



**Council Rock School District
Newtown, Pennsylvania
Bucks County**

Financial Statements
Year Ended June 30, 2016



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COUNCIL ROCK SCHOOL DISTRICT

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COUNCIL ROCK SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

**Board of School Directors
Council Rock School District
Newtown, Pennsylvania**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Council Rock School District, Newtown, Pennsylvania as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Council Rock School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Council Rock School District, Newtown, Pennsylvania as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited Council Rock School District's 2015 financial statements, and our report dated December 23, 2015, expressed unmodified audit opinions on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule – General Fund, the other post-employment benefits schedule of funding progress and schedules of the District's proportionate share of the net pension liability and the District's pension plan contributions on pages 3 through 15 and 46 through 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Council Rock School District's basic financial statements. The schedule of expenditures of federal awards and certain state grants is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2016, on our consideration of Council Rock 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 Council Rock School District's internal control over financial reporting and compliance.

BBD, LLP

**Philadelphia, Pennsylvania
December 23, 2016**

COUNCIL ROCK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

Management's discussion and analysis ("**MD&A**") of the financial performance of the Council Rock School District (the "**District**") provides an overview of the District's financial performance for fiscal year ended June 30, 2016. Readers should also review the basic financial statements and related notes to enhance their understanding of the District's financial performance.

DISTRICT PROFILE

The District consists of 15 schools – ten elementary schools, three middle schools and two senior high schools consisting of approximately 11,000 students. The District encompasses the municipal subdivisions of the Borough of Newtown and Townships of Newtown, Northampton, Upper Makefield and Wrightstown in Bucks County, Pennsylvania and covers approximately 71 square miles. Geographically, the area is located in south central Bucks County which lies 20 miles north of Philadelphia, 10 miles west of Trenton and Princeton, New Jersey; and 65 miles southwest of New York, New York. Many well-known unincorporated communities are located within the District which include Richboro, Holland and Churchville in Northampton Township and Washington Crossing in Upper Makefield Township. There are approximately 1,428 employees in the District including 882 professionals, 43 administrators and 503 support staff.

As a leader in educational excellence, and a vital resource in the community, the District is committed to children and will empower them with skills and knowledge through comprehensive, innovative and diverse educational experiences, enabling them to achieve self fulfillment and to become productive, responsible citizens who contribute to the world community.

FINANCIAL HIGHLIGHTS

- On a government-wide basis including all governmental activities and the business type activities, the liabilities and deferred inflows of resources of the District exceeded the assets and deferred outflows of resources resulting in a deficit in total net position at the close of the 2015-2016 fiscal year of \$283,547,117. During the 2015-2016 fiscal year, the District had a decrease in total net position of \$3,803,718. The net position of governmental activities decreased by \$3,862,957 and net position of the business-type activities increased by \$59,239.
 - The General Fund reported a decrease in fund balance of \$4,537,571, bringing the cumulative balance to \$25,027,374 at the conclusion of the 2015-2016 fiscal year. At June 30, 2016, the General Fund fund balance includes \$12,582,905 committed or assigned by the School Board and management for the following purposes:
 - ◆ \$1,609,074 committed for anticipated increases in the District's required share of retirement contributions
 - ◆ \$2,695,365 committed to future education initiatives
 - ◆ \$3,889,000 committed to fund future self-insured health insurance expenditures
 - ◆ \$4,338,114 committed to balance the 2016-2017 budget
 - ◆ \$51,352 assigned for outstanding encumbrances
 - At June 30, 2016, the General Fund fund balance includes unassigned amounts of \$11,327,160 or 5.00% of the \$226,543,186 2016-2017 General Fund expenditure budget. This is in compliance with School Board policy and guidelines prescribed by the Pennsylvania Department of Education which allows a district to maintain an unassigned maximum General Fund fund balance of 8% of the following year's expenditure budget.
 - The Capital Projects Fund accounts for construction and renovation activity associated with the District's buildings and major equipment purchases. The Capital Projects Fund receives the majority of its revenues from the issuance of general obligation debt and transfers from the General Fund. During 2015-2016, the Capital Projects Fund reported an increase in fund balance of \$48,999,335 due to proceeds received from general obligation and debt and transfers from the General Fund in excess of capital expenditures. The District issued \$60 million of general obligation bonds in 2015-2016 to finance renovation projects for Holland and Newtown Middle Schools. The remaining fund balance of \$81,641,330 as of June 30, 2016 is restricted for future capital expenditures.
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COUNCIL ROCK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

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

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

Governmental Activities

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

Business-Type Activities

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

The government-wide financial statements can be found on Pages 16 and 17 of this report.

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

COUNCIL ROCK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

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

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

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

The governmental fund financial statements can be found on Pages 18 through 21 of this report.

Proprietary Funds

The District maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Food Service Fund is reported as an enterprise fund of the proprietary fund type. Internal service funds are used to accumulate and allocate certain costs internally among the District's various functions. The District uses its Internal Service Fund to account for the District's self-funded healthcare plan. Because an internal service fund predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

The proprietary fund financial statements provide separate financial information for the Food Service Fund and Internal Service Fund. The proprietary fund financial statements can be found on Pages 22 through 24 of this report.

Fiduciary Funds

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

The fiduciary fund financial statements can be found on Pages 25 and 26 of this report.

Notes to the Financial Statements

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

The notes to the financial statements can be found on Pages 27 through 45 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which consists of the budgetary comparison schedule for the General Fund, a schedule of the District's progress in funding its obligation to provide other post-employment benefits and schedules of net pension liability and District's pension contributions.

The required supplementary information can be found on Pages 46 through 49 of this report.

COUNCIL ROCK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted above, net position may serve over time as a useful indicator of the District's financial condition. At the close of the 2015-2016 fiscal year the District's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$283,547,117. The following table presents condensed information for the *Statement of Net Position (Deficit)* of the District at June 30, 2016 and 2015.

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
ASSETS						
Current assets	\$ 133,635,040	\$ 82,232,349	\$680,634	\$803,322	\$ 134,315,674	\$ 83,035,671
Noncurrent assets	152,357,380	148,527,520	276,667	303,134	152,634,047	148,830,654
Total assets	<u>285,992,420</u>	<u>230,759,869</u>	<u>957,301</u>	<u>1,106,456</u>	<u>286,949,721</u>	<u>231,866,325</u>
DEFERRED OUTFLOWS						
Deferred charges						
– pension	29,709,364	26,018,053	-	-	29,709,364	26,018,053
Deferred amounts on debt refunding	378,936	409,778	-	-	378,936	409,778
Total deferred outflows	<u>30,088,300</u>	<u>26,427,831</u>	<u>-</u>	<u>-</u>	<u>30,088,300</u>	<u>26,427,831</u>
LIABILITIES						
Current liabilities	25,000,846	18,218,277	184,659	393,053	25,185,505	18,611,330
Noncurrent liabilities	570,171,810	495,726,225	-	-	570,171,810	495,726,225
Total liabilities	<u>595,172,656</u>	<u>513,944,502</u>	<u>184,659</u>	<u>393,053</u>	<u>595,357,315</u>	<u>514,337,555</u>
DEFERRED INFLOWS						
Deferred credits						
- pension	5,227,823	23,700,000	-	-	5,227,823	23,700,000
NET POSITION (DEFICIT)						
Net investment in capital assets	23,142,306	15,866,500	276,667	303,134	23,418,973	16,169,634
Restricted	7,765,250	8,856,333	-	-	7,765,250	8,856,333
Unrestricted (deficit)	(315,227,315)	(305,179,635)	495,975	410,269	(314,731,340)	(304,769,366)
Total net position (deficit)	<u>\$(284,319,759)</u>	<u>\$(280,456,802)</u>	<u>\$772,642</u>	<u>\$713,403</u>	<u>\$(283,547,117)</u>	<u>\$(279,743,399)</u>

The District's total assets as of June 30, 2016 were \$286,949,721 of which \$121,948,667 or 42.50% consisted of cash and \$152,634,047 or 53.19% consisted of the District's investment in capital assets. The District's total liabilities as of June 30, 2016 were \$595,357,315 of which \$203,470,090 or 34.18% consisted of general obligation debt used to acquire and construct capital assets and \$358,954,000 or 60.29% consisted of the actuarially determined net pension liability.

The District had a deficit in unrestricted net position of \$314,731,340. The District's unrestricted net position decreased by \$9,961,974 during 2015-2016 primarily due to the results of operations and the change in the District's actuarially determined net pension liability and related pension items.

A portion of the District's net position reflects its restricted net position which totaled \$7,765,250 as of June 30, 2016. All of the District's restricted net position related to amounts restricted through Board resolution for future capital expenditures.

COUNCIL ROCK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

Another portion of the District's net position reflects its investment in capital assets net of accumulated depreciation less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. For the year ended June 30, 2016, the District's net investment in capital assets increased by \$7,249,339 because the debt used to acquire the capital assets was being repaid faster than the capital assets were being depreciated.

The following table presents condensed information for the *Statement of Activities* of the District for 2016 and 2015:

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
REVENUES						
Program revenues						
Charges for services	\$ 929,020	\$ 1,043,987	\$3,107,428	\$3,267,465	\$ 4,036,448	\$ 4,311,452
Operating grants and contributions	31,094,208	28,928,342	453,440	446,675	31,547,648	29,375,017
Capital grants and contributions	2,301	1,200	-	-	2,301	1,200
General revenues						
Property taxes levied for general purposes	139,693,578	141,212,039	-	-	139,693,578	141,212,039
Earned income taxes levied for general purposes	16,397,520	16,210,229	-	-	16,397,520	16,210,229
Other taxes levied for general purposes	8,418,535	8,435,725	-	-	8,418,535	8,435,725
Grants and entitlements not restricted to specific programs	19,388,094	19,069,596	-	-	19,388,094	19,069,596
Investment earnings	596,065	279,009	1,022	283	597,087	279,292
Gain on sale of capital assets	7,521	47,688	-	-	7,521	47,688
Total revenues	<u>216,526,842</u>	<u>215,227,815</u>	<u>3,561,890</u>	<u>3,714,423</u>	<u>220,088,732</u>	<u>218,942,238</u>
EXPENSES						
Instruction	145,832,307	142,470,028	-	-	145,832,307	142,470,028
Instructional student support services	17,591,993	17,587,455	-	-	17,591,993	17,587,455
Administrative and financial support services	16,768,037	14,815,047	-	-	16,768,037	14,815,047
Operation and maintenance of plant services	20,367,912	17,282,020	-	-	20,367,912	17,282,020
Pupil transportation	12,721,263	11,297,780	-	-	12,721,263	11,297,780
Student activities	3,581,608	3,374,973	-	-	3,581,608	3,374,973
Community services	205,214	185,044	-	-	205,214	185,044
Interest and amortization expense related to noncurrent liabilities	3,321,465	4,138,751	-	-	3,321,465	4,138,751
Food service	-	-	3,502,651	3,568,131	3,502,651	3,568,131
Total expenses	<u>220,389,799</u>	<u>211,151,098</u>	<u>3,502,651</u>	<u>3,568,131</u>	<u>223,892,450</u>	<u>214,719,229</u>
CHANGE IN NET POSITION (DEFICIT)	<u>\$ (3,862,957)</u>	<u>\$ 4,076,717</u>	<u>\$ 59,239</u>	<u>\$ 146,292</u>	<u>\$ (3,803,718)</u>	<u>\$ 4,223,009</u>

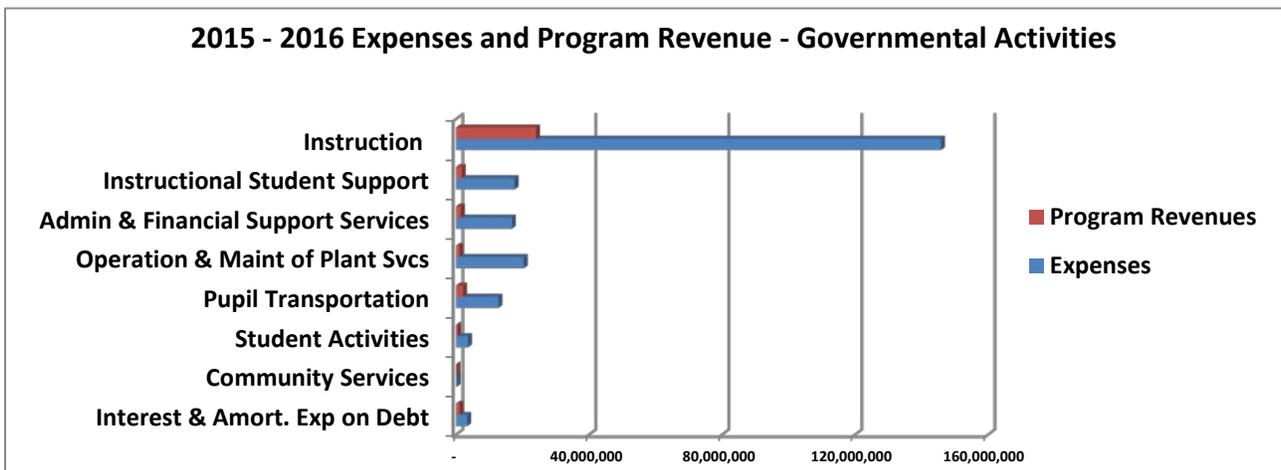
COUNCIL ROCK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

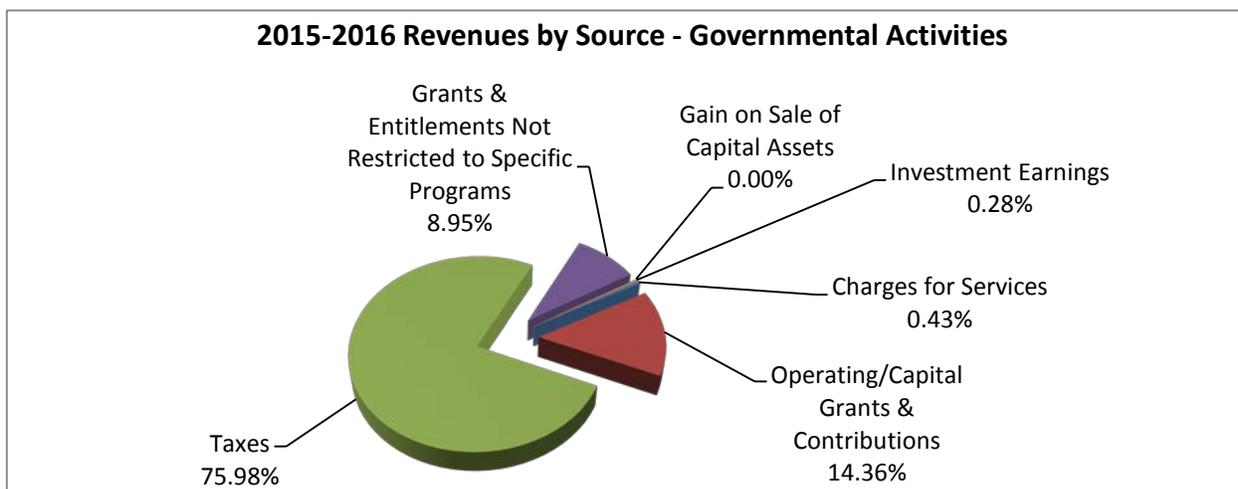
June 30, 2016

During 2015-2016, the District's net position decreased by \$3,803,718 in part due to increased medical costs, pension contributions, state-mandated programs and negotiated contracts. Management of the District continues to aggressively implement cost efficiencies and revenue-generating strategies to combat these factors. In the governmental activities, the District's assessed property tax base drives the majority of the revenue generated. A majority of the District's property tax base is in the form of residential housing whose growth has slowed in recent years. Although the District is primarily a residential community, the District also has a property tax base derived from commercial facilities.

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



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



COUNCIL ROCK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

GOVERNMENTAL FUNDS

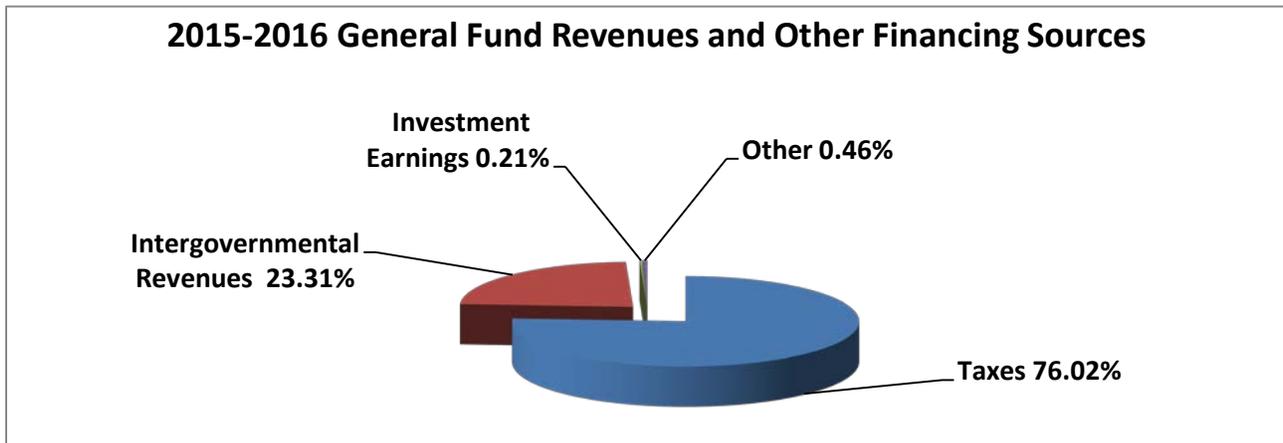
The governmental fund financial statements provide detailed information of the District's major funds. Some funds are required to be established by State statute while other funds are established by the District to manage monies restricted for a specific purpose. As of June 30, 2016, the District's governmental funds reported a combined fund balance of \$106,668,704 which is an increase of \$44,461,764 from the prior year. The following table summarizes the District's total governmental fund balances as of June 30, 2016 and 2015 and the total 2016 change in governmental fund balances.

	<u>2016</u>	<u>2015</u>	<u>Change</u>
General Fund	\$ 25,027,374	\$29,564,945	\$ (4,537,571)
Capital Projects Fund	<u>81,641,330</u>	<u>32,641,995</u>	<u>48,999,335</u>
	<u>\$106,668,704</u>	<u>\$62,206,940</u>	<u>\$44,461,764</u>

GENERAL FUND

The General Fund is the District's primary operating fund. At the conclusion of the 2015-2016 fiscal year, the General Fund fund balance was \$25,027,374 representing a decrease of \$4,537,571 in relation to the prior year. The decrease in the District's General Fund fund balance is due to many factors. The following analysis has been provided to assist the reader in understanding the financial activities of the General Fund during the 2015-2016 fiscal year.

The District's reliance upon tax revenues is demonstrated by the graph below that indicates 76.02% of General Fund revenues are derived from local taxes.



General Fund Revenues and Other Financing Sources

	<u>2016</u>	<u>2015</u>	<u>\$ Change</u>	<u>% Change</u>
Tax revenues	\$164,473,574	\$165,907,671	\$(1,434,097)	(0.86)
Intergovernmental revenues	50,421,575	47,928,480	2,493,095	5.20
Investment earnings	460,015	265,099	194,916	73.53
Other	<u>993,586</u>	<u>1,678,191</u>	<u>(684,605)</u>	<u>(40.79)</u>
	<u>\$216,348,750</u>	<u>\$215,779,441</u>	<u>\$ 569,309</u>	<u>0.26</u>

COUNCIL ROCK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

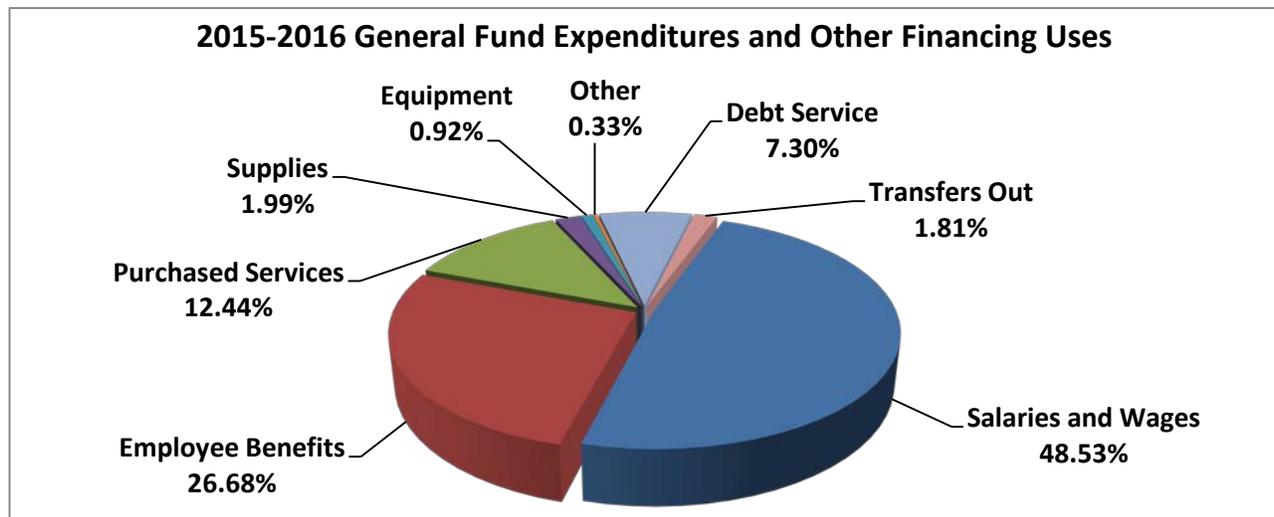
June 30, 2016

Tax revenues decreased by \$1,434,097 or 0.86% in 2015-2016 when compared to 2014-2015. The reason for this decrease is due to the one time property tax payment made by Lockheed Martin of approximately \$3 million during 2014-2015 resulting from an assessment appeal in favor of the District. This decrease was offset by an increase in current real estate tax revenue of \$1.1 million. The increase in real estate taxes represents additional revenue generated from a 0.25 mill tax increase and a moderate increase in the District's assessed property values.

Intergovernmental revenues increased by \$2,493,095 or 5.20% in 2015-2016 when compared to 2014-2015, primarily due to additional funding received related to the State's contribution to the Pennsylvania School Employee Retirement System ("**PSERS**") which increased commensurate with the increase in the employer annual contribution percentage. Revenue from the State retirement subsidy increased from \$11,490,728 in 2014-2015 to \$13,785,288 in 2015-2016.

Other revenues decreased by \$684,605 or 40.79% in 2015-2016 when compared to 2014-2015. In 2014-2015 the District received a large reconciliation payment for special education services for the 2012-2013 year in the amount of \$709,116.

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



General Fund Expenditures and Other Financing Uses

	<u>2016</u>	<u>2015</u>	<u>\$ Change</u>	<u>% Change</u>
Salaries and wages	\$107,185,122	\$107,264,008	\$ (78,886)	(0.07)
Employee benefits	58,920,451	52,373,440	6,547,011	12.50
Purchased services	27,472,292	26,006,106	1,466,186	5.64
Supplies	4,402,653	4,135,710	266,943	6.45
Equipment	2,039,000	1,883,950	155,050	8.23
Other	739,242	576,906	162,336	28.14
Debt service	16,127,561	16,839,916	(712,355)	(4.23)
Transfers out	4,000,000	6,181,453	(2,181,453)	(35.29)
	<u>\$220,886,321</u>	<u>\$215,261,489</u>	<u>\$ 5,624,832</u>	<u>2.61</u>

COUNCIL ROCK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

Salaries and wages decreased by \$78,886 or 0.07% in 2015-2016 when compared to 2014-2015. This decrease is due to the modest salary increases within the District's Collective Bargaining Agreements negotiated with the various employee groups which was offset by the large number of higher paid staff on leave or retiring at the beginning of the school year.

Employee benefits increased by \$6,547,011 or 12.50% in 2015-2016 when compared to 2014-2015. The major cause was the increase in the District's required contribution to PSERS. The 2015-2016 PSERS contribution rate increased from 21.40% in 2014-2015 to 25.84% in 2015-2016 representing a 20.75% increase. As a result of the PSERS contribution rate increase, the associated expenditures increased by \$4,829,393. In addition, healthcare and dental expenditures increased by \$1,335,697 due to increases in the developed premiums.

Purchased services increased by \$1,466,186 or 5.64% in 2015-2016 when compared to 2014-2015. There were two major areas of increase. The first was a \$665,218 increase in payments to the Middle Bucks Institute of Technology. This large increase was caused by a one time adjustment to the previous period and the continued increase in our students attending the school. The second reason for this increase was the increased cost of our student transportation contract with First Student. 2015-2016 was the first year of a new contract with the company which included a large cost increase. Additionally, we required First Student to provide a new fleet of propane buses to service our District which are anticipated to save the District funds.

The District purchases equipment annually based on specific needs. The increase in equipment expenditures of \$ 155,050 or 8.23% in 2015-2016 when compared to 2014-2015 can be attributed to the purchase of more technology related equipment.

The District's debt service expenditures decreased by \$712,355 or 4.23%. This decrease occurred as a result of savings achieved through current year refinancing of debt that achieved savings in the amount paid.

During 2015-2016, in accordance with School Board Policy No. 620, the District made operating transfers totaling \$3,000,000 to the Capital Projects Fund which represented General Fund unassigned fund balance in excess of 5% of the following year's expenditure budget. In addition, the District transferred \$1,000,000 to the Capital Projects Fund as an equity contribution related to the current refunding of general obligation bonds.

CAPITAL PROJECTS FUND

The Capital Projects Fund accounts for construction and renovation activity associated with the District's buildings and major equipment purchases. The Capital Projects Fund receives the majority of its revenues from the issuance of general obligation debt and transfers from the General Fund. During 2015-2016, the Capital Projects Fund reported an increase in fund balance of \$48,999,335 due to proceeds received from general obligation and debt and transfers from the General Fund in excess of capital expenditures. The District issued \$60 million of general obligation bonds in 2015-2016 to finance renovation projects for Holland and Newtown Middle Schools. The remaining fund balance of \$81,641,330 as of June 30, 2016 is restricted for future capital expenditures.

GENERAL FUND BUDGET INFORMATION

The District maintains its financial records and prepares its financial reports on the modified accrual basis of accounting. The District budgets and expends funds according to procedures mandated by the Pennsylvania Department of Education. An annual operating budget is prepared by management and submitted to the School Board for approval prior to the beginning of the fiscal year on July 1 each year. The most significant budgeted fund is the General Fund.

Actual revenues and other financing sources exceeded budgeted amounts by \$2,301,613 and actual expenditures and other financing uses were more than budget by \$386,051 resulting in a net positive variance of \$1,915,562. Major budgetary highlights for 2015-2016 were as follows.

COUNCIL ROCK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

- Actual local source revenues were \$2,571,149 more than budgeted amounts which can be primarily attributed to the variances in the following revenue sources:

	Original and Final Budget	Actual	Variance With Final Budget Positive (Negative)
Current real estate taxes	\$135,839,298	\$136,913,559	\$1,074,261
Earned income taxes	16,000,000	16,397,520	397,520
Delinquent real estate taxes	2,405,000	2,562,778	157,778
Realty transfer taxes	2,600,000	3,205,149	605,149
Earnings on investments	310,000	460,015	150,015
Miscellaneous revenues	<u>15,330</u>	<u>191,275</u>	<u>175,945</u>
	<u>\$157,169,628</u>	<u>\$159,730,296</u>	<u>\$2,560,668</u>

- Current real estate taxes exceeded budget by \$ 1,074,261 or 0.79% due to a slightly more positive collection rate in 2015-2016 than expected and a slightly greater increase in assessed value of taxable properties than was assumed in the budget.
 - Over the past several years earned income tax revenues have increased at a faster rate than anticipated. In the 2015-2016 year this increase subsided but the actual revenue still exceed the budget by \$397,520.
 - Delinquent real estate taxes exceeded the budget due to slightly increased collections.
 - Realty transfer taxes received exceeded budgeted amounts by \$605,149. The revenue increased \$479,615 over the 2014-2015 actual revenues and is reflective of the improvement of the real estate market.
 - Earnings on investments exceeded the budget by \$150,015 which reflects an increase in interest rates.
 - Miscellaneous revenues exceeded budget by \$175,945 due to several smaller transactions including the following larger items: Energy incentives of \$54,885; student parking permit fees of \$36,372; reimbursement for the costs associated with an employee on temporary assignment in the amount of \$34,446; and payment for the use of Intermediate Unit classroom space classrooms in the amount of \$32,442.
- Revenues from state sources were slightly more than budget in the amount of \$222,425 due to a slight increase in Basic Education Funding and more than expected reimbursements related to the PlanCon program.
- Revenues from federal sources were less than budgeted in the amount of \$499,482 because the District chose not to expend the amount of funds originally budgeted for Medical ACCESS funding. The District made this decision in response to the uncertainty of future funding of eligible claims through this program.
- There were two operating transfers made that were not included in the original budget. In accordance with School Board policy No. 620, the District made operating transfers totaling \$ 3,000,000 to the Capital Projects Fund which represented General Fund unassigned fund balance in excess of 5% of the following year's expenditure budget. In addition, the District transferred \$1,000,000 to the Capital Projects Fund as an equity contribution related to the current refunding of general obligation bonds, Series of 2016.
- Salaries and wages were under expended by \$1,657,702 or 1.52%. This was caused by the large number of higher paid staff on leave or announcing retirement later in the previous year.
- Employee benefits were under expended by \$670,784 or 1.13%. The under expenditure correlates with the under expenditure of salaries and wages.

COUNCIL ROCK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

- Operation and maintenance of plant services was under expended by \$1,150,685 or 7.80%. The largest under expended areas were maintenance contracts which were under expended by \$307,239, professional contracts were under expended by \$112,641, supplies which were under expended by \$109,238 and natural gas which was under expended by \$132,347.
- Student transportation services expenditures were \$808,642 or 7.06% more than budgeted amounts as a result of higher than expected transportation contracted costs of \$744,252.
- Debt service was under expended by \$1,227,906 or 7.08% as a result of savings achieved from refinancing of bonds and lower than anticipated interest rates on the District's variable rate bonds.

BUSINESS-TYPE ACTIVITIES AND FOOD SERVICE FUND

During 2015-2016, the net position of the business-type activities and Food Service Fund increased by \$59,239. As of June 30, 2016, the business-type activities and Food Service Fund had net position of \$772,642.

CAPITAL ASSETS

The District's investment in capital asset for its governmental and business-type activities as of June 30, 2016 amounted to \$152,634,047 net of accumulated depreciation. This investment in capital assets includes land, buildings and improvements and furniture and equipment. The total increase in the District's investment in capital assets for the current fiscal year was \$3,803,393 or 2.56%. The increase was the result of current year capital additions in excess of current year depreciation expense.

Current year capital additions were \$7,293,554 and depreciation expense was \$3,490,161.

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

- | | |
|-------------------------------------|-------------|
| • Newtown Middle School renovations | \$3,595,322 |
| • Holland Middle School renovations | \$3,579,117 |

NONCURRENT LIABILITIES

At the end of the current fiscal year, the District had total general obligation debt of \$203,470,090 consisting of \$190,650,000 in bonds payable, \$7,900,000 in notes payable and net deferred credits of \$4,920,090. The entire amount is backed by the full faith and credit of the District. General obligation debt was issued to finance capital expenditures or to finance the retirement (refund) of prior obligation debt. The District's general obligation debt increased by \$46,613,630 or 29.72% during the fiscal year.

During 2015-2016, the District issued general obligation bonds, Series of 2016 which currently refunded general obligation bond Series of 2006A. The District currently refunded general obligation bonds, Series of 2006A, to reduce total future debt service payments by approximately \$ 2.8 million. In addition, the District issued general obligation bonds, Series of 2016A, in the amount of \$60,000,000, the proceeds from which are to be used to finance renovation projects for Holland and Newtown Middle Schools and to pay for the costs of issuance.

The District reports its allocated portion of its defined benefit unfunded benefit obligation related to its participation in the Pennsylvania State Employee Retirement System ("**PSERS**"). The District's allocated portion of the net pension liability is an actuarially determined estimate of the unfunded cost of the pension plan obligation which totaled \$358,954,000 as of June 30, 2016. The District's net pension liability increased by \$27,425,000 or 8.27% during the fiscal year.

COUNCIL ROCK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

State statutes limit the amount of general obligation debt the District may issue up to 225% of its borrowing base capacity which is calculated as the annual arithmetic average of the total revenues for the preceding three fiscal years. The District's outstanding general obligation debt of \$203,470,090 is within the current debt limitation of the District which was \$480,155,153 as of June 30, 2016.

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

Other noncurrent liabilities consist of the District's liabilities for compensated absences and its net obligation for post-employment benefits, which totaled \$7,747,720 as of June 30, 2016. These liabilities increased by \$406,955 or 5.54% during the fiscal year.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future.

- The District's current student enrollment for 2016-2017 is 11,036 and is projected to remain steady in the 2017-2018 year.
 - The Board of School Directors approved a capital plan involving significant renovation to school buildings throughout the District. This plan includes major renovations to two Middle Schools which are estimated to cost approximately \$105 million over the next two years. The District has issued \$60 million of general obligation debt early in 2016 as part of the financing of these projects.
 - Additional tax and enrollment information is available on the District's website: (<http://www.crsd.org>).
 - The District adopted a balanced 2016-2017 budget totaling \$226,543,186 which used \$4,338,114 of General Fund fund balance as of June 30, 2016 to balance the 2016-2017 budget and the real estate tax millage rate was increased by 2.40%.
 - In 2006, Act 1 was passed which repealed Act 72, which provides taxpayer relief through gambling revenues generated at the State level. The intent of this legislation is to provide a mechanism to relieve the burden of funding public education from property owners. This new legislation has put a "ceiling" on the percentage increase of local real estate taxes that can be levied year-to-year in order to balance the school district budget. Pennsylvania school districts are now required to either change their taxing strategies to make up for the shortfall of increases in real estate tax refunds or seek the taxpayers' approval through back-end referendum to increase taxes higher than the approved index. This law puts an already increased burden on the District's revenue stream in future years. This legislation introduced certain new requirements on school districts which include the following:
 - ◆ That in the event a school district wishes to increase the property tax millage rate by more than an index annually prescribed by the state (2.40% for Council Rock School District for 2016-2017), the school district must seek voter approval (known commonly as a "back-end referendum") prior to implementing the millage rate increase. In the event voters do not approve the millage rate increase, the school district must limit its millage rate increase to the index.
 - ◆ Certain exceptions are provided under Act 1 that, if approved by the appropriate authority, may permit increases above the Act 1 index without the need for a back-end referendum. Typically, these exceptions relate to emergencies and cost increases in excess of the Act 1 index (e.g., retirement system contributions) over which the school district has no control. No Act 1 exceptions were applied for by the District in 2016-2017.
 - ◆ Gaming revenues distributed under the provision of Act 1 (Act 1 permitted gambling in Pennsylvania) are to be used for the purpose of reducing property taxes for homesteaders and farmsteaders. The District's distribution for 2015-2016 was \$5,356,195.
-

COUNCIL ROCK SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2016

- On November 23, 2010, Governor Edward Rendell signed Pension Reform Legislation ("**House Bill 2497**") into law. The legislation is now known as Act 120 of 2010. House Bill 2497 includes a series of actuarial and funding changes to the public school employee's retirement system ("**PSERS**") and benefit reductions for individuals who become new members of PSERS on or after July 1, 2011. House Bill 2497 will not impact the pension benefits of current or retired PSERS members. As a result of the legislation the employer contribution rate for 2017-2018 is projected at 32.57%. Currently, the employer contribution rate for 2016-2017 is 30.03% which is an increase of 16.22% from the 2015-2016 employer contribution rate of 25.84%. The increase in the employer contribution rate in 2016-2017 is estimated to increase the District's retirement contribution by approximately \$2.7million, of which the District's local share is \$1.35 million

The following table presents the projected employer contribution rates published by PSERS and the District's projected share of retirement contribution for the next three years.

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Increase Over Previous Budget</u>	<u>Total Contributions</u>	<u>Additional State Support</u>	<u>Additional Local Support</u>	<u>Mill Equivalent</u>	<u>% Mill Increase</u>
2016-2017	30.03%	16.22%	\$32,132,000	\$2,241,650	\$2,241,650	1.82	1.58%
2017-2018	32.57%	8.46%	34,849,900	1,358,900	1,358,900	1.10	0.96%
2018-2019	34.00%	4.39%	36,380,000	765,050	765,050	0.62	0.54%

Retirement contribution rates are expected to continue at these rates for the foreseeable future.

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Director of Business Administration/Board Treasurer, Council Rock School District, 30 North Chancellor Street, Newtown, Pennsylvania 18940.

COUNCIL ROCK SCHOOL DISTRICT

STATEMENT OF NET POSITION (DEFICIT)

June 30, 2016 with summarized comparative totals for 2015

	Governmental	Business-type	Totals	
	Activities	Activities	2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
CURRENT ASSETS				
Cash	\$ 121,573,185	\$375,482	\$ 121,948,667	\$ 73,238,304
Taxes receivable	3,833,185	-	3,833,185	3,622,919
Due from other governments	7,029,577	14,050	7,043,627	4,572,288
Other receivables	378,477	214,788	593,265	738,105
Prepaid expenses	-	-	-	3,696
Deposit	784,000	-	784,000	784,000
Inventories	36,616	76,314	112,930	76,359
Total current assets	<u>133,635,040</u>	<u>680,634</u>	<u>134,315,674</u>	<u>83,035,671</u>
NONCURRENT ASSETS				
Capital assets, net	152,357,380	276,667	152,634,047	148,830,654
Total assets	<u>285,992,420</u>	<u>957,301</u>	<u>286,949,721</u>	<u>231,866,325</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amounts on debt refunding	378,936	-	378,936	409,778
Deferred charges on proportionate share of pension	29,709,364	-	29,709,364	26,018,053
Total deferred outflows of resources	<u>30,088,300</u>	<u>-</u>	<u>30,088,300</u>	<u>26,427,831</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)				
CURRENT LIABILITIES				
Accounts payable	6,699,348	152,741	6,852,089	2,377,976
Accrued salaries, payroll withholdings and benefits	12,707,908	-	12,707,908	12,565,995
Insurance claims payable	1,769,711	-	1,769,711	2,158,106
Accrued interest payable	1,020,187	-	1,020,187	833,739
Unearned revenue	2,803,692	31,918	2,835,610	675,514
Total current liabilities	<u>25,000,846</u>	<u>184,659</u>	<u>25,185,505</u>	<u>18,611,330</u>
NONCURRENT LIABILITIES				
Due within one year	12,543,044	-	12,543,044	12,712,329
Due in more than one year	557,628,766	-	557,628,766	483,013,896
Total noncurrent liabilities	<u>570,171,810</u>	<u>-</u>	<u>570,171,810</u>	<u>495,726,225</u>
Total liabilities	<u>595,172,656</u>	<u>184,659</u>	<u>595,357,315</u>	<u>514,337,555</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred credits on proportionate share of pension	5,227,823	-	5,227,823	23,700,000
NET POSITION (DEFICIT)				
Net investment in capital assets	23,142,306	276,667	23,418,973	16,169,634
Restricted	7,765,250	-	7,765,250	8,856,333
Unrestricted (deficit)	(315,227,315)	495,975	(314,731,340)	(304,769,366)
Total net position (deficit)	<u>\$ (284,319,759)</u>	<u>\$772,642</u>	<u>\$ (283,547,117)</u>	<u>\$ (279,743,399)</u>

See accompanying notes

COUNCIL ROCK SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year ended June 30, 2016 with summarized comparative totals for 2015

	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges	Operating	Capital	Governmental	Business-type	Totals	
		for	Grants and	Grants and			Activities	Activities
	Services	Contributions	Contributions					
GOVERNMENTAL ACTIVITIES								
Instruction	\$145,832,307	\$ 266,198	\$23,770,313	\$ -	\$(121,795,796)	\$ -	\$(121,795,796)	\$(120,359,994)
Instructional student support	17,591,993	-	1,721,936	-	(15,870,057)	-	(15,870,057)	(16,051,513)
Administrative and financial support services	16,768,037	-	1,449,740	-	(15,318,297)	-	(15,318,297)	(13,527,258)
Operation and maintenance of plant services	20,367,912	433,388	623,948	-	(19,310,576)	-	(19,310,576)	(16,286,405)
Pupil transportation	12,721,263	-	2,109,251	-	(10,612,012)	-	(10,612,012)	(9,145,567)
Student activities	3,581,608	74,675	305,439	2,301	(3,199,193)	-	(3,199,193)	(3,019,486)
Community services	205,214	154,759	-	-	(50,455)	-	(50,455)	(11,254)
Interest and amortization expense related to noncurrent liabilities	3,321,465	-	1,113,581	-	(2,207,884)	-	(2,207,884)	(2,776,092)
Total governmental activities	220,389,799	929,020	31,094,208	2,301	(188,364,270)	-	(188,364,270)	(181,177,569)
BUSINESS-TYPE ACTIVITIES								
Food service	3,502,651	3,107,428	453,440	-	-	58,217	58,217	146,009
Total primary government	\$223,892,450	\$4,036,448	\$31,547,648	\$2,301	(188,364,270)	58,217	(188,306,053)	(181,031,560)
GENERAL REVENUES								
Property taxes levied for general purposes					139,693,578	-	139,693,578	141,212,039
Earned income taxes levied for general purposes					16,397,520	-	16,397,520	16,210,229
Other taxes levied for general purposes					8,418,535	-	8,418,535	8,435,725
Grants and entitlements not restricted to specific programs					19,388,094	-	19,388,094	19,069,596
Investment earnings					596,065	1,022	597,087	279,292
Gain on sale of capital assets					7,521	-	7,521	47,688
Total general revenues					184,501,313	1,022	184,502,335	185,254,569
CHANGE IN NET POSITION (DEFICIT)					(3,862,957)	59,239	(3,803,718)	4,223,009
NET POSITION (DEFICIT)								
Beginning of year, restated					(280,456,802)	713,403	(279,743,399)	(283,966,408)
End of year					\$(284,319,759)	\$772,642	\$(283,547,117)	\$(279,743,399)

See accompanying notes

COUNCIL ROCK SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2016 with summarized comparative totals for 2015

	Major Funds		Totals	
	General	Capital	2016	2015
	Fund	Projects		
ASSETS				
Cash	\$ 36,671,101	\$ 81,829,808	\$ 118,500,909	\$ 71,496,065
Taxes receivable	3,833,185	-	3,833,185	3,622,919
Due from other funds	15,530	3,000,000	3,015,530	4,531,453
Due from other governments	7,029,577	-	7,029,577	4,508,268
Other receivables	307,993	-	307,993	75,441
Prepaid items	-	-	-	3,696
Inventories	36,616	-	36,616	16,908
Total assets	\$ 47,894,002	\$ 84,829,808	\$ 132,723,810	\$ 84,254,750
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 3,526,400	\$ 3,172,948	\$ 6,699,348	\$ 2,005,516
Due to other funds	3,265,485	15,530	3,281,015	5,811,573
Accrued salaries, payroll withholdings and benefits	12,707,908	-	12,707,908	10,753,148
Unearned revenue	508,123	-	508,123	654,921
Total liabilities	20,007,916	3,188,478	23,196,394	19,225,158
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues - property, occupational assessment and per capita taxes	2,858,712	-	2,858,712	2,822,652
FUND BALANCES				
Nonspendable				
Prepaid items	-	-	-	3,696
Inventories	36,616	-	36,616	16,908
Long-term receivable	1,080,693	-	1,080,693	-
Restricted for				
Capital projects	-	81,641,330	81,641,330	32,641,995
Committed to				
Employer retirement rate stabilization	1,609,074	-	1,609,074	3,609,074
Future education initiatives	2,695,365	-	2,695,365	4,466,324
Self-insured health insurance	3,889,000	-	3,889,000	3,889,000
Balance 2015-2016 budget	-	-	-	6,446,783
Balance 2016-2017 budget	4,338,114	-	4,338,114	-
Assigned for				
Outstanding encumbrances	51,352	-	51,352	100,932
Unassigned	11,327,160	-	11,327,160	11,032,228
Total fund balances	25,027,374	81,641,330	106,668,704	62,206,940
Total liabilities and fund balances	\$ 47,894,002	\$ 84,829,808	\$ 132,723,810	\$ 84,254,750

See accompanying notes

COUNCIL ROCK SCHOOL DISTRICT

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

June 30, 2016

TOTAL GOVERNMENTAL FUND BALANCES	\$ 106,668,704
Amounts reported for governmental activities in the statement of net position (deficit) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.	152,357,380
Deferred outflows of resources for deferred amounts on debt refunding are currently expended in the governmental funds, whereas they are capitalized and amortized over the life of the respective debt in the government-wide statement of net position (deficit).	378,936
Deferred outflows of resources and deferred inflows of resources related to pensions are not reported as assets and liabilities in the governmental funds balance sheet.	24,481,541
Some of the District's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflows of resources on the governmental funds balance sheet.	2,858,712
The Internal Service Fund is used by management to charge the cost of health insurance claims to the General Fund. The assets and liabilities of the District's Internal Service Fund are included in the governmental activities on the government-wide statement of net position (deficit).	126,965
Noncurrent liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds balance sheet.	(570,171,810)
Accrued interest payable on long-term liabilities is included in the statement of net position (deficit), but is excluded from the governmental funds balance sheet until due and payable.	<u>(1,020,187)</u>
NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES	<u>\$ (284,319,759)</u>

COUNCIL ROCK SCHOOL DISTRICT

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

Year ended June 30, 2016 with summarized comparative totals for 2015

	<u>Major Funds</u>		<u>Totals</u>	
	<u>General</u>	<u>Capital</u>		
	<u>Fund</u>	<u>Projects</u>	<u>2016</u>	<u>2015</u>
REVENUES				
Local sources	\$ 165,919,737	\$ 163,725	\$ 166,083,462	\$ 167,818,382
State sources	47,350,316	-	47,350,316	44,902,403
Federal sources	3,071,176	-	3,071,176	3,026,077
Total revenues	<u>216,341,229</u>	<u>163,725</u>	<u>216,504,954</u>	<u>215,746,862</u>
EXPENDITURES				
Current				
Instruction	139,218,930	8,031	139,226,961	133,413,309
Support services	57,873,628	1,111,510	58,985,138	56,238,874
Operation of noninstructional services	3,635,091	-	3,635,091	3,338,686
Facilities acquisition, construction and improvement services	-	13,656,575	13,656,575	9,182,285
Debt service	<u>16,127,561</u>	<u>-</u>	<u>16,127,561</u>	<u>16,839,916</u>
Total expenditures	<u>216,855,210</u>	<u>14,776,116</u>	<u>231,631,326</u>	<u>219,013,070</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(513,981)</u>	<u>(14,612,391)</u>	<u>(15,126,372)</u>	<u>(3,266,208)</u>
OTHER FINANCING SOURCES (USES)				
Issuance of debt	-	56,555,000	56,555,000	9,200,000
Issuance of debt - refunding	-	20,060,000	20,060,000	17,515,000
Payment of debt - refunding	-	(20,060,000)	(20,060,000)	(18,780,596)
Bond premiums	-	3,056,726	3,056,726	779,470
Refund of prior year receipts	(31,111)	-	(31,111)	-
Transfers in	-	4,000,000	4,000,000	5,181,453
Transfers out	(4,000,000)	-	(4,000,000)	(6,181,453)
Sale of/compensation for capital assets	<u>7,521</u>	<u>-</u>	<u>7,521</u>	<u>47,688</u>
Total other financing sources (uses)	<u>(4,023,590)</u>	<u>63,611,726</u>	<u>59,588,136</u>	<u>7,761,562</u>
NET CHANGE IN FUND BALANCES	(4,537,571)	48,999,335	44,461,764	4,495,354
FUND BALANCES				
Beginning of year	<u>29,564,945</u>	<u>32,641,995</u>	<u>62,206,940</u>	<u>57,711,586</u>
End of year	<u>\$ 25,027,374</u>	<u>\$ 81,641,330</u>	<u>\$ 106,668,704</u>	<u>\$ 62,206,940</u>

See accompanying notes

COUNCIL ROCK SCHOOL DISTRICT

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

Year ended June 30, 2016

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 44,461,764

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.

Capital outlay expenditures	\$ 7,293,554	
Depreciation expense	<u>(3,463,694)</u>	3,829,860

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 in the governmental funds. Deferred inflows of resources increased by this amount in the current period.

Deferred inflows of resources June 30, 2015	(2,822,652)	
Deferred inflows of resources June 30, 2016	<u>2,858,712</u>	36,060

The Internal Service Fund is used by management to charge the cost of health insurance premiums and claims to the General Fund. The change in net position of the Internal Service Fund is reported with the governmental activities.

308,746

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on the change in net position of governmental activities. Also, governmental funds report the effect of premiums, discounts and similar items when long-term debt is issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Issuance of debt	(56,555,000)	
Issuance of debt - refunding	(20,060,000)	
Proceeds from bond premiums	(3,056,726)	
Repayment of bonds and notes payable	32,010,000	
Amortization of discounts, premiums and deferred amounts on debt refunding	<u>1,017,254</u>	(46,644,472)

Some expenses reported in the statement of activities do not require the use of current financial resources, and, therefore are not reported as expenditures in the governmental funds.

Current year change in accrued interest payable	(186,448)	
Change in net pension liability and related deferred inflows and outflows	(5,261,512)	
Current year change in compensated absences	24,233	
Current year change in net post-employment benefit (OPEB) obligation	<u>(431,188)</u>	<u>(5,854,915)</u>

CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES \$ (3,862,957)

See accompanying notes

COUNCIL ROCK SCHOOL DISTRICT

STATEMENT OF NET POSITION (DEFICIT) - PROPRIETARY FUNDS

June 30, 2016 with summarized comparative totals for 2015

	<u>Major Fund</u>	<u>Internal</u>	<u>Totals</u>	
	<u>Food Service</u>	<u>Service</u>	<u>2016</u>	<u>2015</u>
	<u>Fund</u>	<u>Fund</u>		
ASSETS				
CURRENT ASSETS				
Cash	\$ 375,482	\$ 3,072,276	\$ 3,447,758	\$ 1,742,239
Due from other governments	14,050	-	14,050	64,020
Due from other funds	-	265,485	265,485	1,280,120
Other receivables	214,788	70,484	285,272	662,664
Deposit	-	784,000	784,000	784,000
Inventories	76,314	-	76,314	59,451
Total current assets	<u>680,634</u>	<u>4,192,245</u>	<u>4,872,879</u>	<u>4,592,494</u>
NONCURRENT ASSETS				
Capital assets, net	276,667	-	276,667	303,133
Total assets	<u>957,301</u>	<u>4,192,245</u>	<u>5,149,546</u>	<u>4,895,627</u>
LIABILITIES AND NET POSITION				
LIABILITIES				
Accounts payable	152,741	-	152,741	372,460
Insurance claims payable	-	1,769,711	1,769,711	2,178,699
Unearned revenue	31,918	2,295,569	2,327,487	1,812,846
Total liabilities	<u>184,659</u>	<u>4,065,280</u>	<u>4,249,939</u>	<u>4,364,005</u>
NET POSITION				
Net investment in capital assets	276,667	-	276,667	303,133
Unrestricted	495,975	126,965	622,940	228,489
Total net position	<u>\$ 772,642</u>	<u>\$ 126,965</u>	<u>\$ 899,607</u>	<u>\$ 531,622</u>

See accompanying notes

COUNCIL ROCK SCHOOL DISTRICT

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

June 30, 2016 with summarized comparative totals for 2015

	<u>Major Fund</u>	<u>Internal</u>	<u>Totals</u>	
	<u>Food Service Fund</u>	<u>Service Fund</u>	<u>2016</u>	<u>2015</u>
OPERATING REVENUES				
Charges for services	\$ 3,107,428	\$ 26,536,514	\$ 29,643,942	\$ 28,613,218
Other operating revenues	-	30,421	30,421	30,476
Total operating revenues	<u>3,107,428</u>	<u>26,566,935</u>	<u>29,674,363</u>	<u>28,643,694</u>
OPERATING EXPENSES				
Employee benefits	-	26,086,969	26,086,969	25,825,697
Purchased professional and technical services	-	171,220	171,220	295,859
Other purchased services	3,363,127	-	3,363,127	3,439,301
Supplies	113,057	-	113,057	102,363
Depreciation	26,467	-	26,467	26,467
Total operating expenses	<u>3,502,651</u>	<u>26,258,189</u>	<u>29,760,840</u>	<u>29,689,687</u>
Operating loss	<u>(395,223)</u>	<u>308,746</u>	<u>(86,477)</u>	<u>(1,045,993)</u>
NONOPERATING REVENUES				
Earnings on investments	1,022	-	1,022	283
State sources	36,057	-	36,057	38,206
Federal sources	417,383	-	417,383	408,469
Total nonoperating revenues	<u>454,462</u>	<u>-</u>	<u>454,462</u>	<u>446,958</u>
Change in net position before transfers	59,239	308,746	367,985	(599,035)
TRANSFERS				
Transfers in	-	-	-	1,000,000
CHANGE IN NET POSITION (DEFICIT)	59,239	308,746	367,985	400,965
NET POSITION (DEFICIT)				
Beginning of year, restated	<u>713,403</u>	<u>(181,781)</u>	<u>531,622</u>	<u>130,657</u>
End of year	<u>\$ 772,642</u>	<u>\$ 126,965</u>	<u>\$ 899,607</u>	<u>\$ 531,622</u>

See accompanying notes

COUNCIL ROCK SCHOOL DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year ended June 30, 2016 with summarized comparative totals for 2015

	<u>Major Fund</u>	<u>Internal</u>	<u>Totals</u>	
	<u>Food Service</u>	<u>Service</u>	<u>2016</u>	<u>2015</u>
	<u>Fund</u>	<u>Fund</u>		
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from charges for services	\$ 3,107,428	\$ -	\$ 3,107,428	\$ 3,267,341
Cash received from assessments made to other fund	-	28,656,348	28,656,348	24,350,092
Cash payments to supplies for goods and services	(3,803,048)	-	(3,803,048)	(3,145,522)
Cash payments for insurance claims	-	(26,475,364)	(26,475,364)	(24,887,363)
Cash payments for other operating expenses	-	(171,220)	(171,220)	(295,859)
Net cash provided by (used for) operating activities	<u>(695,620)</u>	<u>2,009,764</u>	<u>1,314,144</u>	<u>(711,311)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State sources	41,581	-	41,581	38,688
Federal sources	348,772	-	348,772	305,636
Net cash provided by noncapital financing activities	<u>390,353</u>	<u>-</u>	<u>390,353</u>	<u>344,324</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	-	-	-	(24,919)
CASH FLOWS FROM INVESTING ACTIVITIES				
Earnings on investments	1,022	-	1,022	283
Net increase (decrease) in cash	<u>(304,245)</u>	<u>2,009,764</u>	<u>1,705,519</u>	<u>(391,623)</u>
CASH				
Beginning of year	<u>679,727</u>	<u>1,062,512</u>	<u>1,742,239</u>	<u>2,133,862</u>
Ending of year	<u>\$ 375,482</u>	<u>\$ 3,072,276</u>	<u>\$ 3,447,758</u>	<u>\$ 1,742,239</u>
Reconciliation of operating loss to net cash provided by (used for) operating activities:				
Operating loss	\$ (395,223)	\$ 308,746	\$ (86,477)	\$ (1,045,993)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities				
Depreciation	26,467	-	26,467	26,467
Donated commodities used	113,057	-	113,057	102,188
(Increase) decrease in				
Accounts receivable	(214,664)	-	(214,664)	(474,042)
Due from other funds	-	1,014,635	1,014,635	(265,485)
Deposit	-	592,056	592,056	866,000
Inventories	(16,863)	-	(16,863)	18,734
Increase (decrease) in				
Accounts payable	(219,719)	-	(219,719)	275,394
Insurance claims payable	-	(388,395)	(388,395)	72,334
Unearned revenue	11,325	482,722	494,047	(286,908)
Net cash provided by (used for) operating activities	<u>\$ (695,620)</u>	<u>\$ 2,009,764</u>	<u>\$ 1,314,144</u>	<u>\$ (711,311)</u>
SUPPLEMENTAL DISCLOSURE				
Noncash noncapital financing activity				
USDA donated commodities	<u>\$ 113,057</u>	<u>\$ -</u>	<u>\$ 113,057</u>	<u>\$ 102,188</u>

See accompanying notes

COUNCIL ROCK SCHOOL DISTRICT

STATEMENT OF NET POSITION - FIDUCIARY FUNDS

June 30, 2016

	Private- Purpose Trust	Agency
ASSETS		
Cash	<u>\$27,519</u>	<u>\$ 893,069</u>
LIABILITIES		
Due to student groups	<u>-</u>	<u>\$ 893,069</u>
NET POSITION		
Net position held in trust for scholarships	<u>\$27,519</u>	

COUNCIL ROCK SCHOOL DISTRICT

STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUND

Year ended June 30, 2016 with summarized comparative totals for 2015

	Private-Purpose Trust Fund	
	<u>2016</u>	<u>2015</u>
ADDITIONS		
Local contributions	\$ 654	\$ 160
DEDUCTIONS		
Scholarships awarded and fees paid	<u>500</u>	<u>1,197</u>
CHANGE IN NET POSITION	154	(1,037)
NET POSITION		
Beginning of year	<u>27,365</u>	<u>28,402</u>
End of year	<u>\$27,519</u>	<u>\$27,365</u>

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Council Rock School District (the "**District**") operates ten elementary schools, three middle schools and two senior high schools to provide education and related services to the residents in the Townships of Newtown, Northampton, Wrightstown and Upper Makefield and the Borough of Newtown. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania as a school district of the second class. The District operates under a locally elected nine-member board form of government (the "**School Board**").

The financial statements of the District have been prepared in accordance with generally accepted accounting principles ("**GAAP**") as applied to governmental units. The Governmental Accounting Standards Board ("**GASB**") is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting policies are as follows:

Reporting Entity

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

Basis of Presentation

Government-Wide Financial Statements

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

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

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

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

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

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

Fund Financial Statements

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

Governmental Funds

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

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

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

Revenue Recognition

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

Expenditure Recognition

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

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Proprietary Funds

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

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

The Internal Service Fund is used to account for the District's self-funded healthcare plan.

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

Fiduciary Funds

Fiduciary funds account for the assets held by the District as a trustee or agent for individuals, private organizations and/or governmental units and are, therefore, not available to support the District's own programs. The District accounts for these assets in a private-purpose trust and agency fund. The private-purpose trust fund accounts for activities in various scholarship accounts, whose sole purpose is to provide annual scholarships to particular students as described by donor stipulations. The agency fund accounts for funds held on behalf of the students in the District. The measurement focus and basis of accounting for the private-purpose trust is the same as for proprietary funds, while the agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Cash and Cash Equivalents

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

Investments

Investments are stated at fair value based upon quoted market prices.

Interfund Receivables and Payables

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

Property Taxes

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

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

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

The County Board of Assessments determines assessed valuations of property, and the District's taxes are billed and collected by local elected tax collectors. The tax on real estate for public school purposes for fiscal 2015-2016 was 115.01 mills (\$115.01 for \$1,000 of assessed valuation). The District experiences very small losses from uncollectible property taxes. Property taxes constitute a lien against real property and usually can be collected in full when title transfers. Only balances that remain after tax sales are written off each year. Accordingly, an allowance for doubtful accounts has not been established by the District for property taxes receivable.

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

Installment One	- August 31
Installment Two	- October 15
Installment Three	- November 30

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

Prepaid Items and Inventories

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

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

Unearned Revenues

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

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$25,000 and composite groups in excess of \$150,000. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

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

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

Impairment of Long-Lived Assets

The District evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. If a capital asset is considered to be impaired, the amount of impairment is measured by the method that most reflects the decline in service utility of the capital asset at the lower of carrying value or fair value for impaired capital assets that will no longer be used by the District. No impairment losses were recognized in the year ended June 30, 2016.

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Compensated Absences

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

Long-Term Obligations

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

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

Fund Equity

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

Nonspendable

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

Restricted

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

Committed

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

Assigned

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

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

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Unassigned

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

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

The School Board has set a policy to maintain an unassigned General Fund fund balance of not less than 4% and a maximum of 5% of the following year's expenditure budget. In accordance with Board policy, unassigned fund balance in excess of 5% of the following year's expenditure budget must be appropriated to the Capital Projects Fund.

Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation. However, presentation of prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the District's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Use of Estimates

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

Implementation of New Accounting Pronouncements

Effective July 1, 2015, the District adopted the provisions of GASB Statement No. 72, "*Fair Value Measurement and Application*". GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements.

New Accounting Pronouncements

GASB Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*" will be effective for the District for the year ended June 30, 2017. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of GAAP. The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

GASB Statement No. 77, "*Tax Abatement Disclosures*" will be effective for the District for the year ended June 30, 2017. GASB Statement No. 77 is intended to improve financial reporting by requiring governments that enter into tax abatement agreements to disclose certain information about the agreements.

GASB Statement No. 78, "*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*" will be effective for the District for the year ended June 30, 2017. GASB Statement No. 78 amends the scope and applicability of GASB Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan meeting certain criteria.

GASB Statement No. 79, "*Certain External Investment Pools and Pool Participants*" will be effective for the District for the year ended June 30, 2017. The objective of GASB Statement No. 79 is to address for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards.

(2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

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

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

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

(3) DEPOSITS

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

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At June 30, 2016, the carrying amount of the District's deposits was \$122,869,255 and the bank balance was \$124,866,916. The District is required by state statute to deposit funds in depositories that are either banks, banking institutions or trust companies located in Commonwealth of Pennsylvania. To the extent that such deposits exceed federal insurance, the depositories must pledge as collateral obligations of the United States, Commonwealth of Pennsylvania or any political subdivision. Under Act 72 of 1971, as amended, the depositories may meet this collateralization requirement by pooling appropriate securities to cover all public funds on deposit. Of the bank balance, \$500,000 was covered by federal depository insurance and \$15,268,190 was collateralized by the District's depositories in accordance with Act 72 and the collateral was held by the depositories' agent in pooled public funds. The remaining cash deposits of the District are in the Pennsylvania Local Government Investment Trust ("**PLGIT**"). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PLGIT acts like a money market mutual fund in that its objective is to maintain a stable net assets value of \$1 per share, is rated by a nationally recognized statistical rating organization and is subject to an independent annual audit. As of June 30, 2016, PLGIT was rated as AAA by a nationally recognized statistical rating agency.

(4) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 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 and improvements	\$ 23,024,123	\$ -	\$ -	\$ 23,024,123
Construction in progress	<u>17,063,163</u>	<u>7,174,439</u>	<u>16,071,538</u>	<u>8,166,064</u>
Total capital assets not being depreciated	<u>40,087,286</u>	<u>7,174,439</u>	<u>16,071,538</u>	<u>31,190,187</u>
Capital assets being depreciated				
Land improvements	8,849,920	-	-	8,849,920
Buildings and improvements	174,408,453	16,071,538	-	190,479,991
Furniture and equipment	<u>1,050,739</u>	<u>119,115</u>	<u>-</u>	<u>1,169,854</u>
Total capital assets being depreciated	<u>184,309,112</u>	<u>16,190,653</u>	<u>-</u>	<u>200,499,765</u>
Less accumulated depreciation for				
Land improvements	(5,365,474)	(314,216)	-	(5,679,690)
Buildings and improvements	(69,869,723)	(3,085,328)	-	(72,955,051)
Furniture and equipment	<u>(633,681)</u>	<u>(64,150)</u>	<u>-</u>	<u>(697,831)</u>
Total accumulated depreciation	<u>(75,868,878)</u>	<u>(3,463,694)</u>	<u>-</u>	<u>(79,332,572)</u>
Total capital assets being depreciated, net	<u>108,440,234</u>	<u>12,726,959</u>	<u>-</u>	<u>121,167,193</u>
Governmental activities, net	<u>\$148,527,520</u>	<u>\$19,901,398</u>	<u>\$16,071,538</u>	<u>\$152,357,380</u>
Business-type activities				
Machinery and equipment	\$ 425,501	\$ -	\$ -	\$ 425,501
Less accumulated depreciation	<u>(122,367)</u>	<u>(26,467)</u>	<u>-</u>	<u>(148,834)</u>
Business-type activities, net	<u>\$ 303,134</u>	<u>\$ (26,467)</u>	<u>\$ -</u>	<u>\$ 276,667</u>

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

Governmental activities	
Instruction	\$2,418,370
Instructional student support	298,107
Administrative and financial support services	272,285
Operation and maintenance of plant services	417,523
Student activities	<u>57,409</u>
Total depreciation expense – governmental activities	<u>\$3,463,694</u>
Business-type activities	
Food service	<u>\$ 26,467</u>

As of June 30, 2016, the District had outstanding construction projects to be completed. Construction commitments and the amounts completed as of June 30, 2016 are as follows:

<u>Description</u>	<u>Project Amount</u>	<u>Completed Through June 30, 2016</u>	<u>Remaining Commitments</u>
Newtown Middle School – renovations	\$49,355,295	\$4,197,980	\$45,157,315
Holland Middle School – renovations	<u>43,706,878</u>	<u>3,968,084</u>	<u>39,738,794</u>
	<u>\$93,062,173</u>	<u>\$8,166,064</u>	<u>\$84,896,109</u>

(5) INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2016 is as follows:

<u>Receivable To</u>	<u>Amount</u>	<u>Payable From</u>	<u>Amount</u>
Capital Projects Fund	\$2,984,470	General Fund	\$2,984,470
Internal Service Fund	<u>265,485</u>	General Fund	<u>265,485</u>
	<u>\$3,249,955</u>		<u>\$3,249,955</u>

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

A summary of interfund transfers for the year ended June 30, 2016 is as follows:

<u>Transfers In</u>	<u>Amount</u>	<u>Transfers Out</u>	<u>Amount</u>
Capital Projects Fund	<u>\$4,000,000</u>	General Fund	<u>\$4,000,000</u>

Transfers from the General Fund to the Capital Projects Fund represent transfers to subsidize capital expenditures and debt service requirements.

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(6) NONCURRENT LIABILITIES

The following summarizes the changes in noncurrent liabilities for the year ended June 30, 2016:

	<u>Balance</u> <u>July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Amount</u> <u>Due Within</u> <u>One Year</u>
Governmental activities					
General obligation debt					
Bonds payable	\$145,245,000	\$ 76,615,000	\$31,210,000	\$ 190,650,000	\$10,730,000
Notes payable	8,700,000	-	800,000	7,900,000	900,000
Bond premiums	2,959,704	3,056,726	1,051,906	4,964,524	916,854
Bond discounts	(48,244)	-	(3,810)	(44,434)	(3,810)
Total general obligation debt	<u>156,856,460</u>	<u>79,671,726</u>	<u>33,058,096</u>	<u>203,470,090</u>	<u>12,543,044</u>
Other noncurrent liabilities					
Compensated absences	3,754,731	-	24,233	3,730,498	-
OPEB obligation	3,586,034	927,594	496,406	4,017,222	-
Net pension liability (See Note 7)	<u>331,529,000</u>	<u>27,425,000</u>	<u>-</u>	<u>358,954,000</u>	<u>-</u>
Total other noncurrent liabilities	<u>338,869,765</u>	<u>28,352,594</u>	<u>520,639</u>	<u>366,701,720</u>	<u>-</u>
Total noncurrent liabilities	<u>\$495,726,225</u>	<u>\$108,024,320</u>	<u>\$33,578,735</u>	<u>\$ 570,171,810</u>	<u>\$12,543,044</u>

Noncurrent liabilities are generally liquidated by the General Fund.

General Obligation Debt

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

General obligation debt outstanding as of June 30, 2016 consisted of the following:

<u>Description</u>	<u>Interest</u> <u>Rate(s)</u>	<u>Original</u> <u>Issue</u> <u>Amount</u>	<u>Final</u> <u>Maturity</u>	<u>Principal</u> <u>Outstanding</u>
General obligation bonds				
Series of 2011	2.00% - 4.00%	\$8,630,000	11/15/2018	\$ 5,730,000
Series of 2011A	1.00% - 2.75%	\$10,000,000	08/15/2023	9,980,000
Series of 2012	2.00% - 3.00%	\$9,600,000	08/15/2023	9,585,000
Series of 2012A	2.00% - 2.125%	\$8,950,000	02/15/2022	8,715,000
Series of 2013	0.25% - 2.15%	\$7,630,000	12/15/2026	7,495,000
Series of 2013A	1.00% - 2.50%	\$9,995,000	08/15/2028	9,985,000
Series of 2014	0.20% - 3.00%	\$9,995,000	05/15/2028	9,810,000
Series of 2014A	2.00% - 3.00%	\$3,675,000	05/15/2021	3,560,000
Series of 2014B	2.00% - 3.00%	\$6,145,000	11/15/2017	3,080,000
Series of 2014C	2.00% - 5.00%	\$22,405,000	11/15/2017	11,000,000
Series of 2014D	2.00% - 3.00%	\$9,625,000	11/15/2029	9,620,000
Series of 2015	2.00% - 3.00%	\$9,440,000	05/15/2020	8,380,000
Series of 2015A	2.00% - 3.00%	\$9,200,000	11/15/2035	9,200,000
Series of 2015B	0.40% - 3.00%	\$8,075,000	08/15/2024	7,895,000
Series of 2016	2.00% - 5.00%	\$16,615,000	11/15/2023	16,615,000
Series of 2016A	2.00% - 3.25%	\$60,000,000	11/15/2035	60,000,000
Total general obligation bonds				<u>190,650,000</u>

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

General obligation note				
Series of 2004C	Variable	\$10,000,000	08/01/2023	<u>7,900,000</u>
Total general obligation debt				<u>\$198,550,000</u>

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

<u>Year ending June 30,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Total Maturities</u>
2017	\$ 11,630,000	\$ 6,200,908	\$ 17,830,908
2018	12,100,000	5,140,561	17,240,561
2019	12,195,000	4,824,681	17,019,681
2020	11,775,000	4,465,075	16,240,075
2021	12,165,000	4,103,799	16,268,799
2022-2026	57,190,000	15,520,594	72,710,594
2027-2031	41,380,000	9,007,369	50,387,369
2032-2036	<u>40,115,000</u>	<u>3,191,950</u>	<u>43,306,950</u>
	<u>\$198,550,000</u>	<u>\$52,454,937</u>	<u>\$251,004,937</u>

Series of 2016 General Obligation Bonds

On January 7, 2016, the District issued \$16,615,000 of general obligation bonds, Series of 2016, the proceeds from which were used along with a \$1,000,000 cash contribution to currently refund the District's general obligation bonds, Series of 2006A, in the amount of \$20,060,000 and to pay for the costs of issuance. The District currently refunded a portion of the general obligation bonds, Series of 2006A, to reduce future debt service payments by \$2,825,775.

Series of 2016A General Obligation Bonds

On January 7, 2016, the District issued \$60,000,000 of general obligation bonds, Series of 2016A, the proceeds from which are to be used for planning, designing, acquiring, constructing, equipping and furnishing renovations and additions to buildings and facilities in the District and to pay for the costs of issuance.

Other Post-Employment Benefits

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

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2016, 2015 and 2014 were as follows:

<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2016	\$927,594	53.52%	\$4,017,222
2015	\$838,104	61.39%	\$3,586,034
2014	\$844,058	56.97%	\$3,262,419

The following table shows the components of the District's OPEB cost for the year, the amount actually contributed by the District and changes in the District's net OPEB obligation:

Annual required contribution	\$ 986,374
Interest on net OPEB obligation	161,372
Adjustment to annual required contribution	<u>(220,152)</u>
Annual OPEB cost (expense)	927,594
Contributions made	<u>(496,406)</u>
Increase in net OPEB obligation	431,188
Net OPEB obligation – beginning of year	<u>3,586,034</u>
Net OPEB obligation – end of year	<u>\$4,017,222</u>

Funded Status and Funding Progress

As of July 1, 2015, the most recent actuarial valuation, the actuarial accrued liability for benefits was \$8,254,001, all of which was unfunded. The covered payroll (annual payroll of active employees was \$98,385,785 and the ratio of the unfunded actuarial accrued liability ("**UAAL**") to the covered payroll was 8.39%.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and benefit cost trends. Amounts determined regarding the funded status and the annual required contribution of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about whether the actuarial value of assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on substantive benefits (the benefits as understood by the District and employees) and included the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the District and retirees to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial liabilities and the actuarial value of assets, consistent with the long-term perspective of calculations.

In the most recent actuarial valuation, the entry age normal method was used. The actuarial assumptions include a 4.50% discount rate and an annual healthcare cost trend rate of 6.0% in 2015, decreasing 0.50% to 5.50% in 2016 through 2020. The UAAL is being amortized based on the level dollar, 30-year open period.

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(7) PENSION PLAN

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

Plan Description

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

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year credited service; (b) age 60 with 30 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 membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

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

Contributions

Member Contributions

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

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

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

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

Employer Contributions

The District's contractually required contribution rate for fiscal year ended June 30, 2016 was 25.00% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$26,805,364 for the year ended June 30, 2016.

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

At June 30, 2016, the District reported a liability of \$358,954,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the system's total pension liability as of June 30, 2014 to June 30, 2015. 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, 2015, the District's proportion was 0.8287 percent, which was a decrease of 0.0089 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$5,261,512. At June 30, 2016, 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>
Net difference between expected and actual experience	\$ -	\$ 1,481,302
Net difference between projected and actual investment earnings	-	726,521
Changes in proportions	2,904,000	3,020,000
Contributions subsequent to the measurement date	<u>26,805,364</u>	<u>-</u>
	<u>\$29,709,364</u>	<u>\$5,227,823</u>

\$26,805,364 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2015. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017	\$(1,850,000)
2018	(1,850,000)
2019	(1,850,000)
2020	<u>3,226,177</u>
	<u>\$(2,323,823)</u>

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Actuarial Assumptions

The total pension liability as of June 30, 2015 was determined by rolling forward the system's total pension liability as the June 30, 2014 actuarial valuation to June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay
- Investment return - 7.50% includes inflation at 3.00%
- Salary increases - Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real growth wage of 1% and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public markets global equity	22.5 %	4.8%
Private markets (equity)	15.0 %	6.6%
Private real estate	12.0 %	4.5%
Global fixed income	7.5 %	2.4%
U.S. long treasuries	3.0 %	1.4%
TIPS	12.0 %	1.1%
High yield bonds	6.0 %	3.3%
Cash	3.0 %	0.7%
Absolute return	10.0 %	4.9%
Risk parity	10.0 %	3.7%
MLPs/Infrastructure	5.0 %	5.2%
Commodities	8.0 %	3.1%
Financing (LIBOR)	(14.0)%	1.1%
	<u>100.0 %</u>	

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

The above was the PSERS' Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2015.

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following represents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50%) or 1-percentage point higher (8.50%) than the current rate:

	<u>1% Decrease</u> <u>6.50%</u>	<u>Current</u> <u>Discount</u> <u>Rate</u> <u>7.50%</u>	<u>1% Increase</u> <u>8.50%</u>
District's proportionate share of the net pension liability	\$442,445,000	\$358,954,000	\$288,779,000

Pension Plan Fiduciary Net Position

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

(8) JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATION

Middle Bucks Institute of Technology

The District and three other Bucks County school districts participate in the Middle Bucks Institute of Technology (the "**MBIT**"). The MBIT provides vocational-technical training and education to students of the participating school districts. The MBIT is controlled by a joint board comprised of representative school board members of participating school districts. District oversight of the MBIT operations is the responsibility of the joint board. The District's share of operating costs for the MBIT fluctuates based on the District's percentage of enrollment. The District share of operating costs for 2015-2016 was \$1,142,231.

Middle Bucks Area Vocational – Technical School Authority

The District and three other Bucks County school districts also participate in a joint venture for the operation of the Middle Bucks Area Vocational Technical Authority (the "**Authority**"). The Authority oversees acquiring, holding, constructing, improving and maintaining the MBIT school buildings and facilities. The Authority is controlled by a joint board comprised of representative school board members of the participating school districts in the MBIT. The participating school districts have entered into a long-term lease agreement with the Authority to provide rental payments sufficient to retire the Authority's outstanding debt obligations. The agreement expires February 15, 2029 unless the related debt is retired earlier. The District's share of rent expense for 2015-2016 was \$474,020.

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

The District's annual lease rental payments are as follows:

Year ending June 30,

2017	\$ 473,809
2018	473,310
2019	473,894
2020	473,542
2021	472,507
2022-2026	2,366,643
2027-2029	<u>1,420,286</u>
	<u>\$6,153,991</u>

Both the MBIT and the Authority prepare financial statements that are available to the public from their administrative office located at 2740 Old York Road, Jamison, Pennsylvania 18929.

Bucks County Intermediate Unit

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

(9) OPERATING LEASES

The District leases office equipment, office space and two transportation depots under non-cancelable operating leases expiring at various dates through August 2020. Rent expense for the office equipment, office space and two transportation depots, including additional operating costs, was \$1,221,425 for 2015-2016.

Future minimum lease payments under these leases are as follows:

Year ending June 30,

2017	\$ 940,811
2018	945,163
2019	949,515
2020	953,867
2021	<u>38,264</u>
	<u>\$3,827,620</u>

(10) CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

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

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Litigation

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

(11) 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. Significant losses are covered by commercial insurance for all major programs including workers compensation. For insured programs, there were no significant reductions in insurance coverages during the 2015-2016 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

The District administers a self-insurance program to provide health insurance and related expenses for eligible employees, spouses and their dependents. Accordingly, benefit payments plus an administrative charge are made to a third party administrator, who approves and processes all claims. The District has recorded a liability in the Internal Service Fund for claims incurred through June 30, 2016 which has historically been satisfied within 60 days after June 30.

The following table presents the components of the self-insurance claims liability and the related changes in the claims liability for the year ended June 30, 2016:

Insurance claims liability – beginning of year	\$ 2,158,106
Current year insurance claims and changes in estimates	26,086,969
Insurance claims paid	<u>(26,475,364)</u>
Insurance claims liability – end of year	<u>\$ 1,769,711</u>

(12) PRIOR PERIOD ADJUSTMENT

During 2015-2016, the District made a prior period adjustment to restate capital assets reported in previously issued financial statements based on an original cost valuation. This prior period adjustment and its effect on net position at July 1, 2014 and on changes in net position for the year ended June 30, 2015 are summarized in the following table:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Totals</u>
Net position (deficit) at June 30, 2014, as previously stated	\$(248,130,372)	\$594,185	\$(247,536,187)
Prior period adjustment to Restate capital assets based upon original cost valuation	<u>(36,403,147)</u>	<u>(27,074)</u>	<u>(36,430,221)</u>
Net position at July 1, 2014, as restated	<u>(284,533,519)</u>	<u>567,111</u>	<u>(283,966,408)</u>
2014-2015 change in net position, as previously stated	2,665,759	97,394	2,763,153
Prior period adjustment to Adjust depreciation expense as a result of original cost valuation	5,021,397	48,898	5,070,295
To expense items previously capitalized	<u>(3,610,439)</u>	<u>-</u>	<u>(3,610,439)</u>
2014-2015 change in net position, as restated	<u>4,076,717</u>	<u>146,292</u>	<u>4,223,009</u>
Net position at June 30, 2015, as restated	<u>\$(280,456,802)</u>	<u>\$713,403</u>	<u>\$(279,743,399)</u>

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(13) SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 23, 2016, the date on which the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2016 that required recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

COUNCIL ROCK SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local sources	\$ 163,348,588	\$ 163,348,588	\$ 165,919,737	\$ 2,571,149
State sources	47,127,891	47,127,891	47,350,316	222,425
Federal sources	<u>3,570,658</u>	<u>3,570,658</u>	<u>3,071,176</u>	<u>(499,482)</u>
Total revenues	<u>214,047,137</u>	<u>214,047,137</u>	<u>216,341,229</u>	<u>2,294,092</u>
EXPENDITURES				
Instruction				
Regular programs	92,022,000	91,822,702	89,683,308	2,139,394
Special programs	45,518,027	45,333,186	46,027,105	(693,919)
Vocational programs	926,683	1,398,461	1,616,251	(217,790)
Other instructional programs	1,216,316	1,513,034	1,886,546	(373,512)
Nonpublic school programs	<u>13,000</u>	<u>13,000</u>	<u>5,720</u>	<u>7,280</u>
Total instruction	<u>139,696,026</u>	<u>140,080,383</u>	<u>139,218,930</u>	<u>861,453</u>
Support services				
Pupil support services	7,556,121	7,653,141	7,572,200	80,941
Instructional staff services	7,137,295	7,071,161	6,312,877	758,284
Administrative services	9,356,857	9,382,183	9,280,224	101,959
Pupil health	2,837,263	2,830,511	2,795,859	34,652
Business services	1,440,728	1,440,728	1,306,632	134,096
Operation and maintenance of plant services	14,740,787	14,747,098	13,596,413	1,150,685
Student transportation services	11,446,756	11,446,756	12,255,398	(808,642)
Support services - central	4,739,447	4,773,395	4,652,519	120,876
Other support services	<u>96,521</u>	<u>96,521</u>	<u>101,506</u>	<u>(4,985)</u>
Total support services	<u>59,351,775</u>	<u>59,441,494</u>	<u>57,873,628</u>	<u>1,567,866</u>
Operation of non-instructional services				
Student activities	3,419,644	3,423,734	3,429,877	(6,143)
Community services	<u>199,192</u>	<u>199,192</u>	<u>205,214</u>	<u>(6,022)</u>
Total operation of non-instructional services	<u>3,618,836</u>	<u>3,622,926</u>	<u>3,635,091</u>	<u>(12,165)</u>
Debt service				
	<u>17,827,245</u>	<u>17,355,467</u>	<u>16,127,561</u>	<u>1,227,906</u>
Total expenditures	<u>220,493,882</u>	<u>220,500,270</u>	<u>216,855,210</u>	<u>3,645,060</u>
Excess (deficiencies) of revenues over (under) expenditures	<u>(6,446,745)</u>	<u>(6,453,133)</u>	<u>(513,981)</u>	<u>5,939,152</u>
OTHER FINANCING SOURCES (USES)				
Sale of/compensation for capital assets			7,521	7,521
Refund of prior year receipts	-	-	(31,111)	(31,111)
Transfers out	<u>-</u>	<u>-</u>	<u>(4,000,000)</u>	<u>(4,000,000)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(4,023,590)</u>	<u>(4,023,590)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (6,446,745)</u>	<u>\$ (6,453,133)</u>	<u>(4,537,571)</u>	<u>\$ 1,915,562</u>
FUND BALANCE				
Beginning of year			<u>29,564,945</u>	
End of year			<u>\$ 25,027,374</u>	

COUNCIL ROCK SCHOOL DISTRICT

OTHER POST-EMPLOYMENT BENEFITS SCHEDULE OF FUNDING PROGRESS

Year ended June 30, 2016

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
07/01/2015	\$ -	\$ 8,254,001	\$ 7,058,157	0.00%	\$ 98,385,785	8.39%
07/01/2013	\$ -	\$ 7,058,157	\$ 7,058,157	0.00%	\$101,412,410	6.96%
07/01/2011	\$ -	\$ 7,060,063	\$ 7,060,063	0.00%	\$ 97,160,207	7.27%
07/01/2009	\$ -	\$ 6,915,541	\$ 6,915,541	0.00%	\$ 94,394,182	7.33%
07/01/2007	\$ -	\$13,330,847	\$13,330,847	0.00%	\$ 92,677,046	14.38%

COUNCIL ROCK SCHOOL DISTRICT

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

Year ended June 30

	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability (asset)	0.8287%	0.8376%
District's proportionate share of the net pension liability (asset)	\$358,954,000	\$331,529,000
District's covered-employee payroll	\$106,627,027	\$106,878,148
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	337%	310%
Plan fiduciary net position as a percentage of the total pension liability	54%	57%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding year is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

COUNCIL ROCK SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PENSION PLAN CONTRIBUTIONS

Year ended June 30

	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 21,398,000	\$ 16,686,000
Contributions in relation to the contractually required contribution	<u>21,398,000</u>	<u>17,144,433</u>
Contribution deficiency (excess)	-	(458,433)
District's covered-employee payroll	\$106,627,027	\$106,878,148
Contributions as a percentage of covered-employee payroll	20%	16%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding year is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

SINGLE AUDIT

COUNCIL ROCK SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS

Year ended June 30, 2016

<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/Ending Dates</u>	<u>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2015</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2016</u>
U.S. Department of Education										
Passed-Through the Pennsylvania Department of Education										
Title I - Improving Basic Programs	I	84.010	013-150105	07/01/14 - 09/30/15	\$ 283,485	\$ 129,301	\$ 5,660	\$ 123,641	\$ 123,641	\$ -
Title I - Improving Basic Programs	I	84.010	013-160105	07/01/15 - 09/30/16	291,503	180,909	-	177,137	177,137	(3,772)
Total CFDA #84.010						310,210	5,660	300,778	300,778	(3,772)
Title II - Improving Teacher Quality	I	84.367	013-150105	07/01/14 - 09/30/15	193,561	59,453	3,434	56,019	56,019	-
Title II - Improving Teacher Quality	I	84.367	013-160105	07/01/15 - 09/30/16	193,280	149,026	-	174,507	174,507	25,481
Total CFDA #84.367						208,479	3,434	230,526	230,526	25,481
Title III - Language Instruction LEP/ Immigrant Students	I	84.365	010-150105	07/01/14 - 09/30/15	66,154	15,266	2,304	12,962	12,962	-
Title III - Language Instruction LEP/ Immigrant Students	I	84.365	010-160105	07/01/15 - 09/30/16	64,310	54,416	-	54,175	54,175	(241)
Total CFDA #84.365						69,682	2,304	67,137	67,137	(241)
Passed Through the Bucks County I.U.										
I.D.E.A. - Part B, Section 619	I	84.173	062-150022	07/01/15 - 06/30/16	4,032	4,032	-	4,032	4,032	-
I.D.E.A. - Part B, Section 611	I	84.027	062-150022	07/01/14 - 06/30/15	1,763,824	35,597	35,597	-	-	-
I.D.E.A. - Part B, Section 611	I	84.027	062-160022	07/01/15 - 06/30/16	1,739,841	1,716,548	-	1,739,841	1,739,841	23,293
Total CFDA #84.027						1,752,145	35,597	1,739,841	1,739,841	23,293
Total U.S. Department of Education						2,344,548	46,995	2,342,314	2,342,314	44,761
U.S. Department of Health and Social Services										
Drug Free Communities Support Program	D	93.276	5H79SP015667-01	09/30/14 - 09/29/15	125,000	55,000	10,522	44,478	44,478	-
Drug Free Communities Support Program	D	93.276	5H79SP015667-02	09/30/15 - 09/29/16	125,000	93,916	-	95,292	95,292	1,376
Total CFDA #93.276						148,916	10,522	139,770	139,770	1,376

Continued on next page

<u>Federal Grantor/Pass-Through Grantor/Project Title</u>	<u>Source Code</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Grant Period Beginning/Ending Dates</u>	<u>Grant Amount</u>	<u>Total Received for Year</u>	<u>Accrued (Deferred) Revenue July 1, 2015</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2016</u>
Passed Through the Bucks County I.U.										
Medical Assistance Program	I	93.778	N/A	07/01/14 - 06/30/15	N/A	2,778	2,778	-	-	-
Medical Assistance Program	I	93.778	N/A	07/01/15 - 06/30/16	N/A	8,653	-	16,544	16,544	7,891
Total CFDA #93.276						11,431	2,778	16,544	16,544	7,891
Total U.S. Department of Health and Human Services						160,347	13,300	156,314	156,314	9,267
U.S. Department of Agriculture										
Passed-Through the Pennsylvania Department of Education										
State Matching Share	S	N/A	N/A	07/01/14 - 06/30/15	N/A	7,018	7,018	-	-	-
State Matching Share	S	N/A	N/A	07/01/15 - 06/30/16	N/A	34,564	-	36,057	36,057	1,493
Total State Matching Share						41,582	7,018	36,057	36,057	1,493
National School Lunch Program	I	10.555	N/A	07/01/14 - 06/30/15	N/A	57,002	57,002	-	-	-
National School Lunch Program	I	10.555	N/A	07/01/15 - 06/30/16	N/A	291,770	-	304,326	304,326	12,556
Passed-Through the Pennsylvania Department of Agriculture										
National School Lunch Program	I	10.555	N/A	07/01/15 - 06/30/16	N/A	124,381	(20,593)	113,057	113,057	(31,917)
Total CFDA #10.555						473,153	36,409	417,383	417,383	(19,361)
Total U.S. Department of Agriculture						514,735	43,427	453,440	453,440	(17,868)
Total Federal Awards and Certain State Grants						\$3,019,630	\$103,722	\$2,952,068	\$2,952,068	\$ 36,160
Total Federal Awards						\$2,978,048	\$ 96,704	\$2,916,011	\$2,916,011	\$ 34,667
Total State Awards						41,582	7,018	36,057	36,057	1,493
Total Federal Awards and Certain State Grants						\$3,019,630	\$103,722	\$2,952,068	\$2,952,068	\$ 36,160
Special Education Cluster (IDEA) (CFDA's #84.027 and #84.173)						\$1,756,177	\$ 35,597	\$1,743,873	\$1,743,873	\$ 23,293

Source Codes

- D - Direct Funding
- I - Indirect Funding
- S - State Share

Footnotes

- a) Total amount of commodities received from U.S. Department of Agriculture
- b) Beginning inventory at July 1
- c) Total amount of commodities used
- d) Ending inventory at June 30

COUNCIL ROCK SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS

June 30, 2016

(1) FEDERAL EXPENDITURES

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

(2) BASIS OF ACCOUNTING

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

(3) NONMONETARY FEDERAL AWARDS – DONATED FOOD

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals and prisons) and to the needy. Expenditures reported in the Schedule of Expenditures of Federal Awards and Certain State Grants under CFDA #10.555 USDA Commodities represent federal surplus food consumed by the District during the 2015-2016 fiscal year.

(4) ACCESS PROGRAM

The District participates in the ACCESS Program which is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding recognized for the year ended June 30, 2016 was \$572,548.

(5) INDIRECT COSTS

The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance. No indirect costs were charged to the District's Federal awards for the year ended June 30, 2016.

COUNCIL ROCK SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2016

There were no audit findings for the year ended June 30, 2015.



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

**Board of School Directors
Council Rock School District
Newtown, Pennsylvania**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Council Rock School District, Newtown, Pennsylvania, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Council Rock School District's basic financial statements, and have issued our report thereon dated December 23, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

BBD, LLP

**Philadelphia, Pennsylvania
December 23, 2016**



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

**Board of School Directors
Council Rock School District
Newtown, Pennsylvania**

Report on Compliance for Each Major Federal Program

We have audited Council Rock 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 Council Rock School District's major federal programs for the year ended June 30, 2016. Council Rock School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Council Rock School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("**Uniform Guidance**"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Council Rock School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Council Rock 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, 2016.

Report on Internal Control over Compliance

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

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

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

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

BBD, LLP

**Philadelphia, Pennsylvania
December 23, 2016**

COUNCIL ROCK SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2016

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Council Rock School District were prepared in accordance with GAAP.
2. No significant deficiencies or material weaknesses relating to the audit of the financial statements of Council Rock School District are reported in the independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of Council Rock School District, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies or material weaknesses in internal control over the major federal award programs are reported in the independent auditor's report on compliance for each major program and on internal control over compliance required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for Council Rock School District expresses an unmodified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a).
7. The programs tested as major programs were:
 - Special Education Cluster
 - Special Education Grants to States – CFDA Number 84.027
 - Special Education Preschool Grants – CFDA Number 84.173
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. The Council Rock School District did qualify as a low-risk auditee.

FINDINGS—FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

None