963,418</u> |

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

| Year ended June 30, | Series of 2019 | Series of 2017 | Series of 2016 | Series of 2015 | Series of 2014A | Total principal | Total interest | Total long-term debt service |
|---------------------------|----------------------|----------------------|---------------------|----------------------|---------------------|----------------------|---------------------|------------------------------------|
| 2020 | \$ 1,560,000 | \$ 1,065,000 | \$ 165,000 | \$ 4,355,000 | \$ 700,000 | \$ 7,845,000 | \$ 1,838,925 | \$ 9,683,925 |
| 2021 | 1,955,000 | 1,085,000 | 170,000 | 4,530,000 | 705,000 | 8,445,000 | 1,638,888 | 10,083,888 |
| 2022 | 2,025,000 | 4,755,000 | 175,000 | 995,000 | 725,000 | 8,675,000 | 1,282,687 | 9,957,687 |
| 2023 | 2,095,000 | 5,925,000 | 175,000 | 5,000 | 750,000 | 8,950,000 | 956,800 | 9,906,800 |
| 2024 | 2,170,000 | 1,100,000 | 5,230,000 | 730,000 | | 9,230,000 | 576,900 | 9,806,900 |
| 2025-2027 | 3,220,000 | | 3,260,000 | 3,530,000 | | 10,010,000 | 457,200 | 10,467,200 |
| | <u>\$ 13,025,000</u> | <u>\$ 13,930,000</u> | <u>\$ 9,175,000</u> | <u>\$ 14,145,000</u> | <u>\$ 2,880,000</u> | <u>\$ 53,155,000</u> | <u>\$ 6,751,400</u> | <u>\$ 59,906,400</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, 2019, debt service payments included \$7,880,000 for principal and \$2,124,564 for interest.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

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, 2019 totaled \$1,775,650, leaving a current book value of \$2,008,157. The following list provides detail about the capital leases in effect during the year ended June 30, 2019.

- 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, was paid in 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, was paid in 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.
- In July 2018, the District entered into a capital lease for computer equipment. The present value cost of the lease is \$798,937. The first payment of \$203,591 was paid in July 2018. The second minimum lease payment of \$203,591, including \$7,680 in interest, is due July 2019. The third minimum lease payment of \$203,591, including \$5,153 in interest, is due July 2020. The fourth minimum lease payment of \$203,590, including \$2,593 in interest, is due July 2021.

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

YEAR ENDED JUNE 30, 2019

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

YEAR ENDED JUNE 30, 2019

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, 2019 was 32.60% 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 \$9,815,000 for the year ended June 30, 2019.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

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, 2019, the District reported a liability of \$101,146,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2017 to June 30, 2018. 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, 2018, the District's proportion was .2107%, which was a decrease of .0048% from its proportion measured as of June 30, 2017.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

11. Pension plan (continued):

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

For the year ended June 30, 2019, the District recognized pension expense of \$9,674,000. At June 30, 2019, 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 | | \$ 752,000 |
| Changes of assumptions | \$ 1,885,000 | |
| Net difference between projected and actual earnings on pension plan investments | 496,000 | |
| Net changes in proportion | | 2,380,000 |
| Difference between District actual contributions and the calculated portion determined by PSERS | 294,000 | 8,000 |
| District contributions subsequent to the measurement date | <u>9,815,000</u> | |
| | <u>\$ 12,490,000</u> | <u>\$ 3,140,000</u> |

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

11. Pension plan (continued):

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

For the year ended June 30, 2019, \$9,815,000 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:

| <u>Year ended</u> <u>June 30,</u> | |
|--------------------------------------|--------------|
| 2020 | \$ 1,467,000 |
| 2021 | 431,000 |
| 2022 | (2,002,000) |
| 2023 | (361,000) |

Actuarial assumptions:

The total pension liability as of June 30, 2018 was determined by rolling forward the System's total pension liability as of the June 30, 2017 actuarial valuation to June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|------------------------|---|
| Actuarial cost method: | Entry age normal - level % of pay |
| Investment return: | 7.25%, includes inflation 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. |

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

11. Pension plan (continued):

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

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.

| Asset class | Target allocation | Long-term expected real rate of return |
|--|----------------------|--|
| Global public equity | 20.0 % | 5.2 % |
| Fixed income | 36.0 | 2.2 |
| Commodities | 8.0 | 3.2 |
| Absolute return | 10.0 | 3.5 |
| Risk parity | 10.0 | 3.9 |
| Master limited partnerships/infrastructure | 8.0 | 5.2 |
| Real estate | 10.0 | 4.2 |
| Alternative investments | 15.0 | 6.7 |
| Cash | 3.0 | 0.4 |
| Financing (LIBOR) | (20.0) | 0.9 |
| | 100.0 % | |

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

11. Pension plan (continued):

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

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 | \$ 125,378,000 | \$ 101,146,000 | \$ 80,658,000 |

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

YEAR ENDED JUNE 30, 2019

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
YEAR ENDED JUNE 30, 2019

12. Postemployment benefits (continued):

Employees covered by benefit terms:

At July 1, 2017, the following employees were covered by benefit terms:

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

Total OPEB liability and actuarial assumptions:

The District's total OPEB liability of \$10,605,273 was measured as of June 30, 2018 and was determined by rolling forward the July 1, 2017 actuarial valuation to June 30, 2018 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
YEAR ENDED JUNE 30, 2019

12. Postemployment benefits (continued):

Changes in the total OPEB liability:

| | |
|--------------------------|-----------------------------|
| Balance at June 30, 2017 | <u>\$ 10,277,747</u> |
| Changes for the year: | |
| Service cost | 567,964 |
| Interest | 308,616 |
| Benefit payments | <u>(549,054)</u> |
| Net changes | <u>327,526</u> |
| Balance at June 30, 2018 | <u><u>\$ 10,605,273</u></u> |

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 2.00%</u> | <u>Current discount rate 3.00%</u> | <u>1% Increase 4.00%</u> |
|---------------------------------|------------------------------|--|------------------------------|
| District's total OPEB liability | \$ 11,484,855 | \$ 10,605,273 | \$ 9,788,567 |

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

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 | \$ 9,396,095 | \$ 10,605,273 | \$ 12,043,010 |

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

For the year ended June 30, 2019, the District recognized OPEB expense of \$956,104. At June 30, 2019, 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> |
|---|---|--|
| Difference between expected and actual experience | | \$ 530,944 |
| Changes in assumption | \$ 1,485,334 | |
| | \$ 1,485,334 | \$ 530,944 |

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

12. Postemployment benefits (continued):

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

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 June 30,</u> | |
|--------------------------------|-----------|
| 2020 | \$ 83,499 |
| 2021 | 83,499 |
| 2022 | 83,499 |
| 2023 | 83,499 |
| 2024 | 83,499 |
| thereafter | 536,895 |

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, 2018, there were no assumed future benefit increases to participating eligible retirees.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

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, 2018, 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, 2019 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 \$251,000 for the year ended June 30, 2019.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

12. Postemployment benefits (continued):

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

At June 30, 2019, the District reported a liability of \$4,393,000 for its proportionate share of the net HIPAP liability. The net HIPAP liability was measured as of June 30, 2018, 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, 2017 to June 30, 2018. 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, 2018, the District's proportion was .2107%, which was a decrease of 0.0048% from its proportion measured as of June 30, 2017.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

12. Postemployment benefits (continued):

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

For the year ended June 30, 2019, the District recognized HIPAP expense of \$176,000. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to HIPAP from the following sources:

| | <u>Deferred outflows of resources</u> | <u>Deferred inflows of resources</u> |
|--|---|--|
| Difference between expected and actual experience | \$ 27,000 | |
| Change in assumptions | | \$ 97,000 |
| Difference between projected and actual investment earnings | 8,000 | |
| Changes in proportion | | 154,000 |
| Difference between employer contributions and proportionate share of total contributions | 1,000 | |
| Contributions subsequent to the measurement date | <u>251,000</u> | |
| | <u>\$ 287,000</u> | <u>\$ 251,000</u> |

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

12. Postemployment benefits (continued):

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

Deferred outflows of resources related to HIPAP of \$251,000 was reported as 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to HIPAP will be recognized in HIPAP expense as follows:

| <u>Year ended June 30,</u> | |
|--------------------------------|-------------|
| 2019 | \$ (42,000) |
| 2020 | (43,000) |
| 2021 | (43,000) |
| 2022 | (43,000) |
| 2023 | (45,000) |
| thereafter | 1,000 |

Actuarial assumptions:

The total HIPAP liability as of June 30, 2018, was determined by rolling forward the PSERS total HIPAP liability as of June 30, 2017 to June 30, 2018 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 – 2.98% - 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

YEAR ENDED JUNE 30, 2019

12. Postemployment benefits (continued):

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

Actuarial assumptions:

- 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: 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

YEAR ENDED JUNE 30, 2019

12. Postemployment benefits (continued):

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

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 | 5.9 % | 0.3 % |
| US Core fixed income | 92.8 | 1.2 |
| Non-US Developed fixed income | <u>1.3</u> | 0.4 |
| | <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, 2018.

Discount rate:

The discount rate used to measure the total HIPAP liability was 2.98%. 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 2.98%, which represents the S&P 20-year Municipal Bond Rate at June 30, 2018, was applied to all projected benefit payments to measure the total HIPAP liability.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

12. Postemployment benefits (continued):

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

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, 2018, 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, 2017, 93,380 retirees were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2017, 1,077 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, 2018, 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 | \$ 4,392,000 | \$ 4,393,000 | \$ 4,394,000 |

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

12. Postemployment benefits (continued):

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

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 2.98%, as well as what the net HIPAP liability would be if it were calculated using a discount rate that is 1-percentage point lower (1.98%) or 1-percentage point higher (3.98%) than the current rate:

| | <u>1% Decrease 1.98%</u> | <u>Current discount rate 2.98%</u> | <u>1% Increase 3.98%</u> |
|--|------------------------------|--|------------------------------|
| District's proportionate share of the net HIPAP liability | \$ 4,996,000 | \$ 4,393,000 | \$ 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, 2019, the District accrued \$158,000 in termination benefits.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

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, 2019, 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, 2018 were \$5,563,300. Reductions to this total included retiree contributions of \$269,097 and employee contributions of \$956,888. Claims for medical expenses incurred from July 1, 2018 to June 30, 2019, but were processed after June 30, 2019, totaled \$425,198 and have been reflected in accrued salary and benefits.

Changes in the District's medical and dental claims liability in fiscal years 2019 and 2018 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> |
|-----------|---|---|----------------------------|---|
| 2018-2019 | \$ 495,664 | \$ 4,474,725 | \$ 4,545,191 | \$ 425,198 |
| 2017-2018 | 546,802 | 5,688,639 | 5,739,777 | 495,664 |

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

YEAR ENDED JUNE 30, 2019

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 \$13.9 million to LCCTC for capital and operating expenses for the year ended June 30, 2019. The District provided approximately \$1,093,000 as its share of the vocational-technical budget, or 7.9% of total member district contributions.

WARWICK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

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

YEAR ENDED JUNE 30, 2019

15. Joint ventures (continued):

Lancaster County Career and Technology Center Authority:

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

| Fiscal year ending June 30, | Total |
|--------------------------------------|---------------------|
| 2020 | \$ 89,684 |
| 2021 | 89,608 |
| 2022 | 89,489 |
| 2023 | 89,616 |
| 2024 | 89,377 |
| 2025-2029 | 448,558 |
| 2030-2034 | 448,226 |
| 2035-2037 | 268,420 |
| Total minimum future rental payments | <u>\$ 1,612,978</u> |

During the 2018-2019 school year, the District paid \$89,319 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.

17. Subsequent events:

The District has evaluated subsequent events through October 31, 2019, the date which the financial statements were available to be issued.

WARWICK SCHOOL DISTRICT

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

FOR THE VALUATION YEARS ENDED JUNE 30
(See independent auditors' report)

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|----------------|----------------|----------------|---------------|
| District's proportion of the net pension liability | 0.2107 % | 0.2155 % | 0.2198 % | 0.2174 % |
| District's proportionate share of the net pension liability | \$ 101,146,000 | \$ 106,432,000 | \$ 108,926,000 | \$ 94,167,000 |
| District's covered-employee payroll | \$ 28,371,933 | \$ 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 | 356.50 % | 370.91 % | 382.66 % | 336.66 % |
| Plan fiduciary net position as a percentage of the total pension liability | 54.00 % | 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
(See independent auditors' report)

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|------------------|---------------------|--------------------|--------------------|
| Contractually required contribution | \$ 8,941,000 | \$ 8,243,000 | \$ 6,993,000 | \$ 5,614,000 |
| Contributions in relation to the contractually required contribution | <u>8,928,000</u> | <u>8,487,000</u> | <u>7,084,000</u> | <u>5,677,000</u> |
| Contribution deficiency (excess) | <u>\$ 13,000</u> | <u>\$ (244,000)</u> | <u>\$ (91,000)</u> | <u>\$ (63,000)</u> |
| District's covered payroll | \$ 28,371,933 | \$ 28,625,291 | \$ 28,259,397 | \$ 28,233,484 |
| Contributions as a percentage of covered employee payroll | 31.47% | 29.65% | 25.07% | 20.11% |

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
(See independent auditors' report)

| | <u>2018</u> | <u>2017</u> |
|--|-----------------------------|-----------------------------|
| Total other postemployment benefit (OPEB) liability: | | |
| Service cost | \$ 567,964 | \$ 495,847 |
| Interest | 308,616 | 365,296 |
| Differences between expected and actual experience | | (623,848) |
| Changes in assumptions | | 1,745,236 |
| Benefit payments | <u>(549,054)</u> | <u>(682,656)</u> |
| Net changes in total OPEB liability | 327,526 | 1,299,875 |
| Total OPEB liability, beginning | <u>10,277,747</u> | <u>8,977,872</u> |
| Total OPEB liability, ending | <u><u>\$ 10,605,273</u></u> | <u><u>\$ 10,277,747</u></u> |
| Covered-employee payroll | \$ 26,076,466 | \$ 25,440,455 |
| Total OPEB liability as a percentage of covered-employee payroll | 40.67% | 40.40% |

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
(See independent auditors' report)

| | <u>2018</u> | <u>2017</u> |
|---|---------------|---------------|
| District's proportion of the net OPEB (HIPAP) liability | 0.2107% | 0.2155% |
| District's proportionate share of the net OPEB (HIPAP) liability | \$ 4,393,000 | \$ 4,391,000 |
| District's covered-employee payroll | \$ 28,371,933 | \$ 28,694,678 |
| District's proportionate share of the net OPEB (HIPAP) liability as a percentage of its covered-employee payroll | 15.48% | 15.30% |
| Plan fiduciary net position as a percentage of the total OPEB (HIPAP) liability | 5.56% | 5.73% |

WARWICK SCHOOL DISTRICT

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

FOR THE VALUATION YEAR ENDED JUNE 30
(See independent auditors' report)

| | <u>2018</u> | <u>2017</u> |
|--|-------------------|----------------|
| Contractually required contribution | \$ 235,000 | \$ 238,000 |
| Contributions in relation to the contractually required contribution | <u>238,000</u> | <u>238,000</u> |
| Contribution deficiency (excess) | <u>\$ (3,000)</u> | <u>\$ -</u> |
| District's covered payroll | \$ 28,371,933 | \$ 28,694,678 |
| Contributions as a percentage of covered-employee payroll | 0.83% | 0.83% |

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, 2019
(See independent auditors' report)

| | <u>Original budget</u> | <u>Final budget</u> | <u>Actual</u> | Variance, favorable (unfavorable) |
|--|----------------------------|-------------------------|----------------------|---|
| Revenues: | | | | |
| Sources: | | | | |
| Local | \$ 51,492,310 | \$ 51,492,310 | \$ 53,499,814 | \$ 2,007,504 |
| State | 21,919,216 | 21,919,216 | 22,240,047 | 320,831 |
| Federal | 552,476 | 552,476 | 974,341 | 421,865 |
| | <u>73,964,002</u> | <u>73,964,002</u> | <u>76,714,202</u> | <u>2,750,200</u> |
| Total revenues | | | | |
| Expenditures: | | | | |
| Instruction | 41,431,707 | 41,431,707 | 40,434,947 | 996,760 |
| Support services | 19,895,804 | 19,895,804 | 18,606,998 | 1,288,806 |
| Student activities | 1,562,659 | 1,562,659 | 1,460,101 | 102,558 |
| Community services | 86,000 | 86,000 | 65,086 | 20,914 |
| Facility acquisition and improvements | 5,000 | 5,000 | 15,098 | (10,098) |
| Architectural and engineering services | | | 43,639 | (43,639) |
| Debt service | 89,613 | 89,613 | 121,923 | (32,310) |
| Miscellaneous | 5,000 | 5,000 | | 5,000 |
| | <u>63,075,783</u> | <u>63,075,783</u> | <u>60,747,792</u> | <u>2,327,991</u> |
| Total expenditures | | | | |
| Excess of revenues over expenditures | <u>10,888,219</u> | <u>10,888,219</u> | <u>15,966,410</u> | <u>5,078,191</u> |
| Other financing uses: | | | | |
| Fund transfers, net | (10,633,219) | (10,633,219) | (15,383,219) | (4,750,000) |
| Refund of prior year revenues | (5,000) | (5,000) | | 5,000 |
| Budgetary reserve | (250,000) | (250,000) | | 250,000 |
| | <u>(10,888,219)</u> | <u>(10,888,219)</u> | <u>(15,383,219)</u> | <u>(4,495,000)</u> |
| Total other financing uses | | | | |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | 583,191 | <u>\$ 583,191</u> |
| Fund balance: | | | | |
| July 1, 2018 | | | <u>17,755,971</u> | |
| June 30, 2019 | | | <u>\$ 18,339,162</u> | |

WARWICK SCHOOL DISTRICT

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

**YEAR ENDED JUNE 30, 2019
(See independent auditors' report)**

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, 2019

| 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, 2018 | Revenue recognized | Expenditures | Accrued (unearned) revenue at June 30, 2019 | Amounts paid to subrecipients |
|---|----------------|---------------------------|-------------------------------------|---|-------------------------------|-----------------------------------|---|-----------------------|--------------|--|-------------------------------------|
| <u>U.S. Department of Education</u> | | | | | | | | | | | |
| Passed through the Pennsylvania Department of Education: | | | | | | | | | | | |
| Title I Improving Basic Programs 2017-2018 | I | 84.010 | 013-180461 | 07/01/17-09/30/18 | \$ 513,509 | \$ 144,969 | \$ 63,581 | \$ 81,388 | \$ 81,388 | | \$ - |
| Title I Improving Basic Programs 2018-2019 | I | 84.010 | 013-190461 | 07/01/18-09/30/19 | 509,927 | 339,975 | | 397,667 | 397,667 | \$ 57,692 | - |
| Title II Improving Teacher Quality 2017-2018 | I | 84.367 | 020-180461 | 07/01/17-09/30/18 | 124,959 | 44,261 | 26,499 | 17,762 | 17,762 | | - |
| Title II Improving Teacher Quality 2018-2019 | I | 84.367 | 020-190461 | 07/01/18-09/30/19 | 117,420 | 77,539 | | 95,301 | 95,301 | 17,762 | - |
| Title IV Student Support and Academics Enrichment 2017-2018 | I | 84.424 | 144-180461 | 07/01/17-09/30/18 | 11,613 | 4,147 | 4,147 | | | | - |
| Title IV Student Support and Academics Enrichment 2018-2019 | I | 84.424 | 144-190461 | 07/01/18-09/30/19 | 37,128 | 24,752 | | 37,128 | 37,128 | 12,376 | - |
| Total passed through the Pennsylvania Department of Education | | | | | | 635,643 | 94,227 | 629,246 | 629,246 | 87,830 | - |
| Passed through Lancaster-Lebanon IU13: | | | | | | | | | | | |
| Special Education Cluster: | | | | | | | | | | | |
| IDEA, Part B 2017-2018 | I | 84.027 | 062-18-0-013 | 07/01/17-09/30/18 | 413,071 | | | | | | - |
| IDEA, Part B 2018-2019 | I | 84.027 | 062-19-0-013 | 07/01/18-09/30/19 | 409,140 | 409,140 | | 409,140 | 409,140 | | - |
| IDEA, On-Behalf Services | I | 84.027 | 062-19-0013 | 07/01/18-09/30/19 | 162,429 | 162,429 | | 162,429 | 162,429 | | - |
| Early Intervention IDEA | I | 84.173 | 131-18-0-013 | 07/01/17-06/30/18 | 2,610 | 2,610 | 2,610 | | | | - |
| Early Intervention IDEA | I | 84.173 | 131-19-0-013 | 07/01/18-06/30/19 | 4,117 | 4,117 | | 4,117 | 4,117 | | - |
| Total Special Education Cluster, passed through Lancaster-Lebanon IU13 | | | | | | 578,296 | 2,610 | 575,686 | 575,686 | - | - |
| Total of U.S. Department of Education | | | | | | 1,213,939 | 96,837 | 1,204,932 | 1,204,932 | 87,830 | - |
| <u>U.S. Department of Health and Human Services</u> | | | | | | | | | | | |
| Passed through the Commonwealth of Pennsylvania: | | | | | | | | | | | |
| ACCESS Medical Assistance 2017-2018 | I | 93.778 | N/A | 07/01/17-06/30/18 | 4,210 | 3,072 | 3,072 | | | | - |
| ACCESS Medical Assistance 2018-2019 | I | 93.778 | N/A | 07/01/18-06/30/19 | 6,229 | 2,788 | | 6,229 | 6,229 | 3,441 | - |
| Total of U.S. Department of Health and Human Services | | | | | | 5,860 | 3,072 | 6,229 | 6,229 | 3,441 | - |

(continued)

WARWICK SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2019

| 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, 2018 | Revenue recognized | Expenditures | Accrued (unearned) revenue at June 30, 2019 | 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 | 07/01/17-06/30/18 | N/A | \$ 95,109 | \$ 95,109 | | | | \$ - |
| School Breakfast Program | I | 10.553 | N/A | 07/01/17-06/30/18 | N/A | 16,836 | 16,836 | | | | - |
| National School Lunch Program | I | 10.555 | N/A | 07/01/18-06/30/19 | N/A | 543,596 | | \$ 561,087 | \$ 561,087 | \$ 17,491 | - |
| School Breakfast Program | I | 10.553 | N/A | 07/01/18-06/30/19 | N/A | <u>89,722</u> | | <u>93,208</u> | <u>93,208</u> | <u>3,486</u> | - |
| Total passed through the Pennsylvania Department of Education | | | | | | 745,263 | 111,945 | 654,295 | 654,295 | 20,977 | - |
| Passed through the Pennsylvania Department of Agriculture: | | | | | | | | | | | |
| National School Lunch Program | I | 10.555 | N/A | 07/01/18-06/30/19 | N/A | <u>131,572</u> (a) | <u>(31,847)</u> (b) | <u>137,959</u> (c) | <u>137,959</u> (c) | <u>(25,460)</u> (d) | - |
| Total of Child Nutrition Cluster and U.S. Department of Agriculture | | | | | | <u>876,835</u> | <u>80,098</u> | <u>792,254</u> | <u>792,254</u> | <u>(4,483)</u> | - |
| Total federal assistance | | | | | | <u>\$ 2,096,634</u> | <u>\$ 180,007</u> | <u>\$ 2,003,415</u> | <u>\$ 2,003,415</u> | <u>\$ 86,788</u> | <u>\$ -</u> |

(continued)

WARWICK SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2019

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 | \$ 409,140 |
| 84.027 Special Education Grant to States - IDEA, On-behalf Services | 162,429 |
| 84.173 Special Education Grant to States - IDEA, Early Intervention | <u>4,117</u> |

Total special education cluster 575,686

Total expenditures per above \$ 2,003,415 = 28.74% 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, 2018
- (c) Total amount of commodities used
- (d) Ending inventory at June 30, 2019



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, 2019, 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 October 31, 2019.

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 Steindler & Fritz

Lancaster, Pennsylvania
October 31, 2019



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, 2019. 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, 2019.

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 Steidman & Fritz

Lancaster, Pennsylvania
October 31, 2019

WARWICK SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2019

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

(continued)

WARWICK SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2019

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, 2019

There were no prior year audit findings.