



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

Financial Statements  
Year Ended June 30, 2018



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Philadelphia, PA 19103

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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, 2018, 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, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### **Change In Accounting Principle**

As described in Note 14 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". Our opinions are not modified with respect to that matter.

### **Report on Summarized Comparative Information**

We have previously audited Council Rock School District's 2017 financial statements, and our report dated December 21, 2017, 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, 2017, 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 schedules of the District's proportionate share of the net pension liability and pension plan contributions, schedule of changes in OPEB liability single-employer plan, and the schedules of the District's proportionate share of the OPEB liability -PSERS and OPEB plan PSERS contributions on pages 3 through 15 and 51 through 56 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 19, 2018, 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 19, 2018**

# COUNCIL ROCK SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2018

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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, 2018. 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 1,424 employees in the District including 868 teachers and professionals, 46 administrators and 510 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

- Effective 2017-2018, the District was required to comply with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The major impact of GASB Statement No. 75 is to present, on the Statement of Financial Position, certain items related to the District's proportionate liability from its participation in the Commonwealth's Public School Employees Retirement System ("**PSERS**") healthcare insurance premium assistance program, which was not required to be presented in the prior years. Consequently, the implementation of GASB Statement No. 75 resulted in an increase in the deficit in the District's unrestricted net position as of June 30, 2018. For consistency purposes, the June 30, 2017 Statement of Net Position has been restated in the financial statements as if GASB Statement No. 75 had been applied, retroactively.

Elements of GASB Statement No. 75 included within the Statement of Net Position include actuarially determined liabilities for other postemployment benefits single and multi-agent plans of \$10,976,412 and \$16,548,000, respectively, and deferred outflows of \$1,856,501 (primarily changes in actuarial assumptions under the new standard – an effective reduction of the liability) and deferred inflows of \$1,039,564 (difference between expected and actual experience, to be recognized as a future reduction in OPEB expense – an effective increase in the liability until fully recognized).

- 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 2017-2018 fiscal year of \$290,750,554. During the 2017-2018 fiscal year, the District had an increase in total net position of \$10,897,456. The net position of governmental activities increased by \$10,824,544 and net position of the business-type activities increased by \$72,912.
- The General Fund reported a decrease in fund balance of \$2,701,590, bringing the cumulative balance to \$21,385,078 at the conclusion of the 2017-2018 fiscal year. At June 30, 2018, the General Fund fund balance includes \$10,610,495 committed or assigned by the School Board and management for the following purposes:
  - ♦ \$2,630,018 committed to future education initiatives
  - ♦ \$3,889,000 committed to fund future self-insured health insurance expenditures
  - ♦ \$4,091,477 committed to balance the 2018-2019 budget

# COUNCIL ROCK SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2018

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- At June 30, 2018, the General Fund fund balance includes unassigned amounts of \$10,743,247 or 4.46% of the \$240,679,101 2018-2019 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 2017-2018, the Capital Projects Fund reported an increase in fund balance of \$2,892,650 due to proceeds received from general obligation and debt and transfers from the General Fund in excess of capital expenditures. The remaining fund balance of \$58,668,490 as of June 30, 2018 is restricted for future capital expenditures.

### 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.

# COUNCIL ROCK SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2018

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### 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.

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 and the prior workers' compensation plan. The District now has a fully insured workers' compensation contract, but maintains a small reserve in the Internal Service Fund. 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.

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# COUNCIL ROCK SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2018

The notes to the financial statements can be found on Pages 27 through 50 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 51 through 56 of this report.

### 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 2017-2018 fiscal year the District's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$290,750,554. The following table presents condensed information for the *Statement of Net Position (Deficit)* of the District at June 30, 2018 and 2017.

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
<b>ASSETS</b>						
Current assets	\$ 118,835,318	\$ 112,219,362	\$727,886	\$576,293	\$ 119,563,204	\$ 112,795,655
Noncurrent assets	<u>230,819,789</u>	<u>189,565,515</u>	<u>223,733</u>	<u>250,200</u>	<u>231,043,522</u>	<u>189,818,715</u>
<b>Total assets</b>	<u>349,655,107</u>	<u>301,787,877</u>	<u>951,619</u>	<u>826,493</u>	<u>350,606,726</u>	<u>302,614,370</u>
<b>DEFERRED OUTFLOWS</b>						
Deferred charges – pension	60,275,183	68,748,961	-	-	60,275,183	68,748,961
Deferred charges – OPEB	1,856,501	897,945	-	-	1,856,501	897,945
Deferred amounts on debt refunding	<u>317,252</u>	<u>348,094</u>	<u>-</u>	<u>-</u>	<u>317,252</u>	<u>348,094</u>
<b>Total deferred outflows</b>	<u>62,448,936</u>	<u>69,995,000</u>	<u>-</u>	<u>-</u>	<u>62,448,936</u>	<u>69,995,000</u>
<b>LIABILITIES</b>						
Current liabilities	29,541,559	27,895,696	263,516	211,302	29,805,075	28,106,998
Noncurrent liabilities	<u>663,225,904</u>	<u>641,792,382</u>	<u>-</u>	<u>-</u>	<u>663,225,904</u>	<u>641,792,382</u>
<b>Total liabilities</b>	<u>692,767,463</u>	<u>669,688,078</u>	<u>263,516</u>	<u>211,302</u>	<u>693,030,979</u>	<u>669,899,380</u>
<b>DEFERRED INFLOWS</b>						
Deferred credits – OPEB	1,039,564	-	-	-	1,039,564	-
Deferred credits – pension	<u>9,735,673</u>	<u>4,358,000</u>	<u>-</u>	<u>-</u>	<u>9,735,673</u>	<u>4,358,000</u>
<b>Total deferred inflows</b>	<u>10,775,237</u>	<u>4,358,000</u>	<u>-</u>	<u>-</u>	<u>10,775,237</u>	<u>4,358,000</u>
<b>NET POSITION (DEFICIT)</b>						
Net investment in capital assets	49,709,845	37,152,100	223,733	250,200	49,933,578	37,402,300
Restricted	9,339,707	8,082,554	-	-	9,339,707	8,082,554
Unrestricted (deficit)	<u>(350,488,209)</u>	<u>(347,497,855)</u>	<u>464,370</u>	<u>364,991</u>	<u>(350,023,839)</u>	<u>(347,132,864)</u>
<b>Total net position (deficit)</b>	<u>\$(291,438,657)</u>	<u>\$(302,263,201)</u>	<u>\$688,103</u>	<u>\$615,191</u>	<u>\$(290,750,554)</u>	<u>\$(301,648,010)</u>

The District's total assets as of June 30, 2018 were \$350,606,726 of which \$106,900,210 or 30.49% consisted of cash and investments and \$231,043,522 or 65.90% consisted of the District's investment in capital assets. The District's total liabilities as of June 30, 2018 were \$693,030,979 of which \$230,755,979 or 33.30% consisted of general obligation debt used to acquire and construct capital assets and \$401,133,000 or 57.88% consisted of the actuarially determined net pension liability.

# COUNCIL ROCK SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2018

The District had a deficit in unrestricted net position of \$350,023,839. The District's unrestricted net position decreased by \$2,890,975 during 2017-2018 primarily due to 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 \$9,339,707 as of June 30, 2018. All of the District's restricted net position related to amounts restricted through Board resolution for future capital expenditures.

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, 2018, the District's net investment in capital assets increased by \$12,531,278 because the debt used to acquire the capital assets was being repaid faster than the capital assets were being depreciated and capital assets were acquired with funding sources other than long-term debt.

The following table presents condensed information for the *Statement of Activities* of the District for 2018 and 2017:

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
<b>REVENUES</b>						
<b>Program revenues</b>						
Charges for services	\$ 1,034,273	\$ 803,631	\$2,941,089	\$3,117,005	\$ 3,975,362	\$ 3,920,636
Operating grants and contributions	35,650,479	34,670,295	500,909	483,146	36,151,388	35,153,441
Capital grants and contributions	420,516	3,636,313	-	-	420,516	3,636,313
<b>General revenues</b>						
Property taxes levied for general purposes	147,404,505	143,568,589	-	-	147,404,505	143,568,589
Earned income taxes levied for general purposes	17,845,729	18,398,182	-	-	17,845,729	18,398,182
Other taxes levied for general purposes	8,421,898	8,228,088	-	-	8,421,898	8,228,088
Grants and entitlements not restricted to specific programs	20,064,171	19,788,414	-	-	20,064,171	19,788,414
Investment earnings	1,676,637	946,740	4,520	2,384	1,681,157	949,124
Transfers	(255,553)	-	255,553	-	-	-
<b>Total revenues</b>	<b>232,262,655</b>	<b>230,040,252</b>	<b>3,702,071</b>	<b>3,602,535</b>	<b>235,964,726</b>	<b>233,642,787</b>
<b>EXPENSES</b>						
Instruction	152,906,942	154,038,150	-	-	152,906,942	154,038,150
Instructional student support services	17,986,108	18,637,496	-	-	17,986,108	18,637,496
Administrative and financial support services	18,569,808	16,582,611	-	-	18,569,808	16,582,611
Operation and maintenance of plant services	11,846,032	14,812,221	-	-	11,846,032	14,812,221
Pupil transportation	11,529,771	12,280,184	-	-	11,529,771	12,280,184
Student activities	3,516,334	3,597,706	-	-	3,516,334	3,597,706
Community services	188,033	189,759	-	-	188,033	189,759
Interest and amortization expense related to noncurrent liabilities	4,895,083	5,282,809	-	-	4,895,083	5,282,809
Food service	-	-	3,629,159	3,759,986	3,629,159	3,759,986
<b>Total expenses</b>	<b>221,438,111</b>	<b>225,420,936</b>	<b>3,629,159</b>	<b>3,759,986</b>	<b>225,067,270</b>	<b>229,180,922</b>
<b>CHANGE IN NET POSITION (DEFICIT)</b>						
	<b>\$ 10,824,544</b>	<b>\$ 4,619,316</b>	<b>\$ 72,912</b>	<b>\$ (157,451)</b>	<b>\$ 10,897,456</b>	<b>\$ 4,461,865</b>

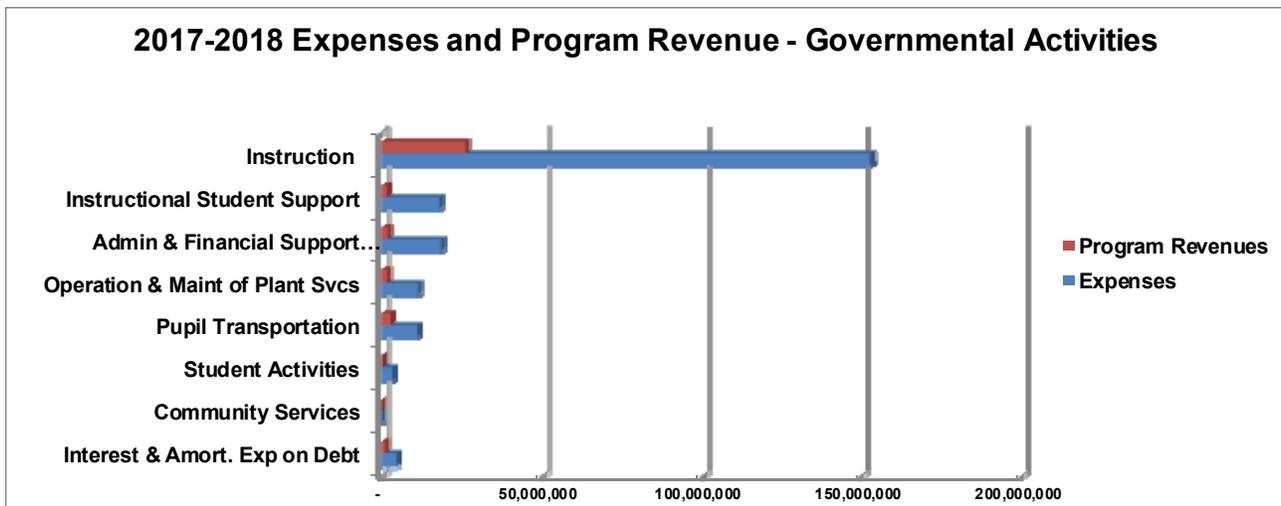
# COUNCIL ROCK SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

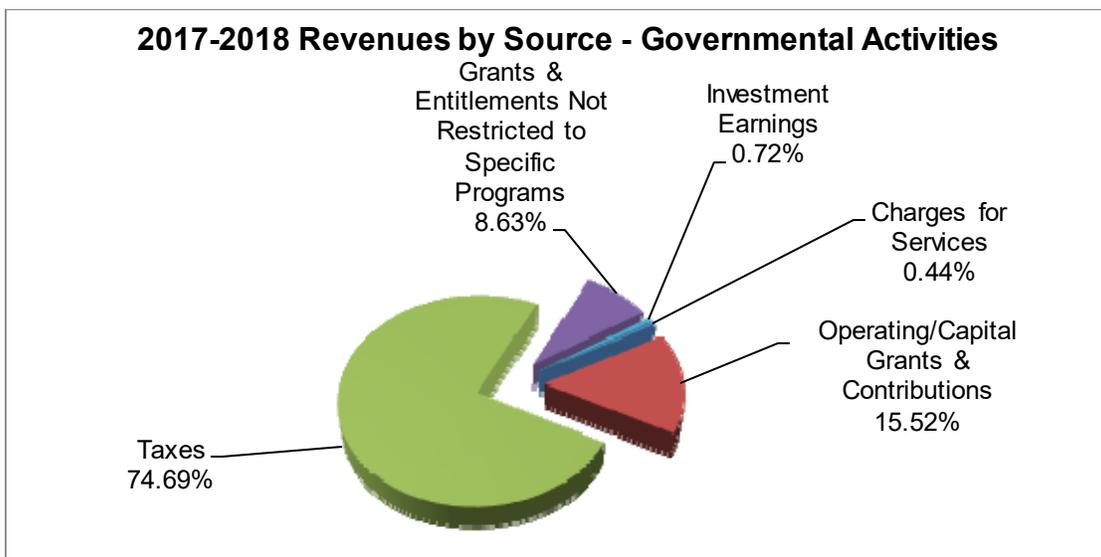
June 30, 2018

Overall, the District's financial position has been improving but challenges such as increased medical costs, pension contributions, state-mandated programs and negotiated contracts have a potential to offset these gains in future fiscal years. 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, 2018

### GOVERNMENTAL FUNDS

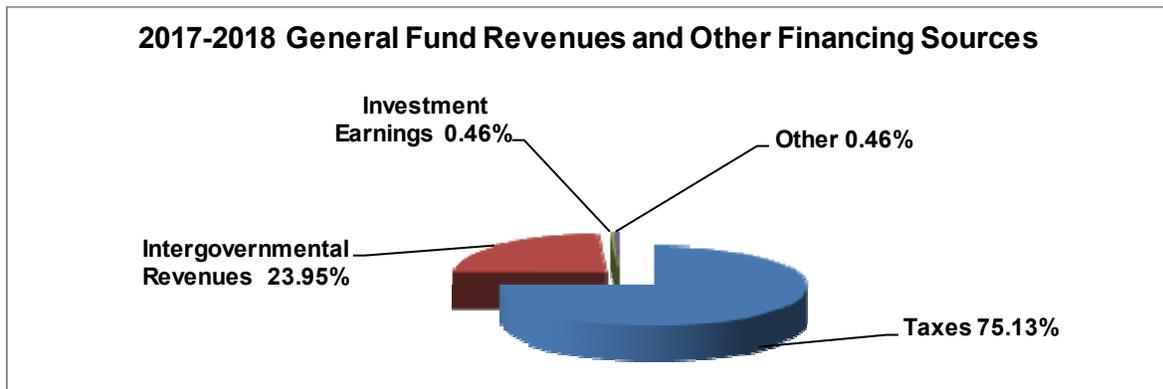
The governmental fund financial statements provide detailed information of the District's major funds. Some funds are required to be established by State statute while other funds are established by the District to manage monies restricted for a specific purpose. As of June 30, 2018, the District's governmental funds reported a combined fund balance of \$80,053,568 which is an increase of \$191,060 from the prior year. The following table summarizes the District's total governmental fund balances as of June 30, 2018 and 2017 and the total 2018 change in governmental fund balances.

	<u>2018</u>	<u>2017</u>	<u>Change</u>
General Fund	\$21,385,078	\$24,086,668	\$(2,701,590)
Capital Projects Fund	58,668,490	55,775,840	2,892,650
	<u>\$80,053,568</u>	<u>\$79,862,508</u>	<u>\$ 191,060</u>

### GENERAL FUND

The General Fund is the District's primary operating fund. At the conclusion of the 2017-2018 fiscal year, the General Fund fund balance was \$21,385,078 representing a decrease of \$2,701,590 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 2017-2018 fiscal year.

The District's reliance upon tax revenues is demonstrated by the graph below that indicates 75.13% of General Fund revenues are derived from local taxes.



### General Fund Revenues and Other Financing Sources

	<u>2018</u>	<u>2017</u>	<u>\$ Change</u>	<u>% Change</u>
Tax revenues	\$174,650,556	\$170,144,310	\$4,506,246	2.65
Intergovernmental revenues	55,688,581	54,425,112	1,263,469	2.32
Investment earnings	1,064,474	579,205	485,269	83.78
Other	1,061,414	855,332	206,082	24.09
	<u>\$232,465,025</u>	<u>\$226,003,959</u>	<u>\$6,461,066</u>	<u>2.86</u>

Tax revenues increased by \$4,506,246 or 2.65% in 2017-2018 when compared to 2016-2017. The reason for this increase is the result of \$5,061,090 in additional real estate tax revenue. This increase is the result of a 0.35% increase in assessed values and a 2.40% increase in the millage rate. The other large increase occurred in the District's earned income tax revenue. After a large increase in earned income tax revenue in the 2016-2017 year, revenues decreased from \$18,398,182 in the 2016-2017 year to \$17,845,729 in the 2017-2018 year. This decrease amounted to \$552,453 or 3.00%, but continued to outpace the budgeted amount by \$1,345,729 or 8.16%. Finally, our collection of delinquent taxes increased by \$239,448 or 11.99%. This increase occurred after a large decline of \$565,313 in the 2016-2017 year.

# COUNCIL ROCK SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

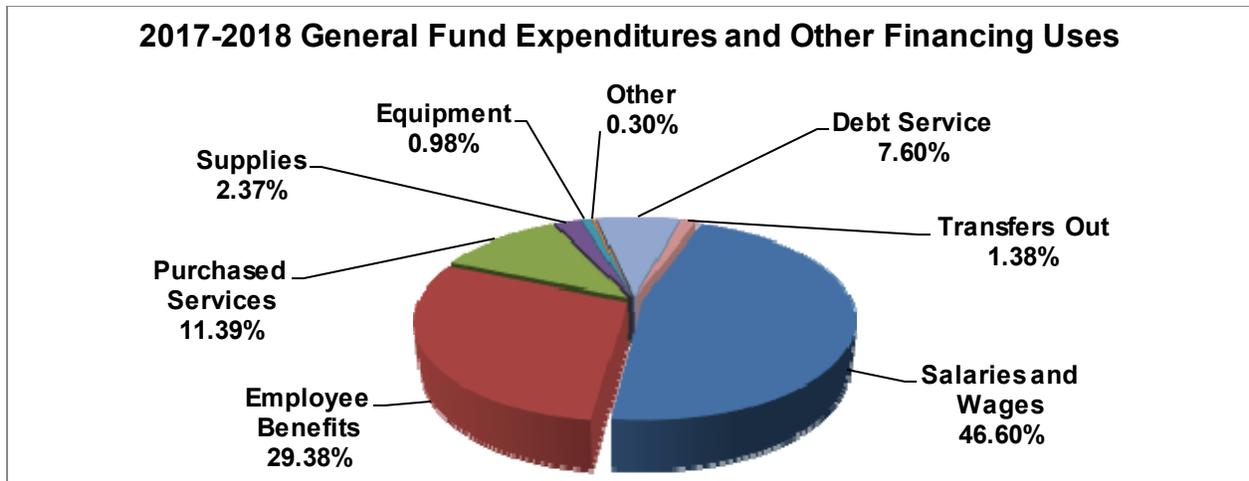
June 30, 2018

Intergovernmental revenues increased by \$1,263,469 or 2.32% in 2017-2018 when compared to 2016-2017, 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 \$16,204,400 in 2016-2017 to \$17,872,045 in 2017-2018. The revenue from PlanCon decreased by \$737,785 in the 2017-2018 year. The District received a significant amount of revenue in the 2016-2017 year due from the State, which was not paid in previous years.

Other revenues increased by \$206,082 or 24.09% in 2017-2018 when compared to 2016-2017. The following is a listing of the causes of this increase:

- Tuition paid from other school systems increased by \$131,181 from prior year.
- Revenue the District received for its aquatics program increased by \$39,850 in the 2017-2018 year. The 2016-2017 revenue was affected by a condensed swim season due to the need to close the pool for emergency repairs. The 2017-2018 revenues recovered to the average of past full season amounts.
- Field rental revenue was reduced by \$42,168 due to CRUSA revenue being accounted for in the Turf the Rocks account.

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>2018</u>	<u>2017</u>	<u>\$ Change</u>	<u>% Change</u>
Salaries and wages	\$109,581,908	\$107,821,813	\$1,760,095	1.63
Employee benefits	69,092,381	65,860,955	3,231,426	4.91
Purchased services	26,778,954	24,623,075	2,155,879	8.76
Supplies	5,577,343	5,560,698	16,645	0.30
Equipment	2,314,240	1,194,373	1,119,867	93.76
Other	695,222	644,755	50,467	7.83
Debt service	17,871,014	17,926,504	(55,490)	(0.31)
Transfers out	<u>3,255,553</u>	<u>3,312,492</u>	<u>(56,939)</u>	<u>(1.72)</u>
	<u>\$235,166,615</u>	<u>\$226,944,665</u>	<u>\$8,221,950</u>	<u>3.62</u>

Salaries and wages increased by \$1,760,095 or 1.63% in 2017-2018 when compared to 2016-2017. This increase is due to the 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.

# COUNCIL ROCK SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2018

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Employee benefits increased by \$3,231,426 or 4.91% in 2017-2018 when compared to 2016-2017. The major cause was the increase in the District's required contribution to PSERS. The PSERS contribution rate increased from 30.03% in 2016-2017 to 32.57% in 2017-2018 representing an 8.46% increase. Because of the PSERS contribution rate increase, the associated expenditures increased by \$3,160,001. In addition, healthcare and dental expenditures increased by \$531,028 due to increases in the developed premiums. There was also a significant decrease in unemployment contributions of \$263,647 due to the limited unemployment claims received.

Purchased services increased by \$2,155,879 or 8.76% in 2017-2018 when compared to 2016-2017. There were three major areas of increase. The first was \$1,133,591 in payments to our substituted contractor. In the past we hired our substitute employees. We changed that practice in the 2017-2018 year and now hire a contractor to supply our professional substitutes. The second was an increase in contracted special education services of \$545,078 and third was an additional \$431,401 paid to the Middle Bucks Institute of Technology.

The District purchases equipment annually based on specific needs. The increase in equipment expenditures of \$1,119,867 or 93.76% in 2017-2018 when compared to 2016-2017, for the most part, can be attributed to the increased purchasing of technology related equipment.

During 2017-2018, in accordance with School Board Policy No. 620, the District made operating transfers totaling \$3,255,553 to the Capital Projects Fund and Food Service Fund that represented General Fund unassigned fund balance in excess of 5% of the following year's expenditure budget.

### 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 2017-2018, the Capital Projects Fund reported an increase in fund balance of \$2,892,650 due to proceeds received from general obligation and debt and transfers from the General Fund in excess of capital expenditures. The remaining fund balance of \$58,668,490 as of June 30, 2018 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 \$3,332,109 and actual expenditures and other financing uses were more than budget by \$1,832,980 resulting in a net positive variance of \$1,499,129. Major budgetary highlights for 2017-2018 were as follows.

- Actual local source revenues were \$2,211,163 more than budgeted amounts which can be primarily attributed to the variances in the following revenue sources:

	<b>Original and Final Budget</b>	<b>Actual</b>	<b>Variance With Final Budget Positive (Negative)</b>
Current real estate taxes	\$144,510,096	\$146,022,920	\$1,512,824
Earned income taxes	16,500,000	17,845,729	1,345,729
Delinquent taxes	<u>2,550,000</u>	<u>2,236,913</u>	<u>(313,087)</u>
	<b><u>\$163,560,096</u></b>	<b><u>\$166,105,562</u></b>	<b><u>\$2,545,466</u></b>

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# COUNCIL ROCK SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2018

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- ◆ Current real estate taxes exceeded budget by \$1,512,824 or 1.05% due to a slightly more positive collection rate in 2017-2018 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 past two years the District experienced lesser growth. In the 2017-2018 year earned income taxes decreased 3.00% from 2016-2017 actual. However, this change amounted to \$1,345,729 over the budget.
- ◆ Delinquent taxes were less than the budget by 12.28%. This was caused by the higher collection rate the District has been experiencing in our current collection of taxes.
- Revenues from state sources were more than budget in the amount of \$936,623 due to the following factors:
  - ◆ Basic Education Subsidy was budgeted based on 2016-2017 information because the State budget had not been adopted at the time our budget was approved, resulting in a positive variance of \$144,756.
  - ◆ The District received \$54,963 more in State Tuition.
  - ◆ The District received \$94,813 more in Special Education fundings than budgeted.
  - ◆ The District received \$446,042 more in PlanCon reimbursement from previously delayed payments from the Commonwealth.
  - ◆ The District received \$212,384 more in PSERS State reimbursement than expected.
- Revenues from federal sources were more than budgeted in the amount of \$177,898 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.
- The District made operating transfers totaling \$3,000,000 to the Capital Projects Fund and an additional \$255,553 to the Food Service Fund. The operating transfer to the Capital Reserve will be used to fund the District's "Summer" budgets in 2019. The transfer to the Food Service was required to fund revenues we did not receive from the State and Federal governments for the High School free and reduced lunches served in the 2016-2017 and 2017-2018 years. These operating transfers were not included in the original General Fund budget.
- Salaries and wages were over expended by \$1,560,672 or 1.44%. This was caused by many reasons including the vertical movement of professional staff members of the salary schedule.
- Employee benefits were under expended by \$16,317 or 0.02%.
- Operation and maintenance of plant services were under expended by \$916,500 or 6.29%. The largest under expended areas were electricity purchases, which were under expended by \$311,954, contracted maintenance services were under expended by \$296,228, supplies by \$135,044, and rentals by \$118,628.
- Student transportation services were under expended by \$492,308 due to the under expenditure of propane purchases and rebates of \$20,184 and contracted services by \$210,252.
- Special education contracted services were under expended by \$766,417 or 18.58%. This occurred because there were some specialized services budgeted that were not needed.
- Debt service was slightly under expended by \$95,387 or 0.53%. This under expenditure was a result of our variable rate debt's actual interest rate lower than the 4.00% budgeted assumption.

# COUNCIL ROCK SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2018

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### BUSINESS-TYPE ACTIVITIES AND FOOD SERVICE FUND

During 2017-2018, the net position of the business-type activities and Food Service Fund increased by \$72,912. As of June 30, 2018, the business-type activities and Food Service Fund had net position of \$688,103.

### CAPITAL ASSETS

The District's investment in capital asset for its governmental and business-type activities as of June 30, 2018 amounted to \$231,043,522 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 \$41,224,807 or 21.72%. The increase was the result of current year capital additions in excess of current year depreciation expense.

Current year capital additions were \$45,485,253 and depreciation expense was \$4,260,446.

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

- Newtown Middle School renovations \$24,553,111
- Holland Middle School renovations \$15,293,455

### NONCURRENT LIABILITIES

At the end of the current fiscal year, the District had total general obligation debt of \$230,755,979 consisting of \$218,260,000 in bonds payable, \$6,100,000 in notes payable and net deferred credits of \$6,395,979. 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 \$30,298,184 or 15.11% during the fiscal year.

During 2017-2018, the District issued general obligation bonds, Series of 2018, in the amount of \$43,000,000, the proceeds from which were applied toward payment of the costs of acquiring, designing, constructing, furnishing and equipping alterations, additions, renovations and other improvements to the District's existing school buildings and other facilities and to pay the costs of issuing the bonds.

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 \$401,133,000 as of June 30, 2018. The District's net pension liability decreased by \$8,603,000 or 2.10% during the fiscal year.

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 \$230,755,979 is within the current debt limitation of the District which was \$503,554,835 as of June 30, 2018.

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

The District reports a liability for its other post-employment benefits ("**OPEB**") related to its single employer OPEB plan and its participation in the PSERS health insurance premium assistance program. The District's OPEB liability is an actuarially determined estimate of the unfunded cost of the OPEB obligation which totaled \$27,524,412 as of June 30, 2018. The District's OPEB liability decreased by \$347,769 or 1.25% during the fiscal year.

Other noncurrent liabilities consist of the District's liabilities for compensated absences, which totaled \$3,812,513 as of June 30, 2018. These liabilities increased by \$86,107 or 2.31% during the fiscal year.

# COUNCIL ROCK SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2018

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### 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 2018-2019 is 10,885 and is projected to increase slightly in the 2019-2020 year.
- The District has been involved in an aggressive renovation plan that most recently included the renovation and addition of Holland Middle School and the replacement of Newtown Middle School. As part of these projects the District is no longer utilizing the Richboro Middle School as a middle school. Additionally, Wrightstown Elementary School is currently being expanded and renovated. During the 2018-2019 school year the students from Wrightstown are being relocated to Richboro Middle School as the renovations are occurring at their school. The renovation of Rolling Hills Elementary School is in the design phase and construction is expected to begin during the 2019-2020 year.
- The Board of School Directors is in the final phase of making decisions regarding redistricting our schools in an effort to utilize our facilities more efficiently.
- There have been discussions regarding a long-term capital plan to include the renovations of the remaining four elementary schools and relocating our ACHIEVE and Sloan programs to the vacated Richboro Middle School. These project estimates exceed \$112 million.
- Additional tax and enrollment information is available on the District's website: (<http://www.crsd.org>).
- The District adopted a balanced 2018-2019 budget totaling \$240,679,101 that includes the use of \$4,091,477 of General Fund fund balance and the real estate tax millage rate that increased by 2.40%.
- Act 1 was passed in 2006, which repealed Act 72. Act 1 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 by 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 2018-2019), 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. The District applied for no Act 1 exceptions in 2018-2019.
  - ♦ Gaming revenues distributed under the provision of Act 1 (Act 1 permitted gambling in Pennsylvania) are to be used for reducing property taxes for homesteads and farmsteads. The District's distribution for 2017-2018 was \$5,619,415.

# COUNCIL ROCK SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

June 30, 2018

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- In November 2010 and, again, in 2017 legislation was signed into law to implement a series of actuarial and funding changes to the Public School Employees' Retirement System ("**PSERS**"). The 2017 law will not take effect until July of 2019. The law will change the pension plans for all new hires effective July 1, 2019. It does not impact the pension benefits of current or retired PSERS members. Based on available projections, school districts will not see relief from the new legislation until 10-20 years in the future. The employer contribution rate for 2019-2020 is projected at 34.79%. Currently, the employer contribution rate for 2018-2019 is 33.43%, which is an increase of 2.64% from the 2017-2018 employer contribution rate of 32.57%. The increase in the employer contribution rate in 2018-2019 is estimated to increase the District's retirement contribution by approximately \$2.4 million, of which the District's local share is \$1.2 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>
2018-2019	33.43%	2.64%	37,465,334	1,073,007	1,073,007	0.86	0.71%
2019-2020	34.79%	4.07%	38,989,500	762,083	762,083	0.61	0.51%
2020-2021	35.26%	1.35%	39,516,233	263,367	263,367	0.21	0.17%
2021-2022	35.68%	1.19%	39,986,931	235,349	235,349	0.19	0.16%
2022-2023	36.32%	1.79%	40,704,186	358,628	358,628	0.29	0.24%

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, 2018 with summarized comparative totals for 2017

	Governmental Activities	Business-type Activities	Totals	
			2018	2017
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>				
<b>CURRENT ASSETS</b>				
Cash	\$ 86,184,600	\$ 279,157	\$ 86,463,757	\$ 79,603,770
Investments	20,436,453	-	20,436,453	20,019,914
Taxes receivable	2,778,616	-	2,778,616	3,610,238
Due from other governments	8,089,797	26,507	8,116,304	8,210,561
Internal balances	(255,553)	255,553	-	-
Other receivables	803,069	110,665	913,734	466,207
Deposit	767,000	-	767,000	784,000
Inventories	31,336	56,004	87,340	100,965
<b>Total current assets</b>	<b>118,835,318</b>	<b>727,886</b>	<b>119,563,204</b>	<b>112,795,655</b>
<b>NONCURRENT ASSETS</b>				
Capital assets, net	230,819,789	223,733	231,043,522	189,818,715
<b>Total assets</b>	<b>349,655,107</b>	<b>951,619</b>	<b>350,606,726</b>	<b>302,614,370</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred amounts on debt refunding	317,252	-	317,252	348,094
Deferred charges - OPEB	1,856,501	-	1,856,501	897,945
Deferred charges - pension	60,275,183	-	60,275,183	68,748,961
<b>Total deferred outflows of resources</b>	<b>62,448,936</b>	<b>-</b>	<b>62,448,936</b>	<b>69,995,000</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	6,894,553	230,877	7,125,430	7,731,896
Accrued salaries, payroll withholdings and benefits	15,490,186	-	15,490,186	14,592,933
Insurance claims payable	1,532,846	-	1,532,846	1,483,081
Accrued interest payable	984,002	-	984,002	803,827
Unearned revenue	4,639,972	32,639	4,672,611	3,495,261
<b>Total current liabilities</b>	<b>29,541,559</b>	<b>263,516</b>	<b>29,805,075</b>	<b>28,106,998</b>
<b>NONCURRENT LIABILITIES</b>				
Due within one year	12,437,054	-	12,437,054	13,308,637
Due in more than one year	650,788,850	-	650,788,850	628,483,745
<b>Total noncurrent liabilities</b>	<b>663,225,904</b>	<b>-</b>	<b>663,225,904</b>	<b>641,792,382</b>
<b>Total liabilities</b>	<b>692,767,463</b>	<b>263,516</b>	<b>693,030,979</b>	<b>669,899,380</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred credits - OPEB	1,039,564	-	1,039,564	-
Deferred credits - pension	9,735,673	-	9,735,673	4,358,000
<b>Total deferred outflows of resources</b>	<b>10,775,237</b>	<b>-</b>	<b>10,775,237</b>	<b>4,358,000</b>
<b>NET POSITION (DEFICIT)</b>				
Net investment in capital assets	49,709,845	223,733	49,933,578	37,402,300
Restricted	9,339,707	-	9,339,707	8,082,554
Unrestricted (deficit)	(350,488,209)	464,370	(350,023,839)	(347,132,864)
<b>Total net position (deficit)</b>	<b>\$ (291,438,657)</b>	<b>\$ 688,103</b>	<b>\$ (290,750,554)</b>	<b>\$ (301,648,010)</b>

See accompanying notes

# COUNCIL ROCK SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES

Year ended June 30, 2018 with summarized comparative totals for 2017

	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals	
							2018	2017
<b>GOVERNMENTAL ACTIVITIES</b>								
Instruction	\$ 152,906,942	\$ 399,067	\$ 25,610,414	\$ 369,356	\$ (126,528,105)	\$ -	\$ (126,528,105)	\$ (124,220,512)
Instructional student support	17,986,108	-	1,781,771	-	(16,204,337)	-	(16,204,337)	(16,715,778)
Administrative and financial support services	18,569,808	-	2,080,641	-	(16,489,167)	-	(16,489,167)	(14,927,892)
Operation and maintenance of plant services	11,846,032	404,247	1,551,201	-	(9,890,584)	-	(9,890,584)	(13,689,502)
Pupil transportation	11,529,771	-	2,931,075	-	(8,598,696)	-	(8,598,696)	(10,321,760)
Student activities	3,516,334	70,341	349,335	51,160	(3,045,498)	-	(3,045,498)	(3,182,383)
Community services	188,033	160,618	-	-	(27,415)	-	(27,415)	(53,888)
Interest and amortization expense related to noncurrent liabilities	4,895,083	-	1,346,042	-	(3,549,041)	-	(3,549,041)	(3,198,982)
<b>Total governmental activities</b>	<u>221,438,111</u>	<u>1,034,273</u>	<u>35,650,479</u>	<u>420,516</u>	<u>(184,332,843)</u>	<u>-</u>	<u>(184,332,843)</u>	<u>(186,310,697)</u>
<b>BUSINESS-TYPE ACTIVITIES</b>								
Food service	3,629,159	2,941,089	500,909	-	-	(187,161)	(187,161)	(159,835)
<b>Total primary government</b>	<u>\$ 225,067,270</u>	<u>\$ 3,975,362</u>	<u>\$ 36,151,388</u>	<u>\$ 420,516</u>	<u>(184,332,843)</u>	<u>(187,161)</u>	<u>(184,520,004)</u>	<u>(186,470,532)</u>
<b>GENERAL REVENUES</b>								
Property taxes levied for general purposes					147,404,505	-	147,404,505	143,568,589
Earned income taxes levied for general purposes					17,845,729	-	17,845,729	18,398,182
Other taxes levied for general purposes					8,421,898	-	8,421,898	8,228,088
Grants and entitlements not restricted to specific programs					20,064,171	-	20,064,171	19,788,414
Investment earnings					1,676,637	4,520	1,681,157	949,124
<b>TRANSFERS</b>					<u>(255,553)</u>	<u>255,553</u>	<u>-</u>	<u>-</u>
<b>Total general revenues and transfers</b>					<u>195,157,387</u>	<u>260,073</u>	<u>195,417,460</u>	<u>190,932,397</u>
<b>CHANGE IN NET POSITION (DEFICIT)</b>					10,824,544	72,912	10,897,456	4,461,865
<b>NET POSITION (DEFICIT)</b>								
Beginning of year, restated					<u>(302,263,201)</u>	<u>615,191</u>	<u>(301,648,010)</u>	<u>(306,109,875)</u>
<b>End of year</b>					<u>\$ (291,438,657)</u>	<u>\$ 688,103</u>	<u>\$ (290,750,554)</u>	<u>\$ (301,648,010)</u>

See accompanying notes

# COUNCIL ROCK SCHOOL DISTRICT

## BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2018 with summarized comparative totals for 2017

	<u>Major Funds</u>		<u>Totals</u>	
	<u>General</u>	<u>Capital</u>		
	<u>Fund</u>	<u>Projects</u>	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>				
Cash	\$ 14,891,986	\$ 59,268,436	\$ 74,160,422	\$ 72,900,825
Investments	20,436,453	-	20,436,453	20,019,914
Taxes receivable	2,778,616	-	2,778,616	3,610,238
Due from other funds	-	3,000,000	3,000,000	3,312,492
Due from other governments	8,089,797	-	8,089,797	8,193,789
Other receivables	283,753	6,043	289,796	396,773
Inventories	31,336	-	31,336	25,828
<b>Total assets</b>	<b><u>\$ 46,511,941</u></b>	<b><u>\$ 62,274,479</u></b>	<b><u>\$ 108,786,420</u></b>	<b><u>\$ 108,459,859</u></b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 3,288,564	\$ 3,605,989	\$ 6,894,553	\$ 7,559,664
Due to other funds	3,255,553	-	3,255,553	3,312,492
Accrued salaries, payroll withholdings and benefits	15,490,186	-	15,490,186	14,592,933
Unearned revenue	1,161,725	-	1,161,725	223,002
<b>Total liabilities</b>	<b><u>23,196,028</u></b>	<b><u>3,605,989</u></b>	<b><u>26,802,017</u></b>	<b><u>25,688,091</u></b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenues - property, occupational assessment and per capita taxes	1,930,835	-	1,930,835	2,909,260
<b>FUND BALANCES</b>				
Nonspendable				
Inventories	31,336	-	31,336	25,828
Restricted for				
Capital projects	-	58,668,490	58,668,490	55,775,840
Committed to				
Employer retirement rate stabilization	-	-	-	1,609,074
Future education initiatives	2,630,018	-	2,630,018	2,695,365
Self-insured health insurance	3,889,000	-	3,889,000	3,889,000
Balance 2017-2018 budget	-	-	-	4,200,719
Balance 2018-2019 budget	4,091,477	-	4,091,477	-
Unassigned	10,743,247	-	10,743,247	11,666,682
<b>Total fund balances</b>	<b><u>21,385,078</u></b>	<b><u>58,668,490</u></b>	<b><u>80,053,568</u></b>	<b><u>79,862,508</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 46,511,941</u></b>	<b><u>\$ 62,274,479</u></b>	<b><u>\$ 108,786,420</u></b>	<b><u>\$ 108,459,859</u></b>

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, 2018

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<b>TOTAL GOVERNMENTAL FUND BALANCES</b>	<b>\$ 80,053,568</b>
<p>Amounts reported for governmental activities in the statement of net position (deficit) are different because:</p>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.	230,819,789
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).	317,252
Deferred outflows of resources and deferred inflows of resources related to pensions and other post-employment benefits are not reported as assets and liabilities in the governmental funds balance sheet.	51,356,447
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.	1,930,835
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).	8,293,358
Noncurrent liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds balance sheet.	(663,225,904)
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>(984,002)</u>
<b>NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ (291,438,657)</u></b>

# COUNCIL ROCK SCHOOL DISTRICT

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

Year ended June 30, 2018 with summarized comparative totals for 2017

	Major Funds		Totals	
	General	Capital	2018	2017
	Fund	Projects		
<b>REVENUES</b>				
Local sources	\$ 176,770,019	\$ 663,324	\$ 177,433,343	\$ 171,949,066
State sources	52,307,683	369,356	52,677,039	54,659,284
Federal sources	3,380,898	-	3,380,898	3,399,531
<b>Total revenues</b>	<u>232,458,600</u>	<u>1,032,680</u>	<u>233,491,280</u>	<u>230,007,881</u>
<b>EXPENDITURES</b>				
Current				
Instruction	149,973,881	-	149,973,881	144,008,559
Support services	60,421,672	1,027,318	61,448,990	58,438,890
Operation of noninstructional services	3,644,491	-	3,644,491	3,559,240
Facilities acquisition, construction and improvement services	-	43,597,844	43,597,844	42,326,899
Debt service	17,871,014	-	17,871,014	17,926,504
<b>Total expenditures</b>	<u>231,911,058</u>	<u>44,625,162</u>	<u>276,536,220</u>	<u>266,260,092</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>547,542</u>	<u>(43,592,482)</u>	<u>(43,044,940)</u>	<u>(36,252,211)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Issuance of debt	-	43,000,000	43,000,000	9,300,000
Issuance of debt - refunding	-	-	-	21,455,000
Payment of debt - refunding	-	-	-	(24,638,135)
Bond premiums	-	485,132	485,132	3,329,150
Refund of prior year receipts	(4)	-	(4)	-
Transfers in	-	3,000,000	3,000,000	3,312,492
Transfers out	(3,255,553)	-	(3,255,553)	(3,312,492)
Sale of/compensation for capital assets	6,425	-	6,425	-
<b>Total other financing sources (uses)</b>	<u>(3,249,132)</u>	<u>46,485,132</u>	<u>43,236,000</u>	<u>9,446,015</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(2,701,590)</u>	<u>2,892,650</u>	<u>191,060</u>	<u>(26,806,196)</u>
<b>FUND BALANCES</b>				
Beginning of year	<u>24,086,668</u>	<u>55,775,840</u>	<u>79,862,508</u>	<u>106,668,704</u>
<b>End of year</b>	<u>\$ 21,385,078</u>	<u>\$ 58,668,490</u>	<u>\$ 80,053,568</u>	<u>\$ 79,862,508</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, 2018

<b>NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS</b>		<b>\$ 191,060</b>
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>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.</p>		
Capital outlay expenditures	\$ 45,485,253	
Depreciation expense	<u>(4,233,979)</u>	41,251,274
<p>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 decreased by this amount in the current period.</p>		
Deferred inflows of resources June 30, 2017	(2,909,260)	
Deferred inflows of resources June 30, 2018	<u>1,930,835</u>	(978,425)
<p>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.</p>		
		5,937,633
<p>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.</p>		
Issuance of debt	(43,000,000)	
Proceeds from bond premiums	(485,132)	
Repayment of bonds and notes payable	11,920,000	
Amortization of discounts, premiums and deferred amounts on debt refunding	<u>1,236,106</u>	(30,329,026)
<p>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.</p>		
Current year change in accrued interest payable	(180,175)	
Change in net pension liability and related deferred inflows and outflows	(5,248,451)	
Current year change in compensated absences	(86,107)	
Change in net post-employment benefit (OPEB) liability and related deferred inflows and outflows	<u>266,761</u>	<u>(5,247,972)</u>
<b>CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES</b>		<b><u>\$ 10,824,544</u></b>

See accompanying notes

**COUNCIL ROCK SCHOOL DISTRICT**

**STATEMENT OF NET POSITION (DEFICIT) - PROPRIETARY FUNDS**

June 30, 2018 with summarized comparative totals for 2017

	<u>Major Fund</u>	<u>Internal</u>	<u>Totals</u>	
	<u>Food Service</u>	<u>Service</u>	<u>2018</u>	<u>2017</u>
	<u>Fund</u>	<u>Fund</u>		
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash	\$ 279,157	\$ 12,024,178	\$ 12,303,335	\$ 6,702,945
Due from other governments	26,507	-	26,507	16,772
Due from other funds	255,553	-	255,553	-
Other receivables	110,665	513,273	623,938	69,434
Deposit	-	767,000	767,000	784,000
Inventories	56,004	-	56,004	75,137
<b>Total current assets</b>	<u>727,886</u>	<u>13,304,451</u>	<u>14,032,337</u>	<u>7,648,288</u>
<b>NONCURRENT ASSETS</b>				
Capital assets, net	<u>223,733</u>	<u>-</u>	<u>223,733</u>	<u>250,200</u>
<b>Total assets</b>	<u>951,619</u>	<u>13,304,451</u>	<u>14,256,070</u>	<u>7,898,488</u>
<b>LIABILITIES AND NET POSITION</b>				
<b>LIABILITIES</b>				
Accounts payable	230,877	-	230,877	172,232
Insurance claims payable	-	1,532,846	1,532,846	1,483,081
Unearned revenue	32,639	3,478,247	3,510,886	3,272,259
<b>Total liabilities</b>	<u>263,516</u>	<u>5,011,093</u>	<u>5,274,609</u>	<u>4,927,572</u>
<b>NET POSITION</b>				
Net investment in capital assets	223,733	-	223,733	250,200
Unrestricted	464,370	8,293,358	8,757,728	2,720,716
<b>Total net position</b>	<u>\$ 688,103</u>	<u>\$ 8,293,358</u>	<u>\$ 8,981,461</u>	<u>\$ 2,970,916</u>

See accompanying notes

# COUNCIL ROCK SCHOOL DISTRICT

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

June 30, 2018 with summarized comparative totals for 2017

	<u>Major Fund</u>	<u>Internal</u>	<u>Totals</u>	
	<u>Food Service Fund</u>	<u>Service Fund</u>	<u>2018</u>	<u>2017</u>
<b>OPERATING REVENUES</b>				
Charges for services	\$ 2,941,089	\$ 28,571,869	\$ 31,512,958	\$ 30,708,930
Other operating revenues	-	28,459	28,459	29,846
<b>Total operating revenues</b>	<u>2,941,089</u>	<u>28,600,328</u>	<u>31,541,417</u>	<u>30,738,776</u>
<b>OPERATING EXPENSES</b>				
Employee benefits	-	22,606,369	22,606,369	25,260,534
Purchased professional and technical services	-	56,326	56,326	132,477
Other purchased services	3,431,506	-	3,431,506	3,596,334
Supplies	171,186	-	171,186	137,185
Depreciation	26,467	-	26,467	26,467
<b>Total operating expenses</b>	<u>3,629,159</u>	<u>22,662,695</u>	<u>26,291,854</u>	<u>29,152,997</u>
<b>Operating income (loss)</b>	<u>(688,070)</u>	<u>5,937,633</u>	<u>5,249,563</u>	<u>1,585,779</u>
<b>NONOPERATING REVENUES</b>				
Earnings on investments	4,520	-	4,520	2,384
State sources	34,226	-	34,226	37,458
Federal sources	466,683	-	466,683	445,688
<b>Total nonoperating revenues</b>	<u>505,429</u>	<u>-</u>	<u>505,429</u>	<u>485,530</u>
<b>Change in net position before transfers</b>	<u>(182,641)</u>	<u>5,937,633</u>	<u>5,754,992</u>	<u>2,071,309</u>
<b>TRANSFERS</b>				
Transfers in	<u>255,553</u>	<u>-</u>	<u>255,553</u>	<u>-</u>
<b>CHANGE IN NET POSITION</b>	<u>72,912</u>	<u>5,937,633</u>	<u>6,010,545</u>	<u>2,071,309</u>
<b>NET POSITION</b>				
Beginning of year	<u>615,191</u>	<u>2,355,725</u>	<u>2,970,916</u>	<u>899,607</u>
<b>End of year</b>	<u>\$ 688,103</u>	<u>\$ 8,293,358</u>	<u>\$ 8,981,461</u>	<u>\$ 2,970,916</u>

See accompanying notes

# COUNCIL ROCK SCHOOL DISTRICT

## STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year ended June 30, 2018 with summarized comparative totals for 2017

	<u>Major Fund</u>	<u>Internal</u>	<u>Totals</u>	
	<u>Food Service</u>	<u>Service</u>	<u>2018</u>	<u>2017</u>
	<u>Fund</u>	<u>Fund</u>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from charges for services	\$ 2,941,089	\$ -	\$ 2,941,089	\$ 3,117,005
Cash received from assessments made to other fund	-	28,388,775	28,388,775	28,855,698
Cash payments to supplies for goods and services	(3,454,013)	-	(3,454,013)	(3,391,881)
Cash payments for insurance claims	-	(22,556,604)	(22,556,604)	(25,547,164)
Cash payments for other operating expenses	-	(56,326)	(56,326)	(132,477)
<b>Net cash provided by (used for) operating activities</b>	<u>(512,924)</u>	<u>5,775,845</u>	<u>5,262,921</u>	<u>2,901,181</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
State sources	34,369	-	34,369	36,147
Federal sources	298,580	-	298,580	315,475
<b>Net cash provided by noncapital financing activities</b>	<u>332,949</u>	<u>-</u>	<u>332,949</u>	<u>351,622</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Earnings on investments	4,520	-	4,520	2,384
<b>Net increase (decrease) in cash</b>	(175,455)	5,775,845	5,600,390	3,255,187
<b>CASH</b>				
Beginning of year	454,612	6,248,333	6,702,945	3,447,758
<b>End of year</b>	<u>\$ 279,157</u>	<u>\$ 12,024,178</u>	<u>\$ 12,303,335</u>	<u>\$ 6,702,945</u>
<b>Reconciliation of operating loss to net cash provided by (used for) operating activities:</b>				
Operating income (loss)	\$ (688,070)	\$ 5,937,633	\$ 5,249,563	\$ 1,585,779
<b>Adjustments to reconcile operating loss to net cash provided by (used for) operating activities</b>				
Depreciation	26,467	-	26,467	26,467
Donated commodities used	158,225	-	158,225	128,802
(Increase) decrease in				
Accounts receivable	(80,893)	(473,611)	(554,504)	215,838
Due from other funds	-	-	-	265,485
Deposit	-	17,000	17,000	-
Inventories	19,133	-	19,133	1,177
Increase (decrease) in				
Accounts payable	58,645	-	58,645	19,491
Insurance claims payable	-	49,765	49,765	(286,630)
Unearned revenue	(6,431)	245,058	238,627	944,772
<b>Net cash provided by (used for) operating activities</b>	<u>\$ (512,924)</u>	<u>\$ 5,775,845</u>	<u>\$ 5,262,921</u>	<u>\$ 2,901,181</u>
<b>SUPPLEMENTAL DISCLOSURE</b>				
<b>Noncash noncapital financing activity</b>				
USDA donated commodities	\$ 158,225	\$ -	\$ 158,225	\$ 128,802

See accompanying notes

**COUNCIL ROCK SCHOOL DISTRICT**

**STATEMENT OF NET POSITION - FIDUCIARY FUNDS**

**June 30, 2018**

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	<b>Private- Purpose Trust</b>	<b>Agency</b>
<b>ASSETS</b>		
Cash	<u>\$ 26,424</u>	<u>\$ 1,020,266</u>
<b>LIABILITIES</b>		
Due to student groups	<u>-</u>	<u>\$ 1,020,266</u>
<b>NET POSITION</b>		
Net position held in trust for scholarships	<u>\$ 26,424</u>	

**COUNCIL ROCK SCHOOL DISTRICT**

**STATEMENT OF CHANGES IN NET POSITION - FIDUCIARY FUND**

Year ended June 30, 2018 with summarized comparative totals for 2017

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	<b>Private-Purpose Trust Fund</b>	
	<u><b>2018</b></u>	<u><b>2017</b></u>
<b>ADDITIONS</b>		
Local contributions	\$ 291	\$ 111
<b>DEDUCTIONS</b>		
Scholarships awarded and fees paid	<u>997</u>	<u>500</u>
<b>CHANGE IN NET POSITION</b>	(706)	(389)
<b>NET POSITION</b>		
Beginning of year	<u>27,130</u>	<u>27,519</u>
<b>End of year</b>	<u><b>\$ 26,424</b></u>	<u><b>\$ 27,130</b></u>

# COUNCIL ROCK SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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### (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, 2018

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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, 2018

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### ***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.

### **Fair Value Measurements of Assets and Liabilities**

GAAP defines fair value as 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. GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the District. Unobservable inputs reflect the District's assumptions about the inputs market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

**Level 1** – Valuations based on quoted prices in active markets for identical assets or liabilities that the District has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these assets and liabilities does not require a significant degree of judgment.

# COUNCIL ROCK SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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**Level 2** – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

**Level 3** – Valuations based on inputs that are unobservable, that is, inputs that reflect the District's own assumptions.

### **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

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 2017-2018 was 120.71 mills (\$120.71 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.

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# COUNCIL ROCK SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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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, 2018.

### **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.

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# COUNCIL ROCK SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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### ***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.

### ***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, 2017, 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, 2017, the District adopted the provisions of GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", GASB Statement No. 80 "Blending Requirements for Certain Component Units-amendment of GASB Statement No. 14", GASB Statement No. 81, "Irrevocable Split-Interest Agreements", GASB Statement No. 82, "Pension Issues-an amendment of GASB Statements No. 67, No. 68 and No. 73"; GASB Statement No. 85, "Omnibus 2017" and GASB Statement No. 86, "Certain Debt Extinguishment Issues".

# COUNCIL ROCK SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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GASB Statement No. 75 replaces the requirements of GASB Statement No. 45 and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. GASB Statement No. 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information ("**RSI**") about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

GASB Statement No. 80 amended the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39, "*Determining Whether Certain Organizations Are Component Units*".

GASB Statement No. 81 required that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, GASB Statement No. 81 required that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. GASB Statement No. 81 required that a government recognize revenue when the resources become applicable to the reporting period. The implementation of GASB Statement No. 80 had no impact on the financial statements of the District for the year ended June 30, 2018.

GASB Statement No. 82 addressed issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an actuarial standard of practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

GASB Statement No. 85 established accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

GASB Statement No. 86 established standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources—that is, resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the purpose of extinguishing debt. GASB Statement No. 86 also amended accounting and financial reporting requirements for prepaid insurance associated with debt that is extinguished, whether through a legal extinguishment or through an insubstance defeasance, regardless of how the cash and other monetary assets were acquired. Finally, GASB Statement No. 86 established an additional disclosure requirement related to debt that is defeased in substance, regardless of how the cash and other monetary assets were acquired. The implementation of GASB Statement No. 86 had no impact on the financial statements of the District for the year ended June 30, 2018.

### **New Accounting Pronouncements**

GASB Statement No. 83, "*Certain Asset Retirement Obligations*" will be effective for the District for the year ended June 30, 2019. GASB Statement No. 83 addresses accounting and financial reporting for certain asset retirement obligations ("**AROs**"). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in GASB Statement No. 83.

# COUNCIL ROCK SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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GASB Statement No. 84, "*Fiduciary Activities*" will be effective for the District for the year ended June 30, 2019. The objective GASB Statement No. 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

GASB Statement No. 87, "*Leases*" will be effective for the District for the year ended June 30, 2021. The objective of GASB Statement No. 87 is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. GASB Statement No. 87 increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB Statement No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about leasing activities.

### (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 House 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, 2018

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### 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, 2018, the carrying amount of the District's deposits was \$87,510,447 and the bank balance was \$90,110,336. 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 \$30,102,181 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, 2018, PLGIT was rated as AAA by a nationally recognized statistical rating agency.

### Investments

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.

As of June 30, 2018, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>	
		<u>Less than 1</u>	<u>1 – 5</u>
U.S. Treasury money market	\$ 425,378	\$ 425,378	\$ -
U.S. Treasury notes	9,268,465	4,976,350	4,292,115
U.S. Agency notes	<u>10,742,610</u>	<u>1,690,268</u>	<u>9,052,342</u>
	<u>\$20,436,453</u>	<u>\$7,091,996</u>	<u>\$13,344,457</u>

All District investments were valued using Level 2 inputs.

### Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral that is in the possession of an outside party. The collateral for all of the District's investments are held by the pledging bank's agent in the District's name. The District had no investments subject to custodial credit risk as of June 30, 2018.

### Interest Rate Risk

The District's investment policy limits investment maturities in accordance with state statutes as a means of managing its exposure to fair value losses arising from increasing interest rates.

### Credit Risk

The District's investment policy limits its investments that are not backed by the "full faith and credit" of the federal or state government to those with the highest credit rating available for such investments issued by a recognized statistical rating organization.

# COUNCIL ROCK SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

### (4) CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land and improvements	\$ 23,024,123	\$ -	\$ -	\$ 23,024,123
Construction in progress	<u>48,423,835</u>	<u>43,348,997</u>	<u>-</u>	<u>91,772,832</u>
<b>Total capital assets not being depreciated</b>	<u>71,447,958</u>	<u>43,348,997</u>	<u>-</u>	<u>114,796,955</u>
Capital assets being depreciated				
Land improvements	8,849,920	-	-	8,849,920
Buildings and improvements	191,376,653	248,847	-	191,625,500
Furniture and equipment	<u>1,264,822</u>	<u>1,887,409</u>	<u>-</u>	<u>3,152,231</u>
<b>Total capital assets being depreciated</b>	<u>201,491,395</u>	<u>2,136,256</u>	<u>-</u>	<u>203,627,651</u>
Less accumulated depreciation for				
Land improvements	(5,993,906)	(314,216)	-	(6,308,122)
Buildings and improvements	(76,602,394)	(3,682,940)	-	(80,285,334)
Furniture and equipment	<u>(774,538)</u>	<u>(236,823)</u>	<u>-</u>	<u>(1,011,361)</u>
<b>Total accumulated depreciation</b>	<u>(83,370,838)</u>	<u>(4,233,979)</u>	<u>-</u>	<u>(87,604,817)</u>
<b>Total capital assets being depreciated, net</b>	<u>118,120,557</u>	<u>(2,097,723)</u>	<u>-</u>	<u>116,022,834</u>
<b>Governmental activities, net</b>	<u>\$189,568,515</u>	<u>\$41,251,274</u>	<u>\$ -</u>	<u>\$230,819,789</u>
<b>Business-type activities</b>				
Machinery and equipment	\$ 425,501	\$ -	\$ -	\$ 425,501
Less accumulated depreciation	<u>(175,301)</u>	<u>(26,467)</u>	<u>-</u>	<u>(201,768)</u>
<b>Business-type activities, net</b>	<u>\$ 250,200</u>	<u>\$ (26,467)</u>	<u>\$ -</u>	<u>\$ 223,733</u>

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

<b>Governmental activities</b>	
Instruction	\$3,105,234
Instructional student support	365,025
Administrative and financial support services	379,704
Operation and maintenance of plant services	312,449
Student activities	<u>71,567</u>
<b>Total depreciation expense – governmental activities</b>	<u>\$4,233,979</u>
<b>Business-type activities</b>	
Food service	<u>\$ 26,467</u>

As of June 30, 2018, the District had outstanding construction projects to be completed. Construction commitments and the amounts completed as of June 30, 2018 are as follows:

<u>Description</u>	<u>Project Amount</u>	<u>Completed Through June 30, 2018</u>	<u>Remaining Commitments</u>
Newtown Middle School – renovations	\$ 51,899,392	\$46,260,302	\$ 5,639,090
Holland Middle School – renovations	47,848,209	41,003,163	6,845,046
Council Rock High School South – renovations	2,381,936	1,410,412	971,524
Council Rock High School North – renovations	1,302,147	715,954	586,193
Wrightstown Elementary School – renovations	16,198,438	1,628,851	14,569,587

# COUNCIL ROCK SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Sol Feinstone Elementary School – renovations	1,268,336	73,510	1,194,826
Richboro Elementary School – renovations	75,092	66,417	8,675
Rolling Hills Elementary School – renovations	2,123,402	319,132	1,804,270
Hillcrest Elementary School – renovations	162,929	9,209	153,720
Administration Building – renovations	<u>1,507,983</u>	<u>285,882</u>	<u>1,222,101</u>
	<u>\$124,767,864</u>	<u>\$91,772,832</u>	<u>\$32,995,032</u>

### (5) INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2018 is as follows:

<u>Receivable To</u>	<u>Amount</u>	<u>Payable From</u>	<u>Amount</u>
Capital Projects Fund	\$3,000,000	General Fund	\$3,000,000
Food Service Fund	<u>255,553</u>	General Fund	<u>255,553</u>
	<u>\$3,255,553</u>		<u>\$3,255,553</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, 2018 is as follows:

<u>Transfers In</u>	<u>Amount</u>	<u>Transfers Out</u>	<u>Amount</u>
Capital Projects Fund	\$3,000,000	General Fund	\$3,000,000
Food Service Fund	<u>255,553</u>	General Fund	<u>255,553</u>
	<u>\$3,255,553</u>		<u>\$3,255,553</u>

Transfers from the General Fund to the Capital Projects Fund represent transfers to subsidize capital expenditures, while transfers from the General Fund to the Food Service Fund represent transfers to subsidize costs associated with food service operations.

### (6) NONCURRENT LIABILITIES

The following summarizes the changes in noncurrent liabilities for the year ended June 30, 2018:

	<u>Balance July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2018</u>	<u>Amount Due Within One Year</u>
<b>Governmental activities</b>					
<b>General obligation debt</b>					
Bonds payable	\$186,280,000	\$43,000,000	\$11,020,000	\$218,260,000	\$10,735,000
Notes payable	7,000,000	-	900,000	6,100,000	900,000
Bond premiums	7,218,419	485,132	1,270,758	6,432,793	805,864
Bond discounts	<u>(40,624)</u>	<u>-</u>	<u>(3,810)</u>	<u>(36,814)</u>	<u>(3,810)</u>
<b>Total general obligation debt</b>	<u>200,457,795</u>	<u>43,485,132</u>	<u>13,186,948</u>	<u>230,755,979</u>	<u>12,437,054</u>
<b>Other noncurrent liabilities</b>					
Compensated absences	3,726,406	86,107	-	3,812,513	-
OPEB liability	10,063,181	913,231	-	10,976,412	-
OPEB liability – PSERS	17,809,000	-	1,261,000	16,548,000	-
Net pension liability	<u>409,736,000</u>	<u>-</u>	<u>8,603,000</u>	<u>401,133,000</u>	<u>-</u>
<b>Total other noncurrent liabilities</b>	<u>441,334,587</u>	<u>999,338</u>	<u>9,864,000</u>	<u>432,469,925</u>	<u>-</u>
<b>Total noncurrent liabilities</b>	<u>\$641,792,382</u>	<u>\$44,484,470</u>	<u>\$23,050,948</u>	<u>\$663,225,904</u>	<u>\$12,437,054</u>

# COUNCIL ROCK SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Noncurrent liabilities are generally liquidated by the General Fund.

### (7) 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, 2018 consisted of the following:

<u>Description</u>	<u>Interest Rate(s)</u>	<u>Original Issue Amount</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
<b>General obligation bonds</b>				
Series of 2011	2.00% - 4.00%	\$8,630,000	11/15/2018	\$ 1,955,000
Series of 2011A	1.00% - 2.75%	\$10,000,000	08/15/2023	1,245,000
Series of 2012A	2.00% - 2.125%	\$8,950,000	02/15/2022	2,790,000
Series of 2013	0.25% - 2.15%	\$7,630,000	12/15/2026	7,485,000
Series of 2013A	1.00% - 2.50%	\$9,995,000	08/15/2028	9,975,000
Series of 2014	0.20% - 3.00%	\$9,995,000	05/15/2028	9,800,000
Series of 2014A	2.00% - 3.00%	\$3,675,000	05/15/2021	3,420,000
Series of 2014D	2.00% - 3.00%	\$9,625,000	11/15/2029	9,520,000
Series of 2015	2.00% - 3.00%	\$9,440,000	05/15/2020	4,810,000
Series of 2015A	2.00% - 3.00%	\$9,200,000	11/15/2035	9,190,000
Series of 2015B	0.40% - 3.00%	\$8,075,000	08/15/2024	7,710,000
Series of 2016	2.00% - 5.00%	\$16,615,000	11/15/2023	16,610,000
Series of 2016A	2.00% - 3.25%	\$60,000,000	11/15/2035	59,995,000
Series of 2017	2.15% - 3.05%	\$9,300,000	11/15/2035	9,300,000
Series of 2017A	5.00%	\$21,455,000	08/15/2023	21,455,000
Series of 2018	3.00% - 5.00%	\$43,000,000	11/15/2039	<u>43,000,000</u>
<b>Total general obligation bonds</b>				<u>218,260,000</u>
<b>General obligation note</b>				
Series of 2004C	Variable	\$10,000,000	08/01/2023	<u>6,100,000</u>
<b>Total general obligation debt</b>				<u>\$224,360,000</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>
2019	\$ 11,635,000	\$ 7,040,187	\$ 18,675,187
2020	11,145,000	6,669,220	17,814,220
2021	11,625,000	6,206,139	17,831,139
2022	12,115,000	5,745,797	17,860,797
2023	12,595,000	5,296,391	17,891,391
2024-2028	54,240,000	21,058,252	75,298,252
2029-2033	45,750,000	13,885,976	59,635,976
2034-2038	47,570,000	6,474,788	54,044,788
2039-2040	<u>17,685,000</u>	<u>579,394</u>	<u>18,264,394</u>
	<u>\$224,360,000</u>	<u>\$72,956,144</u>	<u>\$297,316,144</u>

# COUNCIL ROCK SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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### Series of 2018 General Obligation Bonds

On January 24, 2018, the District issued \$43,000,000 of general obligation bonds, Series of 2018, the proceeds from which are to be used for the costs of acquiring, designing, constructing, furnishing and equipping alterations, additions, renovations and other improvements to the District's existing school buildings and other facilities and to pay for the costs of issuance.

## (8) OTHER POST-EMPLOYMENT BENEFITS

### Single-Employer Defined Benefit OPEB Plan

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.

### OPEB Plan Membership

Membership in the OPEB plan consisted of the following at July 1, 2017:

Active participants	1,325
Vested former participants	-
Retired participants	<u>200</u>
Total	<u>1,525</u>

### 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.

### OPEB Liability

The District's OPEB liability has been measured as of June 30, 2018. The total OPEB liability was determined by an actuarial valuation as of July 1, 2016, and by rolling forward the liabilities from the July 1, 2016 actuarial valuation through the measurement date. No significant events or changes in assumptions occurred between the valuation date and the fiscal year end. The OPEB liability is \$10,976,412, all of which is unfunded. As of June 30, 2018, the OPEB liability of \$10,976,412 is related to the governmental funds and is recorded in the governmental activities in the government-wide statement of net position.

The District's change in its OPEB liability for the year ended June 30, 2018 was as follows:

<b>Balance as of July 1, 2017</b>	<u>\$10,063,181</u>
<b>Changes for the year</b>	
Service cost	686,836
Interest on total OPEB liability	260,577
Differences between expected and actual experience	165,158
Changes in assumptions	326,930
Benefit payments	<u>(526,270)</u>
<b>Net changes</b>	<u>913,231</u>
<b>Balance as of June 30, 2018</b>	<u>\$10,976,412</u>

### OPEB Expense and Deferred Outflows Related to OPEB

For the year ended June 30, 2018, the District recognized negative OPEB expense of \$14,750. At June 30, 2018, the District had deferred inflows and outflows of resources related to the OPEB plan from the following sources:

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**COUNCIL ROCK SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2018

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$150,144	\$ -
Changes in assumptions	297,209	-
Contributions subsequent to the measurement date	<u>480,628</u>	<u>-</u>
	<u>\$927,981</u>	<u>\$ -</u>

\$480,628 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended June 30:**

2018	\$ 44,735
2019	44,735
2020	44,735
2021	44,735
2022	44,735
Thereafter	<u>223,678</u>
	<u>\$447,353</u>

**Sensitivity of the OPEB Liability to Change in Healthcare Cost Trend Rates**

The following presents the OPEB liability for June 30, 2018, calculated using current healthcare cost trends as well as what the OPEB liability would be if it health cost trends were 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Trend Rate</u>	<u>1% Increase</u>
OPEB liability	<u>\$ 9,724,849</u>	<u>\$10,976,412</u>	<u>\$12,466,920</u>

**Sensitivity of the OPEB Liability to Changes in the Discount Rate**

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	<u>2.13%</u>	<u>3.13%</u>	<u>4.13%</u>
OPEB Liability	<u>\$11,819,996</u>	<u>\$10,976,412</u>	<u>\$10,181,561</u>

**Actuarial Methods and Significant Assumptions**

The OPEB Liability as of June 30, 2018, was determined by rolling forward the OPEB Liability as of July 1, 2017 to June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - entry age normal
- Discount rate - 3.13% - Standard and Poor's 20-year municipal bond rate. The discount rate changed from 2.49% to 3.13%.

# COUNCIL ROCK SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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- Salary growth - effective average of 6.25%, comprised of inflation of 2.50%, 1.00% for real wage growth and 0.00 to 2.75% for merit or seniority increases.
- Assumed healthcare cost trends – 6.00% in 2017 and 5.50% in 2018 through 2033.
- Mortality rates were based on the RP-2014 mortality tables for males and females, adjusted to reflect experience and projected using a modified version of the MP-2015 mortality improvement scale.

### **Cost Sharing Multiple-Employer Defined Benefit OPEB Plan**

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

Retirees of PSERS can participate in the health insurance premium assistance program if they satisfy the following criteria:

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

### **Benefits Provided**

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

### **Employer Contributions**

The District's contractually required contribution rate for the fiscal year ended June 30, 2018 was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$911,022 for the year ended June 30, 2018.

### **OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

At June 30, 2018, the District reported a liability of \$16,548,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward PSERS' total OPEB liability as of June 30, 2016 to June 30, 2017. The District's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2017, the District's proportion was 0.8122 percent, which was a decrease of 0.0146 percent from its proportion measured as of June 30, 2016. As of June 30, 2018, the OPEB liability of \$16,548,000 is related to the governmental funds and is recorded in the governmental activities in the government-wide statement of net position (deficit).

**COUNCIL ROCK SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

For the year ended June 30, 2018, the District recognized negative OPEB expense of \$252,011. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ -	\$ 770,035
Net difference between projected and actual investment earnings	17,498	-
Changes in proportions	-	269,529
Contributions subsequent to the measurement date	<u>911,022</u>	<u>-</u>
	<u>\$928,520</u>	<u>\$1,039,564</u>

\$911,022 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

**Year ended June 30:**

2018	\$ (168,885)
2019	(168,885)
2020	(168,886)
2021	(168,887)
2022	(173,261)
Thereafter	<u>(173,262)</u>
	<u>\$ (1,022,066)</u>

**Actuarial Assumptions**

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

- Actuarial cost method - entry age normal - level % of pay
- Investment return - 3.13% - Standard & Poor's 20-year municipal bond rate
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Premium assistance reimbursement is capped at \$1,200 per year.
- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 mortality tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 mortality improvement scale.

Participation rate:

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

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2015 determined the employer contribution rate for fiscal year 2017.

# COUNCIL ROCK SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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- Cost method - amount necessary to assure solvency of premium assistance through the third fiscal year after the valuation date.
- Asset valuation method: market value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2000 combined healthy annuitant tables with age set back 3 for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 combined disabled tables with age set back 7 years for males and 3 years for females and disabled annuitants. (A unisex table based on the RP-2000 combined healthy annuitant tables with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

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

The OPEB plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Under the program, as defined in the retirement code employer contribution rates for health insurance premium assistance are established to provide reserves in the health insurance account that are sufficient for the payment of health insurance premium assistance benefits for each succeeding year.

<u>OPEB – Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	76.40%	0.60%
Fixed income	<u>23.60%</u>	1.50%
	<u>100.00%</u>	

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

### Discount Rate

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

### Sensitivity of District's Proportionate Share of the Net OPEB Liability to Change in Healthcare Cost Trend Rates

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

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

**COUNCIL ROCK SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2018

	<u>1% Decrease</u>	<u>Trend Rate</u>	<u>1% Increase</u>
District's proportionate share of the net OPEB liability	<u>\$16,544,000</u>	<u>\$16,548,000</u>	<u>\$16,551,000</u>

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

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

	<u>1% Decrease</u> <u>2.13%</u>	<u>Current Discount Rate</u> <u>3.13%</u>	<u>1% Increase</u> <u>4.13%</u>
District's proportionate share of the net OPEB liability	<u>\$18,811,000</u>	<u>\$16,548,000</u>	<u>\$14,668,000</u>

**OPEB Plan Fiduciary Net Position**

Detailed information about PSERS' fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on PSERS's website at [www.psers.pa.gov](http://www.psers.pa.gov).

**(9) 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](http://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 2.00% or 2.50%, 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.

# COUNCIL ROCK SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2.00% or 2.50%, 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.

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 7.50% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect T-F membership, contribute at 10.30% (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 7.50% and 9.50% and Membership Class T-F contribution rate to fluctuate between 10.30% and 12.30%.

#### **Employer Contributions**

The District's contractually required contribution rate for fiscal year ended June 30, 2018 was 31.74% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$34,838,373 for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of \$401,133,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward the system's total pension liability as of June 30, 2016 to June 30, 2017. The District's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2017, the District's proportion was 0.8122 percent, which was a decrease of 0.0146 percent from its proportion measured as of June 30, 2016. As of June 30, 2018, the net pension liability of \$401,133,000 is related to the governmental funds and is recorded in the governmental activities in the government-wide statement of net position (deficit).

# COUNCIL ROCK SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

For the year ended June 30, 2018, the District recognized pension expense of \$5,248,451. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between expected and actual experience	\$ 4,184,787	\$2,423,873
Changes in assumptions	10,897,044	-
Net difference between projected and actual investment earnings	9,294,979	-
Changes in proportions	1,060,000	7,311,800
Contributions subsequent to the measurement date	<u>34,838,373</u>	<u>-</u>
	<u>\$60,275,183</u>	<u>\$9,735,673</u>

\$34,838,373 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended June 30:**

2019	\$ 3,850,299
2020	8,812,745
2021	5,660,628
2022	<u>(2,622,535)</u>
	<u>\$15,701,137</u>

**Actuarial Assumptions**

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

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.25%, includes inflation at 2.75%
- Salary growth – Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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

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

**COUNCIL ROCK SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2018

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global public equity	20.0 %	5.1%
Fixed income	36.0 %	2.6%
Commodities	8.0 %	3.0%
Absolute return	10.0 %	3.4%
Risk parity	10.0 %	3.8%
Infrastructure/MLPs	8.0 %	4.8%
Real estate	10.0 %	3.6%
Alternative investments	15.0 %	6.2%
Cash	3.0 %	0.6%
Financing (LIBOR)	<u>(20.0)%</u>	1.1%
	<u>100.0 %</u>	

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, 2017.

**Discount Rate**

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

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

	<u>1% Decrease 6.25%</u>	<u>Current Discount Rate 7.25%</u>	<u>1% Increase 8.25%</u>
District's proportionate share of the net pension liability	\$493,759,000	\$401,133,000	\$322,929,000

**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](http://www.psers.state.pa.us).

# COUNCIL ROCK SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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### (10) 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 2017-2018 was \$1,623,492.

#### 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 2017-2018 was \$474,543.

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

#### Year ending June 30,

2019	\$ 473,310
2020	472,958
2021	471,924
2022	472,719
2023	472,069
2024-2028	2,364,680
2029	<u>472,791</u>
	<u>\$5,200,451</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.

### (11) 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 \$975,503 for 2017-2018.

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# COUNCIL ROCK SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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Future minimum lease payments under these leases are as follows:

**Year ending June 30,**

2019	\$ 949,515
2020	953,867
2021	<u>38,264</u>
	<u>\$1,941,646</u>

### (12) 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.

**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.

### (13) 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 2017-2018 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, 2018 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, 2018 and 2017:

	<b><u>2018</u></b>	<b><u>2017</u></b>
Insurance claims liability – beginning of year	\$ 1,483,081	\$ 1,769,711
Current year insurance claims and changes in estimates	22,606,369	(25,260,534)
Insurance claims paid	<u>(22,556,604)</u>	<u>24,973,904</u>
Insurance claims liability – end of year	<u>\$ 1,532,846</u>	<u>\$ 1,483,081</u>

# COUNCIL ROCK SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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### (14) PRIOR PERIOD ADJUSTMENT

As a result of the implementation of GASB Statement No. 75, the District made a prior period adjustment to record its OPEB liability and deferred outflows of resources related to employer OPEB contributions. This prior period adjustment and its effect on net position at July 1, 2016 are summarized in the following table:

	<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Totals</b>
Net position (deficit) at June 30, 2016, as previously stated	\$(284,319,759)	\$772,642	\$(283,547,117)
Prior period adjustment to			
To adjust single employer OPEB liability to reflect unfunded actuarial liability	(5,651,703)	-	(5,651,703)
To record PSERS net OPEB liability	(17,809,000)	-	(17,809,000)
To record deferred outflows of resources related to PSERS net OPEB liability	<u>897,945</u>	<u>-</u>	<u>897,945</u>
Net position (deficit) at June 30, 2016, as restated	<u>\$(306,882,517)</u>	<u>\$772,642</u>	<u>\$(306,109,875)</u>

### (15) SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 19, 2018, the date on which the financial statements were available to be issued. Except as noted below, no material subsequent events have occurred since June 30, 2018 that required recognition or disclosure in the financial statements.

On August 1, 2018, the District issued \$4,830,000 of general obligation bonds, Series A of 2018, the proceeds from which were used to currently refund all of the District's outstanding general obligation note, Series C of 2004 and to pay the cost of issuing the bonds. The District currently refunded the general obligation note, Series C of 2004 to lock in interest costs by moving from a variable rate note into fixed rate bonds.

**REQUIRED SUPPLEMENTARY INFORMATION**

# COUNCIL ROCK SCHOOL DISTRICT

## BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Local sources	\$ 174,558,856	\$ 174,558,856	\$ 176,770,019	\$ 2,211,163
State sources	51,371,060	51,371,060	52,307,683	936,623
Federal sources	3,203,000	3,203,000	3,380,898	177,898
<b>Total revenues</b>	<u>229,132,916</u>	<u>229,132,916</u>	<u>232,458,600</u>	<u>3,325,684</u>
<b>EXPENDITURES</b>				
<b>Instruction</b>				
Regular programs	97,074,847	97,028,111	96,952,746	75,365
Special programs	48,585,935	48,641,183	49,064,245	(423,062)
Vocational programs	1,823,857	1,823,857	2,098,035	(274,178)
Other instructional programs	1,880,957	1,779,248	1,848,301	(69,053)
Nonpublic school programs	-	13,000	10,554	2,446
<b>Total instruction</b>	<u>149,365,596</u>	<u>149,285,399</u>	<u>149,973,881</u>	<u>(688,482)</u>
<b>Support services</b>				
Pupil support services	7,814,208	7,812,182	8,010,920	(198,738)
Instructional staff services	7,152,615	7,273,672	6,659,916	613,756
Administrative services	10,512,624	10,786,661	10,601,673	184,988
Pupil health	2,584,679	2,590,556	2,863,573	(273,017)
Business services	1,551,459	1,551,459	1,430,182	121,277
Operation and maintenance of plant services	14,818,903	14,577,412	13,660,912	916,500
Student transportation services	12,126,747	12,311,747	11,819,439	492,308
Support services - central	5,550,718	5,289,867	5,279,916	9,951
Other support services	97,314	97,314	95,141	2,173
<b>Total support services</b>	<u>62,209,267</u>	<u>62,290,870</u>	<u>60,421,672</u>	<u>1,869,198</u>
<b>Operation of non-instructional services</b>				
Student activities	3,581,395	3,578,889	3,456,458	122,431
Community services	210,976	212,076	188,033	24,043
<b>Total operation of non-instructional services</b>	<u>3,792,371</u>	<u>3,790,965</u>	<u>3,644,491</u>	<u>146,474</u>
<b>Debt service</b>				
	<u>17,966,401</u>	<u>17,966,401</u>	<u>17,871,014</u>	<u>95,387</u>
<b>Total expenditures</b>	<u>233,333,635</u>	<u>233,333,635</u>	<u>231,911,058</u>	<u>1,422,577</u>
<b>Excess (deficiencies) of revenues over (under) expenditures</b>	<u>(4,200,719)</u>	<u>(4,200,719)</u>	<u>547,542</u>	<u>4,748,261</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of/compensation for capital assets	-	-	6,425	6,425
Refund of prior period receipts	-	-	(4)	(4)
Transfers out	-	-	(3,255,553)	(3,255,553)
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>(3,249,132)</u>	<u>(3,249,132)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (4,200,719)</u>	<u>\$ (4,200,719)</u>	<u>(2,701,590)</u>	<u>\$ 1,499,129</u>
<b>FUND BALANCE</b>				
Beginning of year			24,086,668	
End of year			<u>\$ 21,385,078</u>	

# COUNCIL ROCK SCHOOL DISTRICT

## SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - PSERS

Year ended June 30

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	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.8122%	0.8268%	0.8287%	0.8376%
District's proportionate share of the net pension liability	\$ 401,133,000	\$ 409,736,000	\$ 358,954,000	\$ 331,529,000
District's covered-employee payroll	\$ 108,138,648	\$ 107,083,635	\$ 106,627,027	\$ 106,878,148
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	371%	383%	337%	310%
Plan fiduciary net position as a percentage of the total pension liability	52%	50%	54%	57%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively. 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 - PSERS

Year ended June 30

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	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 31,066,000	\$ 26,304,000	\$ 21,398,000	\$ 16,686,000
Contributions in relation to the contractually required contribution	<u>31,066,000</u>	<u>26,304,000</u>	<u>21,398,000</u>	<u>16,686,000</u>
Contribution deficiency (excess)	-	-	-	-
District's covered-employee payroll	\$ 108,138,648	\$ 107,083,635	\$ 106,627,027	\$ 106,878,148
Contributions as a percentage of covered-employee payroll	29%	25%	20%	16%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

# COUNCIL ROCK SCHOOL DISTRICT

## SCHEDULE OF CHANGES IN OPEB LIABILITY - SINGLE EMPLOYER PLAN

Year ended June 30

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	<u>2018</u>
<b>TOTAL OPEB LIABILITY</b>	
Service cost	\$ 686,836
Interest on total OPEB liability	260,577
Differences between expected and actual experience	165,158
Changes of assumptions	326,930
Benefit payments	<u>(526,270)</u>
<b>Net change in total OPEB liability</b>	913,231
<b>Total OPEB liability, beginning</b>	<u>10,063,181</u>
<b>Total OPEB liability, ending</b>	<u>\$ 10,976,412</u>
<b>Fiduciary net position as a % of total OPEB liability</b>	0.00%
<b>Covered payroll</b>	\$ 102,018,141
<b>Net OPEB liability as a % of covered payroll</b>	11%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively. 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 PROPORTIONATE SHARE OF THE OPEB LIABILITY -PSERS

Year ended June 30

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	<u>2017</u>
District's proportion of the net OPEB liability	0.8122%
District's proportionate share of the net OPEB liability	\$ 16,548,000
District's covered-employee payroll	\$ 108,138,648
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	15%
Plan fiduciary net position as a percentage of the total OPEB liability	6%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively. 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 OPEB PLAN CONTRIBUTIONS - PSERS

Year ended June 30

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	<u>2017</u>
Contractually required contribution	\$ 898,000
Contributions in relation to the contractually required contribution	<u>\$ 898,000</u>
Contribution deficiency (excess)	-
District's covered-employee payroll	\$ 108,138,648
Contributions as a percentage of covered-employee payroll	1%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively. 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, 2018

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<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, 2017</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2018</u>	<u>Passed Through to Subrecipients</u>
<b>U.S. Department of Education</b>											
<b>Passed-Through the Pennsylvania Department of Education</b>											
Title I - Improving Basic Programs	I	84.010	013-170105	07/01/16 - 09/30/17	\$ 289,297	\$ 102,410	\$ 31,047	\$ 71,363	\$ 71,363	\$ -	\$ -
Title I - Improving Basic Programs	I	84.010	013-180105	07/01/17 - 09/30/18	298,759	179,547	-	206,803	206,803	27,256	-
Total CFDA #84.010						281,957	31,047	278,166	278,166	27,256	-
Title II - Improving Teacher Quality	I	84.367	013-170105	07/01/16 - 09/30/17	189,333	121,465	121,465	-	-	-	-
Title II - Improving Teacher Quality	I	84.367	013-180105	07/01/17 - 09/30/18	178,051	178,051	-	178,051	178,051	-	-
Total CFDA #84.367						299,516	121,465	178,051	178,051	-	-
Title III - Language Instruction LEP/ Immigrant Students	I	84.365	010-170105	07/01/16 - 09/30/17	57,167	-	(5,162)	5,162	5,162	-	-
Title III - Language Instruction LEP/ Immigrant Students	I	84.365	010-180105	07/01/17 - 09/30/18	47,036	47,036	-	36,308	36,308	(10,728)	-
Total CFDA #84.365						47,036	(5,162)	41,470	41,470	(10,728)	-
Title IV - Student Support and Academic Achievement	I	84.424	144-180105	8/24/17 - 09/30/18	10,000	10,000	-	10,000	10,000	-	-
<b>Passed Through the Bucks County I.U.</b>											
I.D.E.A. - Part B, Section 619	I	84.173	062-180022	07/01/17 - 06/30/18	4,998	4,998	-	4,998	4,998	-	-
I.D.E.A. - Part B, Section 611	I	84.027	062-170022	07/01/16 - 06/30/17	1,768,969	178,737	178,737	-	-	-	-
I.D.E.A. - Part B, Section 611	I	84.027	062-180022	07/01/17 - 06/30/18	1,817,609	1,817,609	-	1,817,609	1,817,609	-	-
Total CFDA #84.027						1,996,346	178,737	1,817,609	1,817,609	-	-
<b>Total U.S. Department of Education</b>						<b>2,639,853</b>	<b>326,087</b>	<b>2,330,294</b>	<b>2,330,294</b>	<b>16,528</b>	<b>-</b>
<b>U.S. Department of Health and Social Services</b>											
Drug Free Communities Support Program	D	93.276	5H79SP015667-02	09/30/16 - 09/29/17	125,000	-	(15,806)	15,806	15,806	-	-
Drug Free Communities Support Program	D	93.276	5H79SP015667-02	09/30/17 - 09/29/18	125,000	85,208	-	79,544	79,544	(5,664)	-
Total CFDA #93.276						85,208	(15,806)	95,350	95,350	(5,664)	-

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, 2017</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2018</u>	<u>Passed Through to Subrecipients</u>
<b>Passed Through the Bucks County I.U.</b>											
Medical Assistance Program	I	93.778	N/A	07/01/17 - 06/30/18	N/A	8,839	-	23,722	23,722	14,883	-
<b>Total U.S. Department of Health and Human Services</b>						<u>94,047</u>	<u>(15,806)</u>	<u>119,072</u>	<u>119,072</u>	<u>9,219</u>	<u>-</u>
<b>U.S. Department of Agriculture</b>											
<b>Passed-Through the Pennsylvania Department of Education</b>											
State Matching Share	S	N/A	N/A	07/01/16 - 06/30/17	N/A	1,753	1,753	-	-	-	-
State Matching Share	S	N/A	N/A	07/01/17 - 06/30/18	N/A	31,565	-	34,226	34,226	2,661	-
<b>Total State Matching Share</b>						<u>33,318</u>	<u>1,753</u>	<u>34,226</u>	<u>34,226</u>	<u>2,661</u>	<u>-</u>
National School Lunch Program	I	10.555	N/A	07/01/16 - 06/30/17	N/A	15,019	15,019	-	-	-	-
National School Lunch Program	I	10.555	N/A	07/01/17 - 06/30/18	N/A	284,613	-	308,458	308,458	23,845	-
<b>Passed-Through the Pennsylvania Department of Agriculture</b>											
National School Lunch Program	I	10.555	N/A	07/01/17 - 06/30/18	N/A	151,073 a)	(39,070) b)	158,225 c)	158,225	(31,918) d)	-
<b>Total CFDA #10.555</b>						<u>450,705</u>	<u>(24,051)</u>	<u>466,683</u>	<u>466,683</u>	<u>(8,073)</u>	<u>-</u>
<b>Total U.S. Department of Agriculture</b>						<u>484,023</u>	<u>(22,298)</u>	<u>500,909</u>	<u>500,909</u>	<u>(5,412)</u>	<u>-</u>
<b>Total Federal Awards and Certain State Grants</b>						<u>\$ 3,217,923</u>	<u>\$ 287,983</u>	<u>\$ 2,950,275</u>	<u>\$ 2,950,275</u>	<u>\$ 20,335</u>	<u>\$ -</u>
Total Federal Awards						\$ 3,184,605	\$ 286,230	\$ 2,916,049	\$ 2,916,049	\$ 17,674	\$ -
Total State Awards						33,318	1,753	34,226	34,226	2,661	-
Total Federal Awards and Certain State Grants						<u>\$ 3,217,923</u>	<u>\$ 287,983</u>	<u>\$ 2,950,275</u>	<u>\$ 2,950,275</u>	<u>\$ 20,335</u>	<u>\$ -</u>
Special Education Cluster (IDEA) (CFDA's #84.027 and #84.173)						<u>\$ 2,001,344</u>	<u>\$ 178,737</u>	<u>\$ 1,822,607</u>	<u>\$ 1,822,607</u>	<u>\$ -</u>	<u>\$ -</u>

**Source Codes**

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

*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, 2017</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue June 30, 2018</u>	<u>Passed Through to Subrecipients</u>
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**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, 2018

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### (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 2017-2018 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, 2018 was \$931,532.

### (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, 2018.

**COUNCIL ROCK SCHOOL DISTRICT**

***SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS***

**Year ended June 30, 2018**

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There were no audit findings for the year ended June 30, 2017.



**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, 2018, 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 19, 2018.

***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 19, 2018**



**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, 2018. 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, 2018.

### ***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 19, 2018**

# COUNCIL ROCK SCHOOL DISTRICT

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2018

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### 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